

DIARY

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August 1 - 4, 1940

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BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

August 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. Hurain

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
early in the evening of July 31st.

1. Destroyer "Whitched" struck a
mine off Harwich, being towed into harbour.

Greek ship "Hermione", carrying
petrol and oil, intercepted July 28th by
cruiser "Neptune" in the Aegean. Later the
"Neptune" and R. M. Australian ship "Sydney"
were bombed while escorting the "Hermione"
and were obliged to sink her. Captain and
crew were sent away in ships boat close to
land.

2. R. A. F. Bad observing conditions,
low clouds, severe icing hindered night operations
on the 29th to 30th. Attacks on oil targets
were successful especially at Monheim where
refinery was left burning fiercely.

3. Twenty-four Blenheims despatched
yesterday, principally against aerodromes,
oil targets, and aircraft depot in enemy
occupied territory. Bombs seen to fall amongst
dispersed aircraft on various aerodromes and
on railway trucks and sidings. Barges in
Ostend Canal also attacked, results unobserved.
One aircraft registered two hits on 5000 ton

ship/

ship off Flushing. All aircraft returned.

Last night 14 Wellingtons sent to attack oil targets. Other operations cancelled owing to weather conditions. All our aircraft returned.

German air force only slight activity yesterday. One aeroplane attacked southbound convoy off Harwich; few bombs dropped, no damage. Single aircraft dropped bombs on Norwich, a printing works and some houses damaged; casualties 10 killed, 16 injured. Formation of 15 enemy aircraft approached Southwest coast but turned away.

Last night, enemy activity much reduced, probably owing to weather. Some aircraft reached outer London suburbs; few bombs dropped, no damage or casualties. Some barrage balloons reported fired at. Sporadic bombing, without material result, reported from southwest England.

4. Summary of air casualties:-

Day of July 30th. Enemy (confirmed)
one ME 111. One ME 110. Total, enemy 2
British: nil.

5. Shipping casualties.

By U-boat; 2 Greek ships (3500 and 4000 tons), carrying grain and wood to Ireland, sunk 14 and 15 miles off Portuguese coast and French Atlantic coast. Yesterday, British "Glan Menzies" (7300 tons), carrying wheat and tinned fruit from Australia, torpedoed and sunk off

northern/

4

northern Ireland. Master and 35 of the crew landed in Ireland.

6. Egypt. On July 26th to 27th two armoured car patrols 11th Hussars attacked Libyan frontier by enemy aircraft; two armoured cars burned, one man killed, three wounded. One officer and twelve men with two armoured cars and lorries missing.

7. Libya. Indications received Italians considerably reinforcing Egyptian frontier area. Artillery activity has increased, very large column of M.T. and tanks seen south of Bardia July 28th.

8. Sudan. Heavy rains reported in the whole area.

CABLE

FROM: Commercial Attache Nicholson
Shanghai, China.

DATE: August 1, 1940

For the Secretary of the Treasury.

Shanghai market July 31 closed quiet at 3-55/64 for
cash 3-27/32 for August for sterling 5-15/16 for cash
5-29/32 for August for U.S. dollars. Gold bars closed at
5,415 and wei wah at discount of 4.90%.

NICHOLSON

JT

PLAIN

STOCKHOLM

Dated August 1, 1940

Rec'd 8:31 p.m.

Secretary of State,
Washington.

786, first.

Negotiations between Sweden and Russia concerning expropriation of Swedish enterprises and blocked Swedish funds in Baltic States may be linked with present trade negotiations. Riksbank believes reported blocking Swedish funds by France likely as Sweden blocked French funds on June 28 (see our 691 and 708). Industrial Commission estimates rubber stock sufficient two years.

INFORM TREASURY, COMMERCE.

STERLING

LMS

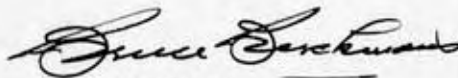
BUREAU OF FOREIGN AND DOMESTIC COMMERCE. 7

August 1, 1940

1: Bruce Berckmans

To: Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

Sent at the request of Mr. Noble,
Under Secretary of Commerce.



Bruce Berckmans,
Acting Director.

ECONOMIC DEVELOPMENTS

23530

BUSINESS IN GENERAL continued to improve in July, after allowance for customary seasonal movements. The gain during the month was moderate compared with the sharp upswing in June but at the end of July overall activity was higher than at the end of June. Though some of the weekly business indexes published by private agencies have tended to decline in recent weeks, this does not mean that activity is again trending lower. These indexes are limited in scope because of the lack of comprehensive weekly data; they do not have broad representation of the durable goods industries which are providing the basic stimulus to the recent rise in business.

INDUSTRIAL PRODUCTION definitely advanced in July over the June volume. Preliminary estimate of the Reserve Board's adjusted index shows a rise to 117 from the June figure of 114. As in other recent months steel led the way as weekly output rose from 86.5 percent of capacity for the last week of June to 90.4 percent for the week ended August 3. The only major industries to fall below the June volume on an adjusted basis were automobiles and crude petroleum.

EXAMPLES:Adjusted Indexes
(1923-25=100)

	May	June	July*
Industrial production	106	114	117
Steel	110	148	160
Cotton	116	118	128
Automobiles	95	92	73
Carloadings	72	75	76

*Preliminary

SIGNIFICANCE: As the Board allows for a seasonal decline of 3 points in production for July, the index indicates that actual output was the same in July as in June—the rise from 114 to 117 resulting from absence of the usual summer slackening. In terms of the index, a sharp decline in automobile assemblies was offset by moderate advances in most other industries. However, the decline in automobiles results from the earlier change-over to new models this year—a change in the seasonal that distorts the Board's index and most weekly indexes of business activity. Automobile companies are winding up a very good model year and existing stocks are being reduced at a feverish rate. It may be noted also that advanced manufacturing industries that have been stimulated by the war and our defense program—

aircraft, machine tools, machinery, and shipbuilding—have undoubtedly continued to advance moderately and these industries are not directly represented in the Board's and other indexes. This will be reflected when the revised index is published.

THE NEW INDICATORS of consumption now available for July show that business is receiving strong support from retail purchasing. Department store sales held to the high June level, the adjusted index being 93 in both June and July. July sales were 7 percent above a year ago. Automobile sales are reported at not much below the June total, a volume that means a substantial increase on a seasonally adjusted basis. Other consumer durable goods lines are also doing comparatively well. The report on electrical appliances sales for the first six months of this year shows consumer takings of the more important items at an all-time high.

CONTINUATION OF THE RECOVERY MOVEMENT has taken place in the face of weakness in sensitive commodity prices and a practically motionless stock market. Commodity prices have drifted downward almost continuously during the month with the Bureau of Labor Statistics' index of 28 commodities falling from 110.2 on July 1 to 106.6 on July 31. Most of the individual commodities included in the index have eased off. The volume of trading on the stock exchange has been the smallest since August 1918; the 7,304,800 shares turnover for the month compares with close to 25 million average for ten preceding months. Price movements for all classes of securities have been confined within exceedingly narrow limits.

TABLES:

	June 16	July 1	July 31
Bureau of Labor Statistics			
Spot commodity price index	110.8	110.2	106.6
Agricultural products	111.7	111.8	111.8
Industrial raw materials	114.9	112.8	109.5
Import commodities	114.3	113.0	107.4
	June 15	July 1	July 31
Doz-Jones:			
Industrial stocks	123.4	121.1	126.1
Railroad stocks	25.0	25.7	26.9
Utility stocks	20.6	22.3	22.7
Corporate bonds	85.5	87.1	88.4

SUMMARY: Many analysts feel that the present price weakness and generally market inactivity indicate some slackening in business for the immediate future, even if the war continues. In fact, some believe that a mild recession is already under way. We do not share

that opinion. It is true that the volume of industrial purchasing of certain standardized commodities fell off in July from the peak of ordering in June. But as buying in these markets usually comes in spurts this of itself is of little importance. As to the price weakness it should be remembered that since the beginning of the recovery in mid-1936 prices have moved lower much of the time. Price behavior has been characterized by brief but sharp advances during periods when forward buying was the rule. As the buying in spurts subsided prices tended to ease from the peaks reached on the buying waves. There is little forward buying at the present time and so price advances are not to be expected. With most of Europe out of the world markets the volume of consumption is simply not large enough to generate a price rise in the absence of an inventory boom. This situation is not likely to change until the defense program is much further advanced, if then. This is a favorable rather than an unfavorable factor in the present situation as it will tend to make the existing recovery less erratic and should tend to limit liquidation should Britain be defeated.

Assuming a continuation of the war we believe the business curve will continue to rise. There may be a slower downturn in the Board's (old) production index early in the fall for either of two reasons. (1) The seasonal adjustment allows for a sharp pick-up in business from August to October and this may not occur because we are now operating at such a high level. Hence, there may be a statistical decline without an actual one. (2) There is probably some accumulation of steel inventory at the present rate of production, and the heavy weight group this item would reduce the general level of the index in the event that the steel rate dropped back to the volume of consumption plus exports.

Such a decline would not mean a reversal of the movement of general business, or even of industrial production. We do not expect a decline in terms of employment or national income.

FOREIGN TRADE NOTES

Brazil: The pro-German trade propaganda is assuming more and more definite forms. In July a series of articles have appeared in Brazilian newspapers holding forth promises of large German purchases of Brazilian products in the near future. The articles pointed out that the German factories are already preparing for postwar trade, calling attention to Germany's great need of Brazilian primary products, and advocating a resumption of the compensation system of trade. These articles also call attention to the strict credit terms demanded by American exporters when Brazil was cut off from the European supplies.

An American concern has been negotiating with the Administration of the Port of Rio de Janeiro for the construction of a modern pre-cooling plant, but evidently could not come to terms on account of the demand for long-term credit facilities. Recently a Brazilian representative of a German firm offered to construct the plant, exclusive of machinery, on the basis of payment in ten years at 9 percent interest. The plant would cost about \$1,500,000 and the German company offered to accept promissory notes of the Administration of the Port of Rio de Janeiro. The equipment is to be furnished by an American concern and would cost about \$600,000.

One of the most important German houses operating in Brazil has just placed an order with an American sewing machine company for 10,000 sewing machines, to be delivered at the rate of 2,000 units a month.

Branch factories of two American tire companies are now in operation and will produce approximately 600 tires daily on the basis of three 8-hour shifts. The completion of an Italian tire factory is delayed by the war and the company has sent technical men to the United States to purchase machinery.

It is interesting to note that when one of the American factories discovered that the other American factory was to produce a British brand of tires in addition to its own brand, it protested to the Federal Government and was upheld in its claim that the American company was exceeding its charter which permitted only the manufacture of American tires.

It is believed that after all the new plants are in operation, the importation of tires and tubes from the United States and other countries will cease.

Japan: With rainfall in Western Japan reported as the lightest since 1934, fears are again expressed regarding a recurrence of the power shortage which greatly curtailed industrial activity in Japan during the last half of 1939 and the early months of 1940. A continued lack of rainfall would also affect the rice crop and another poor crop would mean serious consequences for the nation.

There is discussion in the Japanese press of the desirability of concentration on the development of trade with the East Asia bloc and pay less attention to stimulating shipments to the United States and the sterling bloc.

- 2 -

The Japan Economic Federation, which is made up of the leading industrialists and business men of the country, is reported to have submitted a plan to the Government providing for the establishment of the German system of cartels for all major industries. This cartel system is to replace the present system of official regulation and control and the present policy of the Government toward the establishment of the "national policy" concerns. It is believed that this move indicates the apprehension which prevails in industrial circles toward the present trend of State control of industry.

Bureau of Foreign and Domestic Commerce
July 31, 1940

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percentage increase, July 27, 1940 from—	
	July 29	Aug. 26	Sept. 16	July 20	July 27	July 29, 1939	Aug. 26, 1939
All commodities	74.8	74.8	79.3	77.6	77.3	3.3	3.3
Farm products	61.4	61.1	69.7	67.3	66.0	7.5	8.0
Foods	66.7	66.7	75.5	70.4	69.6	4.3	4.3
All commodities other than farm products and foods	80.4	80.4	82.4	82.4	82.4	2.5	2.5
Hides and leather products	93.7	92.6	98.3	99.9	99.0	5.7	6.9
Textile products	67.5	67.4	71.4	71.9	71.8	6.4	6.5
Fuel and lighting materials	73.3	73.2	74.1	71.8	71.8	- 2.0	- 1.9
Metals and metal products	93.4	93.5	94.9	94.9	94.9	1.6	1.5
Building materials	89.4	89.7	90.7	92.8	92.7	3.7	3.3
Chemicals & allied products	(1)	(1)	(1)	76.9	76.8	—	—
House-furnishing goods	87.0	87.0	87.1	90.0	90.0	3.4	3.4
Miscellaneous	72.9	73.1	76.1	77.3	77.7	6.6	6.3
Raw materials	66.9	66.2	73.0	70.8	70.0	4.6	5.7
Semimanufactured articles	74.5	74.4	82.0	77.8	77.5	4.0	4.2
Manufactured commodities	79.1	79.3	82.3	81.1	81.0	2.4	2.1

/ Comparable data are not available.

Source: Bureau of Labor Statistics, U. S. Department of Labor.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		August 2	August 30	Sept. 13	July 24	July 31
Copper, electrolytic, New York	per lb.	10 3/8	10 1/2	12	11 1/2	11 1/2
Lead, prompt shipment, New York	do	4.95	5.05	5.50	5.00	5.00
Silver, New York	do	4.94	5.14	6.64	6.64	6.64
Lin, straits, New York	do	48 1/2	49 3/4	51 7/8	51 1/2	52 7/8
Rubber, plantation, New York	do	16 9/16	16 13/16	22 1/2	22	21 1/4
Rides, light native cows, Chicago	do	12	11	15	11 3/4	11 1/4
Milk, 13-15 denier, 78% scripless, N.Y. #	per lb.	2.73	2.72	3.21	2.55	2.55
Cotton, middling, aver- age, 10 markets . . .	per lb.	9.38	8.53	9.01	10.10	10.06
Print cloth, 60 x 64, 38 1/2 inches, N.Y. #	per yd.	4 3/4	4 5/8	5 3/8	4 5/8	4 3/4
Wool tops, Oct. 1940 futures, New York . .	per lb.	2/83.7	2/81.5	2/111.9	89.4	90.3
Sugar, raw, 96°, duty free, New York . . .	do	2.90	2.92	3.70	2.67	2.63
Cocoa, Acra, N.Y. . .	do	4.45	4.38	6.45	4.35	4.15
Coffee, Santos, No. 1, New York	do	7 5/8	7 5/8	7 3/4	7 1/8	7 1/8
Card, cash, Chicago	do	5.77	5.65	7.75	5.62	5.50
Cottonseed oil, Sept. 1940 futures, N.Y. .	do	1/ 5.75	2/ 5.61	2/ 7.30	6.04	5.96
Wheat, Sept. 1940 futures, Chicago . .	per bu.	1/ .65 1/2 3/4	.67 1/4 2/	.85 3/8	.74 5/8	.75 7/8
Hogs, good and choice, 220-240 lbs., Chi. #	per cwt.	6.68	6.88	8.13	6.40	6.38
Steers, beef, medium, 750-1,100 lbs., Chi	do	8.13	8.38	8.88	8.63	8.25

/ Nominal. 2/ October 1939 futures. 1/ December 1939 futures. 1/ September 1939 futures.

Sources: All commodities, with the exception of wool tops, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken from the Wall Street Journal, and hogs and steers are from the U. S. Department of Agriculture, Bureau of Agricultural Economics.

1035-1040

RECEIVED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Activity of the six reporting banks in registered sterling was as follows:

1. Purchases of £106,000, of which £80,000 were acquired from the Federal Reserve Bank of New York.
2. There were no sales of registered sterling.

Of the above-mentioned purchases, £89,000 were bought by the banks for their customers; the remaining £17,000 apparently were used to increase registered account balances in London.

The Federal Reserve Bank of New York also stated that £6,000 in registered sterling were purchased from it by two non-reporting banks.

In the open market, sterling advanced nearly 6¢, from an opening of 3.83-1/4 to a high of 3.89 at the close. We learned that the New York agencies of Japanese banks were fair buyers of sterling. The reporting banks executed orders to sell £26,000 and to purchase £48,000, all of which were for account of their commercial customers.

The Canadian dollar had a slightly weaker tone. As compared with yesterday's final rate of 11-3/4% discount, it closed today at 12%.

The other currencies closed as follows:

Swiss franc	.2274
Lira	.0505
Reichsmark	.4005
Cuban peso	10-1/2% discount
Mexican peso	.2018 bid, .2036 offered

We made the following purchases of gold from earmarked accounts:

\$51,403,000 from His Britannic Majesty's Government
<u>1,126,000 from the E.I.S.</u>
\$52,529,000 Total

The Federal Reserve Bank of New York reported that the Bank of Mexico shipped \$1,765,000 in gold from Mexico to the Federal for its own account, disposition unknown.

- 2 -

The State Department forwarded to us a cable stating that the following shipments of gold were made from England, both of which are for sale to the U. S. Assay Office at New York:

\$21,000 shipped by Erlangers Ltd., London, to the Manufacturers Trust Company, New York.
12,000 shipped by Westminster Bank, London, to the Chase National Bank, New York.

\$33,000 Total

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

In London, spot silver was fixed 1/16d lower at 22-5/16d. The forward price was unchanged at 22-1/16d. The U. S. equivalents were 40.51¢ and 40.06¢ respectively.

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

We made three purchases of silver totaling 270,000 ounces under the Silver Purchase Act, all of which represented new production from foreign countries, for forward delivery.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British owned dollar securities under the vesting order effective February 19:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
July 22	300	1,075	22,000	18,713
23	100	5,617	137,500	118,765
24	-	-	21,000	16,174
25	2,530	30,409	41,000	34,808
26	1,100	11,499	16,000	12,016
27	<u>1,100</u>	<u>7,576</u>	<u>12,000</u>	<u>9,695</u>
	5,130	56,176	249,500	210,171
Sales from February 22 to July 20	<u>1,388,083$\frac{1}{2}$</u>	<u>48,270,744</u>	<u>2,729,000</u>	<u>2,397,935</u>
TOTAL FEBRUARY 22 TO JULY 27	1,393,213 $\frac{1}{2}$	48,326,920	2,978,500	2,608,106

Mr. Pinsent reported that non-vested securities for the week ending July 20 totaled \$500,000.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, August 1, 1940.

Press Service
No. 21-77

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 3/4 percent notes of Series F of the Commodity Credit Corporation.

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

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 198,303,000	\$ 17,960,000
New York	1,590,407,000	143,436,000
Philadelphia	130,218,000	11,819,000
Cleveland	216,021,000	19,616,000
Richmond	88,199,000	8,204,000
Atlanta	75,166,000	7,622,000
Chicago	434,250,000	39,523,000
St. Louis	77,325,000	7,237,000
Minneapolis	37,368,000	3,444,000
Kansas City	47,457,000	4,352,000
Dallas	51,421,000	4,698,000
San Francisco	239,071,000	21,547,000
Treasury	-	-
TOTAL	\$5,185,206,000	\$289,458,000

-oOo-

August 1, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during July 1940.

RIB

A handwritten signature, possibly "W.S.", written in dark ink. It consists of a series of loops and a long horizontal stroke extending to the right.

Monthly Report on Projects in the
Division of Tax Research
July 1940

I. New projects

1. Additional assignments on war and excess profits taxes

New assignments on various aspects of the study of war and excess profits taxes are incorporated in the summary statement on this project given on the following page.

2. Allocation of taxes by income brackets

A criticism was prepared of a report by the Department of Commerce on "Allocation of Federal, State and Local Taxes to Consumer Income Brackets." (Mr. Farioletti)*

3. Taxation trends and developments

An article treating on trends and developments in the field of taxation during 1940 is in process. (Mr. Atlas)

4. Sales taxes in the United States

At the request of the State Department, data on sales taxes in this country were prepared for the Finnish Legation. (Mr. Atlas)

*Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

- 2 -

II. Continuing projects

1. War and excess profits taxes

Analysis of issues raised by war and excess profits tax proposals and assembly of statistical and other information relative thereto have proceeded along several lines. These include a report on the treatment of the issues raised in the "Agenda for the Excess Profits Tax Committee" under the War Revenue Acts; study of amortization and inventory problems; analysis of special treatment accorded to particular types of business under the World War and present excess-profits taxes of the United States, Great Britain, and Canada; consideration of the treatment of non-corporate business entities and of non-business income of individuals under an excess profits tax; the setting-up of forms for tabular presentation of the essential features of foreign excess-profits tax laws; the compilation from official documents of statistical and other basic data; and analysis of statistical information relating to business profits and failures. (Mr. Blough and staff)

- 3 -

2. Undistributed profits tax

A memorandum is in process analyzing, in the light of issues raised by the undistributed profits tax, the statistics made available from income tax returns and other sources.

(Mr. Shere, Mr. Atlas and Mr. Copeland)

3. Inventory of tax proposals

A compilation of Treasury tax proposals other than those designed to produce revenue is in preparation; and the draft inventory of proposals for raising additional revenue is being reviewed.

(Mr. Shere and Mr. Zorach)

4. Tax on value added

A memorandum is in preparation analyzing the economic and administrative issues which would be involved if a value-added tax were imposed.

(Mr. Farioletti)

5. Exempt insurance companies

A memorandum on exempt insurance companies, giving attention to differential treatment of mutual insurance companies other than life and to various tax-exemption issues has been completed and is awaiting review. (Mr. Shere, Miss Till, and Mr. Mills)

- 4 -

6. Incentive taxation

A report analyzing the provisions of S. 3560, 76th Congress, has been prepared and is being edited. This bill provides for the imposition of a tax which is reduced as the expenditure for labor used in business is increased. (Mr. Shere and Mr. Farioletti)

7. Building and loan associations

A memorandum analyzing the suggestion to exempt dividends on building and loan association stock from the Federal normal income tax has been prepared and is now being edited. (Mr. Shere and Miss Till)

8. Tax-exempt securities

Data on (1) the gross amount of interest-bearing securities of Federal corporations and agencies outstanding at the end of each calendar year from 1929 to 1939 and (2) the amount of such securities held by the United States Government, Federal trust funds and Federal agencies have been compiled and are being reviewed. (Mr. Ecker-Racz and Mr. Mannen)

- 5 -

9. Income and estate taxes

(a) A memorandum analyzing the problems of estate tax payment is in process. (Mr. Mills)

(b) Reports on the following subjects have not been actively prosecuted during the month:

(1) Distribution of tax-exempt securities by net income brackets with particular reference to the holdings of such securities by persons in high income brackets.

(Miss Coyle)

(2) Proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)

(3) Powers of appointment and remainders under the estate tax. (Mr. Mills)

10. Articles, etc.

An article was prepared for the July issue of the Treasury Bulletin on "Size and Industrial Distribution of Partnerships in 1936."

(Miss Coyle)

11. Tax chronology, 1918-1927 and 1928-1940

The chronology of Federal tax rates 1918-1927 was revised to give effect to suggestions from

- 6 -

the General Counsel's office. Corresponding revision of the chronology for the period 1928-1939 and extension to incorporate the 1940 act are in process. (Mr. Atlas and Miss Hughes)

12. Income Tax Study, WPA

The work of the Philadelphia project has been divided in the past month between continuance of the study of income tax returns in process since October 1938 and a special analysis of statistics relevant to war and excess profits taxes. Plans and procedures for this special tabulation were formulated, and review was made of additional text and table forms connected with the continuing study. (Mr. Blough, Mr. Shere, Mr. Ecker-Race, and Miss Coyle)

13. History of taxation of life insurance companies

A memorandum reviewing the treatment of life insurance companies under the Federal income, capital stock, and excess profits taxes 1909-1940 was revised to give effect to criticisms of the General Counsel's office and was sent to the Securities and Exchange Commission. (Mr. Mills)

- 7 -

III. Routine assignments1. Reviews of publications

The first press release from "Statistics of Income for 1938, Part 1" was reviewed. (Miss Hughes and Miss Coyle)

2. Statistics

- (a) Data relating to different taxes, digests of tax items, and Congressional activity on tax items of interest to the Division are currently prepared. (Staff members)
- (b) In connection with the supervision of the technical work of the Bureau of Internal Revenue, several proposals of statistical tabulations were reviewed. (Mr. Blough and Mr. Shere)
- (c) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented on for the information of Mr. Sullivan. (Mr. Campbell)

3. Correspondence

The Division handled correspondence pertaining to tax problems. (Staff members)

TELEGRAM SENT

JT

GRAY

August 1, 1940

noon

AMEMBASSY

RIO DE JANEIRO

232

The following strictly confidential communication is transmitted to you at the request of the Treasury Department:

QUOTE The Federal Reserve Bank of New York has received from the Banco do Brasil a cable dated July 27, 1940, indicating a desire on the part of the Banco do Brasil to use dollar credit under the arrangement entered into by the Federal Reserve Bank of New York as fiscal United States with the Banco do Brasil as fiscal agent of the agent of the/Brazilian Government, pursuant to the letter of July 15, 1937, from the Secretary of the Treasury to the Minister of Finance of Brazil, as supplemented and modified. The Federal Reserve Bank of New York, as fiscal agent of the United States, is prepared to purchase from the Banco do Brasil Brazilian milreis as provided in the arrangement contained in the letter dated July 15, 1937, from the Secretary of the Treasury of the United States to the Minister of Finance of Brazil as supplemented and

-2- #232, August 1 to Rio de Janeiro

and modified by the letter dated September 2, 1938, from the Federal Reserve Bank of New York to the Banco do Brasil, upon receipt of the confirmation by the United States of Brazil that the Banco do Brasil has been designated as fiscal agent of the United States of Brazil to enter into such arrangement and is authorized to act as such in connection with the transactions referred to. Confirmation requested because confirmation contained in note to you from the Ministry of Foreign Affairs of Brazil dated October 26, 1939, transmitted to the secretary of State with your despatch no. 1978, dated October 27, 1939, indicated only that the Banco do Brasil is authorized as fiscal agent of the Brazilian Government to maintain a gold deposit account in accordance with the above-described arrangement and did not indicate whether Banco do Brasil is authorized to act as fiscal agent of the Brazilian Government in connection with the purchase of milreis by the Federal Reserve Bank of New York from the Banco do Brasil under the above-described arrangement. UNQUOTE

Please obtain a written communication from the Government of Brazil to the Embassy constituting the requested confirmation, telegraph text, and forward certified copies which the Department of State can transmit to the Treasury Department and the Federal Reserve Bank of New York.

HULL
(FL)

EA:FL:EHS



DEPARTMENT OF STATE
WASHINGTON

August 1, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his confidential information one copy of paraphrase of telegram No. 2488 of July 31 from London.

13 THE SECRETARY
TECHNICAL DIVISION
OFFICE OF THE SECRETARY

END VNC 1 6M 1 20

RECEIVED
RECEIVED

W.F.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: July 31, 1940, 4 p.m.

NO.: 2488

TRIPLE PRIORITY.

STRICTLY CONFIDENTIAL FOR THE SECRETARY AND THE
SECRETARY OF THE TREASURY.

Yesterday I had lunch with Montagu Norman. He included in his talk one matter of particular interest, which was his expression of complete dissatisfaction with the budget. He said that because the Treasury had played politics, the budget was completely ineffective.

The Treasury had had suggested to it by all the experts - and I judge this included Norman - that since taxes beyond all reason had been imposed upon the rich and middle classes, that it was the committee's opinion the tax to be levied should take in the people who received most financial benefit from the war, namely, those in the group which receive upwards of \$25 a week.

The above proposal was favored by Kingsley Wood, but it was referred to Attlee when taken to the Cabinet. Attlee was definitely opposed to the idea until the taxes for those in the upper brackets had been raised still further, and until imposition of a capital levy.

Norman reiterated to me that Attlee and the Labor Party did not understand that the Government needed not

- 2 -

a percentage of goods but they needed cash. The suggestion has been advanced time and time again by people holding bonds and government securities that they be permitted to pay their income taxes with government securities; they state that if they could anticipate this they would participate to a greater extent in government loans at the present time. However, the suggestion has been turned down in all cases.

I questioned Norman as to how much the plan which he and the Committee outlined might be expected to obtain. He said as much as £ 300,000,000. I remarked that the amount of the deficit as given to the public was £ 2,100,000,000, and the foregoing amount was a long way off from that. He said the deficit figure was of course for public consumption, that as an actual fact for the current year it would hardly amount to £ 700,000,000. The plans of the Treasury made provision for £ 200,000,000 of this. If the small tax payer were included in the plans, provision would be made for another £ 300,000,000, making a total of £ 500,000,000. Thus the major part of the deficit would be taken care of. Norman said that they must of course come to it sooner or later, without a doubt.

Norman is terribly bearish as to the functioning of export and trade. I should judge that most of his time is

spent

- 3 -

spent taking care of discount houses which are not in a position to meet their obligations. I have the idea that he is doing this very secretly out of Bank of England profits - his contention being that unless all confidence is to be lost, he must keep the banking machinery functioning.

KENNEDY.

EA:LWW

Copy of Letter from B. Mexico City, August 1, 1940.

The public attention has been centered on the reorganizations of the oil industry and the Railroads. The President, who had left the city at the latter part of past week, again addressed the workmen of the two industries (as a matter of fact of all industries) from Queretaro, and on this occasion he was a little more outspoken and energetic, and made quite clear his intention of going through with the reorganization. Previously, the Directors of the oil industry had been authorized to carry the matter before the Labor Board, seeking the unavoidable readjustment with the Board's intervention. The procedure is that of the "economic conflict", which so often has been denied to private enterprises (see the A.S. & K. Co. Matehuala case). It is now reported that good headway is being made before the Board and that the readjustment will rapidly be carried out, consisting of laying off some 2500 to 3000 men, preferably those employed after the 18th of March 1938, date of the expropriation. Salaries and wages will be revised downwards, as will be other benefits enjoyed by the oil workers. It would not be surprising to learn that the oil workers conditions will be less favorable after this readjustment than they were before the expropriation. The development is rather interesting, considering that the labor contracts furnished the pretext for the expropriation; although the development is no surprise. The Railroads will in all probability have to take the same medicine as the oil workers, although the leaders are assuring that they will not accept any readjustment. They either do, or the Railroads will be unable to continue operating.

And the Government's labor troubles do not end with oil and Railroads. There are serious conflicts at several State Departments, such as Comunicaciones and Asistencia Pública, where federal employees are threatening to strike if their demands are not accepted. So at this time the most serious labor trouble seems to be between the Government and some of the Unions. Of course, there are others like the Cananea strike, which remains in statu quo; Matehuala, on which nothing has been done. Then, there is another electricians strike coming up, affecting several of the Northern States.

In the political field things have been pretty quiet. There is some talk that two Congresses will be set up, one by the P.R.M. and another one by the Almazanistas, but whether these rumors have any foundation remains to be seen. The present Congress is quietly meeting in an extraordinary period, at which some projects of laws are to be discussed, amongst them that of compulsory military service.

The Havana conference has received some attention, and opinions seem to differ. In some quarters disappointment has been expressed over the fact that the conference seems to give more attention to the political side, than to the economic side, which was to be expected. People here are being warned in editorials not to be too optimistic over the economic outcome of that meeting.

The exchange continues at 4.95 without showing any tendency either way.

Copy of Report from Monterrey, N. L., Mexico,
August 1, 1940.

President Cardenas has demanded of the petroleum and railway workers that a reorganization of both industries be made to effect economies which are necessary for continued operation. The Government admits that the operations of the petroleum industry have resulted in a deficit of approximately 68 million pesos since the properties were expropriated. The reorganization, as proposed by the President, calls for drastic cuts in wages and social security benefits. The Executive Committee of the Petroleum Syndicate had agreed to accept the President's suggestions and were supposed to have signed an agreement today with Petroleos Mexicanos, who operate properties. The Syndicate members state that the Executive Committee has no authorization to sign the agreement and are demanding that the matter be discussed in a general convention, called for that purpose, and state that, if the Executive Committee signs the agreement without the authorization of the Convention, it will not be recognized by the Syndicate members. The Syndicate members claim that the deficit in operation is not due to wages and benefits received by the petroleum workers but was due to the Government's selling the oil to Germany, Italy and a Houston Refining Company at a price greatly below production costs and to improper management, and that, therefore, they should not be called on to make any sacrifices.

The railway workers are also demanding that the reorganization plan proposed by the President be discussed by a general convention, which will decide whether or not the plan should be accepted.

President Cardenas is insisting on immediate action, but it remains to be seen whether or not he will be able to control the Syndicates.

There has been very little change in the political situation in the past few days. Both the Almazanistas and the National Revolutionary Party are apparently going ahead with their plans for convening two separate Congresses for September 1st. It is rumored that the Almazan Party members, who are to be designated as senators and congressmen, have been instructed to proceed individually to Mexico City in disguise, to be on hand for the opening of Congress. General Almazan is still in Havana, but, as advised in a previous memorandum, he has stated that he will return to Mexico August 15th.

Exchange 4.95.

COMPLIMENTS

OF

MR. H. K. HOCHSCHILD

August 1, 1940.

Dear Admiral Stark:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - July 27, 1940; Unfilled Orders and
Estimated Deliveries on July 27, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - July 27, 1940; Unfilled Orders
and Estimated Deliveries on July 27, 1940.

These tables carry forward through July 27, 1940 the information furnished you last week.

Sincerely,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

Admiral Harold B. Stark,
Chief of Naval Operations,
Navy Department,
Washington, D. C.

FILE COPY

By Messenger 315

August 1, 1940.

Dear Mr. Knudsen:

I am sending you herewith, for your confidential use, two copies of the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - July 27, 1940; Unfilled Orders and
Estimated Deliveries on July 27, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - July 27, 1940; Unfilled Orders
and Estimated Deliveries on July 27, 1940.

These tables carry forward through July 27, 1940 the information furnished you last week.

Sincerely,

(Signed) D. W. BELL

Acting

Secretary of the Treasury.

Mr. William S. Knudsen,
Chairman, Advisory Commission to the
Council of National Defense,
Room 2262, Federal Reserve Building,
Washington, D. C.

FILE COPY

By Messenger 315

August 1, 1940.

Dear General Marshall:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - July 27, 1940; Unfilled Orders and
Estimated Deliveries on July 27, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - July 27, 1940; Unfilled
Orders and Estimated Deliveries on July 27, 1940.

These tables carry forward through July 27, 1940 the information furnished you last week.

Sincerely,

(Signed) D. W. BELL

Secretary of the Treasury.

General George C. Marshall,
Chief of Staff,
War Department,
Washington, D. C.

FILE COPY

By Messenger 3¹⁵

In reply refer to Initials
and No.

NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

1 August 1940

My dear Mr. Bell:

This will acknowledge receipt by
Admiral Stark of confidential reports, Part I -
Airplanes, and Part II - Airplane Engines,
which information carries through July 27, 1940.

Yours sincerely,


W.R. Sheddberg, VII,
Lieutenant, U.S. Navy,
Aide to Admiral Stark.

Honorable D.W. Bell,
Acting Secretary of the Treasury,
Washington, D.C.

RECEIVED
OFFICE OF THE
CHIEF OF NAVAL
OPERATIONS
AUG 1 1940

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

August 1, 1940.

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

Dear Mr. Morgenthau:

Thank you very much for the following
reports, which you sent me this date:

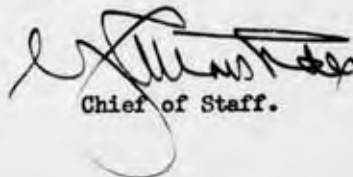
Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - July 27, 1940; Unfilled Orders and
Estimated Deliveries on July 27, 1940.

Part II - Airplane Engines

Deliveries of New Orders for Airplane
Engines, May 1 - July 27, 1940; Unfilled
Orders and Estimated Deliveries on July 27,
1940.

Faithfully yours,



Chief of Staff.

August 1, 1940

My dear Mr. Welles;

In the absence of Secretary Morgenthau, who is away from Washington, I am acknowledging your letter of July 29th together with inclosures.

As soon as Mr. Morgenthau is back at his desk, which I expect will be on Monday, I shall bring your letter to his immediate attention.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Sumner Welles,
Under Secretary of State,
Washington, D.C.

August 1, 1940

My dear Mr. Welles:

In the absence of Secretary Morgenthau, who is away from Washington, I am acknowledging your letter of July 29th together with inclosures.

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Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Sumner Welles,
Under Secretary of State,
Washington, D.C.

THE UNDER SECRETARY OF STATE
WASHINGTON

July 29, 1940.

PERSONAL AND CONFIDENTIAL

Dear Henry:

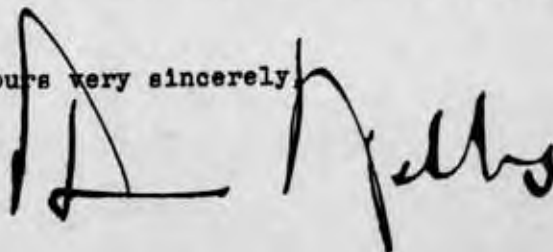
It seemed to me imperative after reading the memorandum you were good enough to hand me at the last Cabinet meeting on July 26 to have an immediate and careful investigation made of the complaints listed in that memorandum with regard to the present administration of export control.

The investigation which was then made has crystallized into a further memorandum which I am enclosing herewith for your information.

After your return to Washington, I shall be more than happy personally to go into these questions with you.

Believe me

Yours very sincerely,



Enc.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

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DEPARTMENT OF STATE
DIVISION OF CONTROLS
MEMORANDUM

July 27, 1940.

The Acting Secretary:

There are submitted herewith, in compliance with your request, comments on the attached Treasury memorandum in regard to the effect of export control on British orders.

1. The machinery for the administration of the Export Control Act is, briefly, as follows.

Colonel Maxwell, the Administrator of Export Control, determines the policies which are to govern the issuance of export licenses. He determines these policies after consulting an informal committee consisting of representatives of the Departments of State, Treasury, War, Navy, and Commerce, and the Advisory Commission to the Council of National Defense. This consultation is sometimes entirely informal and sometimes at meetings of a committee of representatives of the interested Departments. Mr. Grady, Mr. Feis and I, in accordance with the Secretary's instructions, act as the representatives of the Department of State in liaison with the Administrator. The Administrator, recognizing

-2-

recognizing the paramount responsibility of the Secretary of State in the conduct of foreign relations, has uniformly accorded full consideration to the views of the Department on matters relating to foreign policy.

The issuance of licenses is a function of the Division of Controls of the Department, which issues or declines to issue licenses in accordance with the rules and regulations and specific directives furnished by the Administrator after the consultation mentioned above. The overwhelming majority of licenses for articles and materials, other than machine tools, are now being issued in accordance with general rules and regulations. The consideration of applications for licenses to export machine tools involves questions of such a technical nature that these applications are referred individually to the office of the Administrator who, after consultation with the Army and Navy Munitions Board, indicates in each case the action to be taken.

2. Applications for export licenses submitted by the British Purchasing Commission have, since the Export Control Act became effective, been given preferential treatment in accordance with my instructions. The result has been

-3-

been that except in a few cases where decisions on technical matters have been involved, these applications have been very rapidly dealt with. A day or two after the system was established, I called Mr. Ballantine, Washington representative of the British Purchasing Commission, by telephone, told him that we were anxious to cooperate with his organization in every way, and invited him to bring to my personal notice any cases which required particular attention. Until the receipt this morning of the Treasury memorandum, the only intimation that I have ever had that the British Purchasing Commission was not entirely satisfied with the administration of the Export Control Act was on July 16, when the Administrator informed me that he had heard a rumor that someone had said that members of the British Purchasing Commission were complaining of delays in the issuance of licenses. He said that he had made an investigation and had not been able to substantiate this rumor. On that same day, in the presence of Mr. Price, of this Division, the Administrator asked Mr. Philip Young, Assistant to the Secretary of the Treasury, whether he had heard any complaints from the British Purchasing Commission. Mr. Young replied that he had heard rumors of such complaints but that, having consulted representatives of the Commission, he had been informed that they had no complaints of any kind to make. On the contrary, they were fully satisfied

-4-

satisfied with the treatment which they were receiving. In order to make certain that no complaints were being made in any responsible quarter, I called Mr. Ballantine, Washington representative of the Commission, by telephone on July 17 and asked him directly whether he was experiencing any difficulties in obtaining export licenses. He replied emphatically in the negative, stating that the Commission was obtaining the licenses with all the rapidity which it could possibly expect. He took occasion to thank me in very warm terms for the cooperation which the Commission had received from the Department, and to compliment me on the rapidity with which the complicated administration had been set up. I also called Mr. Opie, Second Secretary of the British Embassy, by telephone, told him of the rumors which I had heard and asked him whether he had ever heard any such complaints on the part of the British Purchasing Commission. He replied that, on the contrary, he had always heard the administration of the Export Control Act spoken of most enthusiastically in British circles. He said that he would, however, consult some of his colleagues in the Embassy and also with members of the Commission itself and call me later by telephone. When he called me back he repeated what he had said before and added that far from having any grounds for complaints, the members of the Commission, many of whom had had experience with the British export licensing system, were astounded at the rapidity and efficiency with

with which our system of export licenses was functioning. Upon receipt of the Treasury memorandum this morning, I called Mr. Ballantine again by telephone, told him that I had once more heard reports to the effect that the British Purchasing Commission was dissatisfied with the administration of the export license system. Mr. Ballantine expressed great astonishment and reiterated that the Commission had received the fullest cooperation and that the issuance of licenses was being expedited far beyond what the Commission had considered possible. He said that of course there had been some confusion and some delays in shipments due to the sudden imposition of this control of exports, but that he considered that confusion and those delays inevitable and that the situation was being straightened out to his entire satisfaction. He added that if he had ever had any cause for complaint he would have communicated directly with me. Similar expressions of opinion have been received from others connected with the British Purchasing Commission. Complete satisfaction with the administration of the export license system was expressed this very day, of his own accord, by Captain Coventry, who is charged by the Commission with liaison with the Division of Controls.

3. In regard to the specific cases of delay in the issuance of export licenses alleged in the Treasury memorandum:
(a)

-6-

(a) No application for license has ever been received from the Bohn Aluminum and Brass Company. Structural steel is not in any case a commodity for which an export license is required.

(b) Applications were received on July 12 and July 16 from the Michigan Seamless Tube Company for licenses to export structural steel. In each case replies were dictated within two days informing the company that licenses were not required for the exportation of structural steel.

(c) Several applications were received from du Pont for license to export cellulose acetate. These applications raised a technical question which was necessarily submitted to the Administrator. The Administrator's decision was submitted to the Department without any delay and the company was informed that cellulose acetate was not among the materials for which an export license was required.

(d) No applications for export licenses have been received from the Hills McCanna Company. In any case, no export license is required for castings unless they are castings for specified types of arms and ammunition.

(e) Action has necessarily been delayed on the application of the British Purchasing Commission for license to export two Fairchild K8A camera operating units, because of the

-7-

the fact that these units appear to involve military secrets of interest to the national defense. The question was immediately referred to the War and Navy Departments for a decision in accordance with established procedure. An action on the application for license will be taken as soon as the decision of the War and Navy Departments is communicated to this Department.

(f) It is presumed that the application submitted by the British Purchasing Commission on July 14, which is referred to in the memorandum in general terms was an application for a license to export a machine tool. In several instances, applications of this kind did not contain sufficient technical information to enable the Army and Navy Munitions Board to advise the Administrator as to whether export licenses should be issued, and the Department in those cases was obliged to request further information. The British Purchasing Commission now having ascertained what information is required in regard to the machine tools which it desires to export is furnishing this information and thus avoiding such delays as that referred to in this case.

In general, it may be stated that as the Export Control Act was approved on July 2, and effective on July 5, both the Administrator and the Department were faced with the problem of setting up adequate administrative machinery

within

-8-

within a very few days and with the problem of endeavoring to get this machinery to function while it was still in the process of being set up. Inevitably, there was in the beginning some delay in the issuance of licenses and articles and materials subject to license which were already on the dock or were en route to a port of exit were in many cases subjected to delay in exportation while licenses were being obtained. This delay was increased by the fact that the Division was deluged with applications for licenses to export articles for which no export license is required. Exporters are gradually becoming familiar with the regulations and this cause of delay is being rapidly eliminated. Exporters, including the British Purchasing Commission, realized the situation with which the Administrator and the Department were confronted and very few complaints were received. On the contrary, both the Administrator and the Division of Controls have encountered a most reasonable and cooperative attitude on the part of exporters and several exporters and important organizations of exporters have written to compliment us on the efficiency with which the administration is functioning. For example, the Aeronautical Chamber of Commerce of America, Incorporated, on behalf of the manufacturers of airplanes and aeronautical equipment and accessories, wrote me a letter on July 15, which contains the following paragraph:

"You and your Department certainly have reason to be very proud of an organization which can demonstrate such

such a remarkable ability to so fully rise to the occasion under the stress of these emergency conditions."

The administrative machinery is now functioning with reasonable efficiency and with the fullest cooperation between the office of the Administrator and the Division of Controls. Nevertheless, both the Administrator and the Division of Controls recognize that improvements in the administration can be made and they are being instituted as rapidly as possible. The statement in the Treasury memorandum that there is an average delay of from 10 to 12 days between the submission of an application and the receipt of an export license was an exaggeration even at the beginning of the month. At this date it is an entirely unwarranted statement. Except in a few isolated cases in which technical questions are involved, licenses are being issued within a week or less than a week from the date of the receipt of the application, and the Department is issuing approximately 700 export licenses per day. The applications of the British Purchasing Commission which receive preferential treatment are being acted upon more rapidly than those of other exporters.

4. The Treasury memorandum contains a statement

which

-10-

which gives the impression that licenses are refused to authorize the exportation of machine tools to Great Britain. As a matter of fact, among the many hundred applications received for license to export machine tools to Great Britain, only four have been rejected. These were rejected after the administrator, on the advice of the Army and Navy Munitions Board, had determined that the particular tools in question were needed to carry out our national defense program.

5. When the Export Control Act became effective, the Administrator, on the advice of the War and Navy Departments and the Advisory Commission to the Council of National Defense, furnished me with rather rigorous directives which required the Department to decline to issue a relatively large proportion of the licenses applied for. Subsequent directives have gradually relaxed the control of exports so that licenses are now being issued which were not issuable a few weeks ago. For example, the Administrator has now directed me to issue all licenses applied for to authorize the exportation to Canada of any of the articles or materials, except machine tools, subject to export control. The Administrator examines each individual application for
license

-11-

license to export machine tools and, in specific cases, when the tools which it is proposed to export are essential for the carrying out of our defense program, he directs that licenses be not issued.

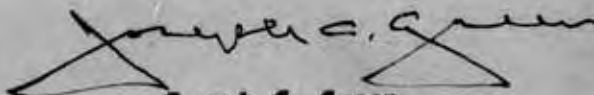
If the British Government is in fact confronted by any difficulty as a result of our refusal to issue export licenses, it would seem that these difficulties should be brought to our attention by the British Ambassador. I venture to suggest that he might well be invited to bring such difficulties to our attention if they really exist. Any questions raised by him would be submitted to the Administrator with a request that I be furnished with directives which would put an end to the difficulties. The Administrator has always heretofore complied with such requests.

6. It is not perceived that there is any validity to the objection set forth in the Treasury memorandum that the British Purchasing Commission is now obliged to obtain export licenses before entering into contracts for the purchase of machine tools. American companies have been advised by the Advisory Commission to the Council of National Defense not to enter into contracts to export machine tools until export licenses

-12-

licenses had been obtained. This advice was given with the knowledge and approval of the Administrator. Its object was to prevent and not to create delays in exportation and to obviate for both the American manufacturer and the British Purchasing Commission the difficulties which would arise if machine tools were contracted for, manufactured and perhaps ready for shipment before it was ascertained whether they could be exported.

7. In view of the facts set forth above, the Administrator, whom I have consulted in regard to this matter, and I are entirely at a loss to understand what legitimate basis there can be for the complaints set forth in the Treasury memorandum.



Joseph C. Green

Co:JCG:LGR:EJF

Phil Young

August 1, 1940

CONFIDENTIAL

My dear General Miles:

In the absence of the Secretary who is away from Washington, I am acknowledging your letter of July 31st inclosing two cablegrams which you received from the Military Attache in London in regard to the procurement of war materiel.

As soon as Mr. Morgenthau is back at his desk, which I expect will be on Monday, I shall bring these cables to his immediate attention.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Brigadier General Sherman Miles,
Acting Assistant Chief of Staff,
War Department,
Washington, D.C.

August 1, 1940

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Acting Assistant Chief of Staff,
War Department,
Washington, D.C.

CONFIDENTIAL

59

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

G-2/2574-1544

July 31, 1940

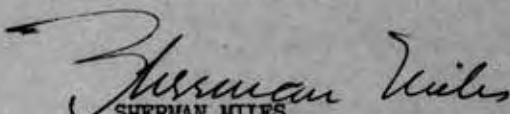
The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

For your information, I am inclosing copies of two paraphrased cablegrams from the Military Attache, American Embassy, London, bearing on the procurement of war materiel.

Very sincerely yours,


SHERMAN MILES,
Brigadier General, U. S. Army,
Acting Assistant Chief of Staff, G-2.

Inclosures

CONFIDENTIAL

G-2/2574-1544

July 31, 1940

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The Secretary of the Treasury.

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Brigadier General, U. S. Army,
Acting Assistant Chief of Staff, G-2.

Inclosures

CONFIDENTIAL

RESTRICTED

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Paraphrase of Cecil Seligson
Received at the War Department
at 12:07 AM, July 20, 1942

London, filed 12:45 P.M.

In an interview with Lord Beaverbrook, Minister of Aircraft Production, Major Staller was told the following:

"1. The United States Army should not rush production of a 30-mm aircraft cannon too rapidly.

2. The British will furnish at once complete manufacturing drawings and specifications for the Mark II cannon if wanted. The weight is about 1000 pounds.

3. The British manufacturing firm has been ordered to build one Mark II gun for the U.S. Army. The price cannot be now determined.

4. The production of the Mark I cannon is continuing in Britain. A project is still under way to reach a production of Mark II guns of 2,100 a month by June 1943.

5. Lord Beaverbrook personally prefers the .50 caliber machine gun to the 30-mm cannon; stating that if he were Air Minister he would convert production of the cannon to the .50 caliber machine gun.

6. Air Chief Marshal Bunting, commanding the Fighter Command, criticizes adversely the present Spitfire equipped

RESTRICTED

RESTRICTED

with the 20-mm cannon on three grounds: (a) each plane carries only two guns; (b) enemy losses are limited by the 60 rounds of ammunition per gun; and (c) mounting guns on their sides (rather than vertically) causes difficulty.

7. Future Hurricanes and Spitfire fighters will each be armed with four 20-mm cannon mounted belly down.

8. The belt feed for this cannon is still under development; but we are prepared to give the United States full details as soon as they are determined."

I desire to know whether or not I should ask for this manufacturing data. If so, what provisions should be made for payment?

My recommendation, which is concurred in by my Air and Ordnance officers, is that the United States Army should not commit itself to a new program at the expense of the .50 caliber machine gun program until the combat experience with both types of weapons is available. To date this experience is very limited.

LHM

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- 2 -

CONFIDENTIAL

Paraphrase of Code Radiogram Received at the
War Department 2:30 p.m., July 30, 1940

London, July 30

Engine from German airplane secured for the Chief of
the Air Corps will be shipped about August 1, 1940, on the SS
SAMARIA, consigned to the Army Supply Base, Brooklyn.

IEH

CONFIDENTIAL

COPY

64

August 1, 1940

Through the Bureau of the Budget

My dear Mr. President:

There are enclosed herewith separate requests of the Secretary of Agriculture and the Secretary of the Treasury for initial allotments under Section 40 of the Emergency Relief Appropriation Act, fiscal year 1941, Public Resolution No. 88, 76th Congress, approved June 26, 1940, to enable them and The American Red Cross to carry out the functions under this Act vested in them by their being designated as the agencies to perform such functions by Executive Order No. 8495, dated July 26, 1940.

There is also enclosed a letter from The American Red Cross to the Secretary of the Treasury in connection with the anticipated requirements of The American Red Cross for expenses of distribution other than administrative expenses.

The amount requested to be allotted to the Secretary of Agriculture for the purchase of agricultural supplies is \$5,000,000 of which not to exceed \$50,000 is to be available for administrative expenses and to the Secretary of the Treasury for the purchase of other supplies is \$2,000,000 of which not to exceed \$20,000 is to be available for administrative expenses with an additional amount of \$1,000,000 for payment of the expenses of The American Red

- 2 -

Cross, other than administrative expenses.

The amounts suggested in these requests are based upon estimates made by The American Red Cross as stated in the accompanying letter of The American Red Cross to the Secretary of the Treasury.

The rapidity with which the supplies can be purchased, transported, and distributed in accordance with the provisions of the Act will depend upon the following factors:

- (1) The availability of shipping facilities which can be employed for the transportation of such supplies.
- (2) Assurance that such relief supplies will be permitted to pass through the blockades established by the belligerent nations.
- (3) The ability of the distributing agency to secure adequate agreements and understandings which will insure the protection and satisfactory distribution of the supplies in the nations or areas to which relief is to be directed.

However, in our opinion it should be possible to work out the necessary arrangements for the transportation of the commodities to the areas in which there are refugees

- 3 -

who have been driven from their homes or otherwise rendered destitute by hostilities or invasion. It is proposed, therefore, to proceed with the purchase of some supplies immediately in order to have them available when such arrangements are completed.

It is expected that the purchase will be made largely from the following list of commodities and products.

FOOD

Milk (Evaporated & Dry)	Flour
Fats - Oils - Lard	Sugar - Syrups
Meat Products (Pork)	Dried Fruit
Rice	Oatmeal and other cereals
Dry Beans	Fruit and vegetable
Cornmeal	concentrates

CLOTHING

Outer and under garments and shoes for men, women, children and infants and/or materials for the production of the same.

Medical and Hospital Supplies.

Sanitary Supplies: such as, Soap, Disinfectants, etc.

Bedding: such as, Cotton and Wool Blankets, Ticking or Bed Sacks, Unbleached Muslin.

Equipment for Emergency Care and Feeding of Refugees: such as cots, toweling, cooking utensils and equipment.

- 4 -

It is respectfully recommended that allotments be made in accordance with the enclosed requests.

Faithfully yours,

Chester Davis,
National Defense Advisory Commission.

Henry A. Wallace,
Secretary of Agriculture.

(Signed) D. W. Bell

D. W. Bell,
Acting Secretary of the Treasury.

The President,

The White House.

COPY

58

Issued By The Intelligence Division
Office of Chief of Naval Operations
Navy Department

INTELLIGENCE REPORT

Serial 3 Monograph Index Guide No. 105
From F-3 (ONI) at Date 2 August, 1940
Reference Comdt. 10th ND Conf. ltr. ND10/A8-2/(C-26) of 22 July, 1940
Source Mr. D. A./Draughon, Federal Marshal in Evaluation reliable
San Juan
Subject FRANCE COLONIES

MARTINIQUE - Naval Situation - Political Conditions -
Economic Conditions.

The following information on Martinique is furnished by Mr. Donald A. DRAUGHON, who, with Mr. R. B. MILLER of the F.B.I. arrived Fort de France on 11 July and remained there until the 18th:

PART I - Naval Situation.

We made a twenty-minute stop at Guadeloupe both coming and going. The airport manager informed me that the food supply in Guadeloupe is dangerously low and that the food shortage has been aggravated by the arrival of the French training ship JEANNE D'ARC with her complement of 700 men. This ship arrived from Martinique on July 3rd. There are three other vessels in port; one banana ship anchored at the wharf with no steam, one empty cargo ship in midstream with no steam, and one cargo ship apparently heavily laden with sugar and rum. This ship had steam up. All three ships were flying the French flag.

Upon our arrival in Martinique we learned that heavy military and naval censorship was in force, and that we could send no code messages without the Governor's approval. This, however, was arranged through the good offices of Admiral Robert, the High Commissioner. The authorities know about our trip because the French Consul at San Juan had communicated by cable with Martinique and the Embassy in Washington concerning a visa for Mr. Miller.

The harbor at Port-de-France is closed to all traffic between the hours of five P.M. and seven A.M. The Pan American plane approaching the harbor must enter from due south and at

an altitude of one hundred meters. The French cruiser EMILE BERTIN is docked at the wharf of Cie, Atlantique. This is the cruiser that brought over the gold from France as I reported on June 28th. (To digress, the gold is now at an old fort near Fort-de-France and the consensus of opinion among local bankers is that it will remain there indefinitely). The EMILE BERTIN is reported to have been in the battle of Narvik and shows the effect of damages. She is also reported to have assisted in the evacuation of British troops from Dunkirk. This ship is freshly painted and has steam up. The crew, whom we could see leaning over the deck rails, seemed to be in good spirits.

The EMILE BERTIN is berthed behind a mined submarine net extending a distance of about a hundred feet from the tip of the wharf to the stern of the SS DUC ADMIRAL, a passenger ship tied up to the wharf on the other side. I saw an officer and several members of the crew in a small boat examining the mine attached to the net. It is significant that all the guns on the EMILE BERTIN which point out to sea are stripped and ready for action; those pointing shorewards are covered and plugged.

This is true of the guns of the three converted auxiliary cruisers (with 3-inch guns) QUERCY, ESTEREL (that recently returned the French troops from Aruba and returning soldiers report no remaining soldiers in Aruba) and BARFLEUR. One of these vessels is constantly on duty in a sheltered arm of the outer harbor which is practically invisible from the entrance to the harbor. The patrol boats LAMENTIN, TROISILET and BALATE with one-inch guns mounted fore and aft, are constantly patrolling the entrance to the harbor. The airplane carrier BEARN was anchored in Lamentin Bay upon our arrival but was brought into the inner harbor Tuesday to discharge her planes. These planes are the Curtiss 751C-CTEED with one propeller of three blades each. The serial numbers on the planes discharged were from 56 to 96. The planes are being discharged near the dock where the EMILE BERTIN is tied up. There is a heavy guard around them but I approached close enough to note the numbers. I counted about forty-eight on the upper deck of the BEARN when I was in Martinique on June 27th, and this morning, July the 18th, there were approximately twenty odd planes still on the upper deck. The planes are being removed to land in lighters. The reason for this is that this is the hurricane season and the planes are being brought ashore to protect them in the event of a hurricane. However, other reports are that this is being done at the insistence of the British. There were twelve to fourteen fliers on the BEARN but they departed some days ago on the British cruiser DUNDEEN.

There are five French seaplanes based at Fort-de-France, each carrying two bombs and a machine gun, which make regular patrol flights beginning at six A.M. each morning.

A naval unit said to be the U. S. DESTROYER 195 was seen at a distance off Fort-de-France Tuesday morning, causing some excitement and consternation among the civil population.

From authoritative and checked sources we learned that a contract had been given to a Mr. Sari, Italian by birth, and a French citizen, to build a landing field six miles south of Fort-de-France.

A French passenger ship, S/S CUBA, which left Bordeaux on June 15th, was sighted off Fort-de-France at 6 A.M. on Saturday, July 13th. A French plane and an auxiliary cruiser accompanied the ship into the harbor. We watched the arrival of the ship and the zig-zag course she took upon entering the harbor led me to think it might be mined at certain points. The CUBA carried as passengers about 400 Loyalists (Spanish), refugees in France, and one hundred odd German, Czech and Austrian refugees. Twelve French passengers disembarked at Fort-de-France and the others were transferred to the S/S SAINTE DOMINGUE which had been tied up at Fort-de-France and sailed the following Wednesday at 8 P.M., presumably for Mexico. It is said that the CUBA will sail from Martinique with French reservists when a favorable occasion presents itself.

Martinique has the following communications with the outside world; one receiving wireless station located behind the P.A.A. dock, one sending station for ships and a Government sending station, one shore wave commercial broadcasting station. The French cable to Europe is via London or to Madrid via Buenos Aires. Communication with the United States is via French cable to St. Thomas and Puerto Rico.

PART II - Report on Political Conditions.

The internal situation in Martinique may shortly be serious. There are foodstuffs on hand to continue normal food supplies for from about five to six weeks but there will be no actual starvation for several months. Very little food is produced on the island. All staples are imported from France. It is the universal opinion among the whites that a serious food shortage would be productive of riots. The Government is doing its best to carry on public works projects in order to provide work and quiet uneasiness and unrest.

The population of Martinique is 250,000; 3,000 white, 20,000 mulattos and the rest black. The masses are controlled by black political leaders who, in turn, are controlled by the whites. The black leaders are becoming increasingly difficult to handle and are continually demanding greater concessions in the form of higher wages, shorter hours and better treatment from the whites.

There are three social classes; white, mulatto and black, but as far as property is concerned, a few white families, closely intermarried, control everything. The Government consists of a High Commissioner for all of the French West Indies; a Governor, Treasurer, Director of Public Works who are all appointed directly from France and are all French whites. The policy making officials are all whites but there are many black clerks and other Government employees who have received their education in France at the expense of the Martinique Government. There is a degree of local self-government in the Municipal Council.

The situation now, politically as well as economically, is very tense and chaotic.

Admiral Robert, the High Commissioner, with supreme authority over Guadeloupe, Martinique and French Guiana, asked us to call on Monday, July 13th. He is not, as was reported in some sources, in charge of the combined English and French West Indies fleet. He offered us every facility during our stay in Martinique. He said that there was no English blockade of Martinique as evidenced by the arrival of the SS CUBA and one or two American cargo ships. He did state that British cruisers were nearby and no doubt would try to prevent any French naval unit from leaving. His relations with the British Admiral at Bermuda were most cordial he told us. Upon his request the British cruiser FLWJ remained twenty miles off shore on Thursday July 11th, after signalling their intention to engage in target practice. The Admiral is apparently pro-British and hope for an amicable settlement between the two countries. In his opinion one of the most pressing problems confronting Martinique is a solution to the problem of exchange in order that there may be a free flow of trade between the United States and the French West Indies. All commerce is now at a standstill.

The Governor, Mons. Henri Brossellers, who reached Martinique about four months ago, took another view of the situation. He is definitely anti-British and vehemently denounced the British support of Blum and his Popular Front Government which, he says, was responsible for the defeat of France. He thought that the recognition of the Petain Government

was the only recourse open to Frenchmen. According to him, British officers at Dunkirk forced French soldiers to remain behind while British were being evacuated. He predicts a German invasion of England and the total defeat of the British unless they accept German peace terms. He visualizes a continental block to effect trade pacts with a Pan American trade block and expressed the hope that the United States would make a trade agreement with the French West Indies.

Monsieur Andre Garcin, President of the Bank Credit Martiniquais, does not believe in the stability of the Petain Government. He prefers to remain French but realizes any French Government at the present time would be dominated by the Reich. He thinks that an American protectorate is the best solution for the time being. Assets of Martinique citizens in banks at Trinidad and Santa Lucia B.W.I., are frozen.

Mr. Miller and I talked with a number of my good friends and acquaintances in Martinique including M. E. Aubery, industrialist and reputed the wealthiest man in Martinique; Leon Bayot, industrialist; Andre Dorn, sugar factory manager; Robert de Jaham, engineer; Ronce Cottrell, ship agent; M. Latil, Manager of French Cable; Chief of Police Capt. de Jaham of Martinique Colonial Army; R. A. de Schusten, former American Vice-Consul; Leon and Victor Albert; merchants and others. The consensus of opinion seemed to be that, although they would prefer remaining French if possible, they would welcome an American protectorate, at least temporarily, and they do not look with favor upon the present constituted French Government.

There is a small Martinique colonial army consisting of about 1800 native soldiers and 150 white non-commissioned and commissioned officers. Most of these soldiers are equipped with rifles and bayonets. There are about 150 gendarmes, mostly white, scattered throughout the Island. The police of Port-de-France are captained by a man who claims to have American citizenship papers, M. Ancelle. He lived for some time in the Canal Zone.

PART III - Economic Condition of Martinique.

Ever since the Armistice between France and the Reich the French West Indies have been isolated from their capital. Some Martiniquais think this isolation is only temporary and that economic adjustment in France will soon begin. Others, and these are far more numerous, consider the present situation hopeless and would welcome any solution of the dilemma in which they find themselves.

- 6 -

Up to now, this island of 987 sq. kilometers, supporting a population of about 250,000 has lived under the liberal French Economic regime, which protects French products sold in the colonies as well as colonial products sold in France. This makes for high prices because in addition to the duty, freight rates are high between France and the colonies. The prosperity of the Island is due to the very high subsidy granted on Island products, of which sugar, rum and bananas constitute more than 90% of the exports.

France has up to the present absorbed all the products of Martinique and furnished by far the greater part of the imports which consist largely of wheat flour, salt fish, rice, corn, coffee and table oils. For this reason Martinique has not had to look for any market in the Western Hemisphere. High customs duties against products of the French colonies on the part of Latin American countries have constituted an additional barrier to trade.

The average value of imports for the last eleven years was 199,000,000 francs annually and the average exports during this same period amounted to 221,000,000 annually. The principal imports are:-

Wheat flour - - - - -	8,000 sacks monthly
Rice - - - - -	2,000 " "
Beans - - - - -	600 " "
Salt Fish - - - - -	1,000 barrels.
Oil (table) - - - - -	750 "
Gasoline - - - - -	500,000 litres
Beeves (butchered) - - -	500 head
Soap - - - - -	60 tons.

Martinique exports annually 61,000,000 litres of rum, 1,500,000 boxes of pineapple preserves, and 30,000 tons of bananas. Small quantities of cured hides, cacao and chocolate are also exported.

The principal crop is sugar, averaging 55,000 long tons annually with an approximate valuation of 200,000,000 francs. The estimated production cost is 210 fr. per 220 lb. bag c.i.f. New York. The growing season lasts about three months and all the sugar and rum is sent directly to France, where it produces sufficient income to cover imports until the next crop. The crop ended the latter part of May this year and the entire crop had been sold and shipped to France, but no payment has been received as the funds are frozen in France.

It can be readily seen, therefore, that the situation in Martinique is desperate, and that unless some provision can be made whereby the French West Indies can dispose of their products and buy the necessary goods in the Western Hemisphere, the people will soon be in dire distress. It is hoped that a plan can be worked out to permit commercial agreements between Martinique and the American countries.

Business men feel that there should be a resumption of consular relations between the United States and Martinique. In order for a French Citizen to obtain a visa to visit the United States he must go to Trinidad, and with the present strained relations between England and France, they are unwilling to do this.

PREPARED BY

T. E. Chandler,
Comdr., U. S. Navy.

75

Please complete and return
receipt when reference
report is received to
ROOM 1715

To:

The Office of Naval Intelligence - ROOM

1715

RECEIPT OF F-3 (ONI)

Navy Dept.

Report No 3 of 2 AUG. 1940. 1 is acknowledged by

Date _____

For Bureau of Treasury Dept. _____

NAVY DEPARTMENT
OFFICE OF CHIEF OF NAVAL OPERATIONS
WASHINGTON, D. C.
—X—
OFFICIAL BUSINESS

Opened in Surety
Bonds Section

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PENALTY FOR PRIVATE USE TO AVOID
PAYMENT OF POSTAGE, \$300

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10:36

(If NO DETACH-This slip is a part of permanent file record)

N. I. 55 A

ROUTING SLIP

NAVAL INTELLIGENCE
OFFICE OF CHIEF OF NAVAL OPERATIONS
NAVY DEPARTMENT

Subject Martinique - report on.
Reference F-3 (SBU) Serial No. 3 of 2 Aug.
1940
Date 8 August 1940. File No. _____

FROM DIRECTOR OF NAVAL INTELLIGENCE	Room No.	To
Secretary of the Navy	2046	
Assistant Secretary of the Navy	2034	
Asst. Secretary of Navy (Navy Yard Div.)	2030	
Chief, Naval Operations	2054	
Assistant Chief, Naval Operations	2056	
Central Division	2058	
Technical Assistant	2616	
Communications	2621	
Fleet Training	2803	
Inspections	3621	
Fleet Maintenance	2610	
Naval Districts	2065	
Ships' Movements	2601	
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Budget Officer	2002	
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Naval R.	2003	
Engineering	2014	
Hydrographic	1027	
J. A. G.	2524	
Marine Corps	3038	
M. & S.	1078	
Navigation	3052	
Ordnance	3149	
S. & A.	1001	
S. & D.	2022	
Aeronautical Board	3638	

TREASURY DEPARTMENT

X

CHECK ACTION REQUIRED

Information and return O. N. I. Room
X Retain
Note, initial, and pass to next
For comment and return
Necessary action or reply
Cognizance activity checked
Information on which to base reply

REMARKS:

ISSUED BY THE INTELLIGENCE DIVISION
OFFICE OF CHIEF OF NAVAL OPERATIONS
NAVY DEPARTMENT

INTELLIGENCE REPORT

Serial **3** Monograph Index Guide No. **105**
(To correspond with SUBJECT given below. See O. N. I. Index (Form 105). Make separate report for each main title.)

From **F-3 (ONI)** at **2 August 1940**
(Ship, Sec, unit, district, office, station, or person)

Reference **Comit, 10th MD Conf. ltr. HDLS/AD-2/(C-26) of 22 July 1940**
(Initiative, correspondence, previous related report, etc. if applicable)

Source **Mr. D. A. Draughon, Federal Marshal in** Evaluation **reliable**
(As official, confidential, public, press, interview with—Identify (As reliable, doubtful, unverified, etc.))

Subject **FRANCE** **COLONIES**
(Nation reported on) (Main title as per index guide) (Initiation) (Make separate report for each title)

Summary—(Take entire report summary of report, containing substance succinctly stated, include important facts, names, places, dates, etc.)

MARTINIQUE - Naval Situation - Political Conditions - Economic Conditions.

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We made a twenty-minute stop at Gaudeloupe both coming and going. The airport manager informed us that the food supply in Gaudeloupe is dangerously low and that the food shortage has been aggravated by the arrival of the French training ship JEANNE D'ARC with her complement of 700 men. This ship arrived from Martinique on July 3rd. There are three other vessels in port; one banana ship anchored at the wharf with no steam, one empty cargo ship in midstream with no steam, and one cargo ship apparently heavily laden with sugar and rum. This ship had steam up. All three ships were flying the French flag.

Upon our arrival in Martinique we learned that heavy military and naval censorship was in force, and that we could send no code messages without the Governor's approval. This, however, was arranged through the good offices of Admiral Rebert, the High Commissioner. The authorities knew about our trip because the French Consul at San Juan had communicated by cable with Martinique and the Embassy in Washington concerning a visa for Mr. Miller.

The harbor at Port-de-France is closed to all traffic between the hours of five P.M. and seven A.M. The Pan American plane approaching the harbor must enter from due south and at an altitude of one hundred meters. The French cruiser EMILE BERTIN is docked at the wharf of Cis, Atlantique. This is the cruiser that brought over the gold from France as I reported on June 30th. (To digress, the gold is now at an old fort near Port-de-France and the consensus of opinion among local bankers is that it will remain there indefinitely). The EMILE BERTIN is reported to have been in the battle of Harvik and shows the effect of damages. She is also reported to have assisted in the evacuation of British troops from Dunkirk. This ship is freshly painted

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A-B-C-D-E-F-X-Z		Main graph		Action		Budget		Gen'l Board		Sec. Nav. Off. Items		War College		M. I. D.		H. O.	
Os-16	Op-14-1	F-1, F-2, F-3, F-4, F-5, F-6, F-7, F-8, F-9, F-10, F-11, F-12, F-13, F-14, F-15, F-16, F-17, F-18, F-19, F-20, F-21, F-22, F-23, F-24, F-25, F-26, F-27, F-28, F-29, F-30, F-31, F-32, F-33, F-34, F-35, F-36, F-37, F-38, F-39, F-40, F-41, F-42, F-43, F-44, F-45, F-46, F-47, F-48, F-49, F-50, F-51, F-52, F-53, F-54, F-55, F-56, F-57, F-58, F-59, F-60, F-61, F-62, F-63, F-64, F-65, F-66, F-67, F-68, F-69, F-70, F-71, F-72, F-73, F-74, F-75, F-76, F-77, F-78, F-79, F-80, F-81, F-82, F-83, F-84, F-85, F-86, F-87, F-88, F-89, F-90, F-91, F-92, F-93, F-94, F-95, F-96, F-97, F-98, F-99, F-100															
Nav.	Chd.	T. & D.	C. & R.	Eng.	S. & L.	M. & S.	Arm.	C. S. M. C.	C. in C. U. S.	Com. Bat. For.	Com. Sec. For.	C. in C. A. F.	Com. Spec.	Com. Amph.	P. A. T. L.		
Attached to:		Os-16-11	Os-12	Op-13	Op-14	Op-15	Op-16	Op-17	Op-18	Op-19	Op-20	Op-21	Op-22	Op-23	Op-24	Op-25	Op-26
Civil	Arm	Comdr, 1st Brigade,															
Arch		1st Mar. For.,															
		quantico, Va.															

and bare steam up. The crew, whom we could see leaning over the deck rails, seemed to be in good spirits.

The SMILE BERTIN is beached behind a lined submarine net extending a distance of about a hundred feet from the tip of the wharf to the stern of the SS DUS AMIRAL, a passenger ship tied up to the wharf on the other side. I was an officer and several members of the crew in a small boat examining the SMILE which pointed out to sea are striped and ready for action; those pointing shorewards are covered and plugged.

This is true of the guns of the three converted auxiliary cruisers (with 3-inch guns) QUEBEC, MONTREAL (that recently returned the French troops from ALGERIA and returning soldiers report no remaining soldiers in ALGERIA) and the outer harbor which is practically invisible from the entrance to the harbor. The patrol boats LAURENTIN, THORILLIER and BLANCH with one-inch guns mounted fore and aft, are constantly patrolling the entrance to the harbor. The airplane carrier AQUILA was anchored in Lamanilla Bay upon our arrival but was brought into the inner harbor Tuesday to discharge her planes. These planes are the Curtiss planes discharged were from 56 to 96. The planes are being discharged near the dock where the SMILE BERTIN is tied up. There is a heavy guard around them but I approached close enough to note the numbers. I counted about forty-eight on the upper deck of the SMILE when I was in Harfintque on June 27th, and this for this is that this is the hurricane season and the planes are being brought ashore to protect them in the event of a hurricane. However, other reports are that this is being done at the insistence of the British. There were twelve cruiser DOWNING.

There are five French submarines based at Fort-de-France, each carrying two boats and a machine gun, which make regular patrol flights beginning at six A.M. each morning.

A naval unit said to be the U. S. DESTRUCTION 195 was seen at a distance off Fort-de-France Tuesday morning, causing some excitement and consternation among the civil population.

From authoritative and checked sources we learned that a contract had been given to a Mr. Baril, Italian by birth, and a French citizen, to build a landing field six miles south of Fort-de-France.

A French passenger ship, 5/3 CUBA, which left Bardenax on June 17th, was sighted off Fort-de-France at 6 A.M. on Saturday, July 13th. A French plane and an auxiliary cruiser accompanied the ship into the harbor. We watched the arrival of the ship and the zig-zag course she took upon entering the harbor led us to think it might be asked at certain points. The CUBA carried as passengers about 400 Legationists (Spaniards), refugees in France, and one hundred odd German, Czech and Austrian refugees. Twelve French passengers disembarked at Fort-de-France and the others were transferred to the 5/3 SALING DEBORDING which had been tied up at Fort-de-France and sailed the following Wednesday at 8 P.M., presumably for Mexico. It is said that the CUBA will sail from Harfintque with French characterists when a favorable occasion presents itself.

Martinique has the following communications with the outside world; one receiving wireless station located behind the P.A.A. dock, one sending station for ships and a Government sending station, one shore wave commercial broadcasting station. The French cable to Europe is via London or to Madrid via Buenos Aires. Communication with the United States is via French cable to St. Thomas and Puerto Rico.

PART II - Report on Political Conditions.

The internal situation in Martinique may shortly be serious. There are foodstuffs on hand to continue normal food supplies for from about five to six weeks but there will be no actual starvation for several months. Very little food is produced on the island. All staples are imported from France. It is the universal opinion among the whites that a serious food shortage would be productive of riots. The Government is doing its best to carry on public works projects in order to provide work and quiet uneasiness and unrest.

The population of Martinique is 250,000; 3,000 white, 20,000 mulatto and the rest black. The masses are controlled by black political leaders who, in turn, are controlled by the whites. The black leaders are becoming increasingly difficult to handle and are continually demanding greater concessions in the form of higher wages, shorter hours and better treatment from the whites.

There are three social classes; white, mulatto and black, but as far as property is concerned, a few white families, closely intermarried, control everything. The Government consists of a High Commissioner for all of the French West Indies; a Governor, Treasurer, Director of Public Works who are all appointed directly from France and are all French whites. The policy making officials are all whites but there are many black clerks and other Government employees who have received their education in France at the expense of the Martinique Government. There is a degree of local self-government in the Municipal Council.

The situation now, politically as well as economically, is very tense and chaotic.

Admiral Robert, the High Commissioner, with supreme authority over Guadeloupe, Martinique and French Guiana, asked us to call on Monday, July 13th. He is not, as was reported in some sources, in charge of the combined English and French West Indies fleet. He offered us every facility during our stay in Martinique. He said that there was no English blockade of Martinique as evidenced by the arrival of the SS CURA and one or two American cargo ships. He did state that British cruisers were nearby and no doubt would try to prevent any French naval unit from leaving. His relations with the British Admiral at Bermuda were most cordial he told us. Upon his request the British cruiser FLJI remained twenty miles off shore on Thursday July 11th, after signalling their intention to engage in target practice. The Admiral is apparently pro-British and hopes for an amicable settlement between the two countries. In his opinion one of the most pressing problems confronting Martinique is a solution to the problem of exchange in order that there may be a free flow of trade between the United States and the French West Indies. All commerce is now at a standstill.

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Regraded Unclassified

The Governor, M. de Haut, Henri Breuille, who reached Martinique about four months ago, took another view of the situation. He is definitely anti-British and vehemently denounces the British support of him and his "Popular Front" Government which, he says, was responsible for the defeat of France. He thought that the recognition of the French Government was the only requirement open to Frenchmen. According to him, British officers at Dunkirk forced French soldiers to remain behind while British were being evacuated. He predicts a German invasion of England and the total defeat of the British unless they accept German peace terms. He visualizes a continental block to effect trade pacts with a Pan American trade block and expressed the hope that the United States would make a trade agreement with the French West Indies.

Monsieur Andre Darvill, President of the Bank Credit Martiniquaise, does not believe in the stability of the French Government. He prefers to remain French but realizes any French Government at the present time would be dominated by the Nazis. He thinks that an American protectorate is the best solution for the time being. Assets of Martinique citizens in banks at Trinidad and Santa Lucia B.V.I., are frozen.

Mr. Miller and I talked with a number of my good friends and acquaintances in Martinique including M. E. Aubery, industrialist and reputed the wealthiest man in Martinique; Louis Bayot, industrialist; Andre Dorn, sugar factory manager; Robert de Jaban, engineer; Maurice Cottrell, ship agent; M. Lelli, manager of French Cable; Chief of Police Caye, de Jaban of Martinique Colonial Army; M. A. de Schuster, former American Vice-Consul; Jean and Victor Albert's movements and others. The consensus of opinion seemed to be that, although they would prefer remaining French if possible, they would welcome an American protectorate, at least temporarily, and they do not look with favor upon the present constituted French Government.

There is a small Martinique colonial army consisting of about 1800 native soldiers and 150 white non-commissioned and commissioned officers. Most of these soldiers are equipped with rifles and bayonets. There are about 150 gendarmes, mostly white, scattered throughout the island. The police of Fort-de-France are equipped by a man who claims to have American citizenship papers, H. Anselme. He lived for some time in the Canal Zone.

PART III - Economic Condition of Martinique.

Ever since the separation between France and the French West Indies have been isolated from their capital. Some Martiniquais think this isolation is only temporary and that economic adjustment in France will soon begin. Others, and these are far more numerous, consider the present situation hopeless and would welcome any solution of the dilemma in which they find themselves.

Up to now, this island of 900 sq. kilometers, supporting a population of about 250,000 has lived under the liberal French economic regime, which protects French products sold in the colonies as well as colonial products sold in France. This makes for high prices because in addition to the duty, freight rates are high between France and the colonies. The prosperity of the island is due to the very high subsidy granted on island products of which sugar, rum and bananas constitute more than 90% of the exports.

CONFIDENTIAL

F-3(ONI) Serial No. 3

File No: 105

2 August 1940

CONFIDENTIAL

France has up to the present absorbed all the products of Martinique and furnished by far the greater part of the imports which consist largely of wheat flour, salt fish, rice, corn, coffee and table oils. For this reason Martinique has not had to look for any market in the Western Hemisphere. High customs duties against products of the French colonies on the part of Latin American countries have constituted an additional barrier to trade.

The average value of imports for the last eleven years was 199,000,000 francs annually and the average exports during this same period amounted to 221,000,000 annually. The principal imports are:-

Wheat flour - - - - -	8,000 sacks monthly
Rice - - - - -	2,000 " "
Beans - - - - -	600 " "
Salt Fish - - - - -	1,000 barrels.
Oil (table) - - - - -	750 "
Gasoline - - - - -	500,000 litres
Beeswax (batchered) - - - - -	500 head
Soup - - - - -	60 tons.

Martinique exports annually 61,000,000 litres of rum, 1,500,000 boxes of pineapple preserves, and 30,000 tons of bananas. Small quantities of cured hides, cacao and chocolate are also exported.

The principal crop is sugar, averaging 55,000 long tons annually with an approximate valuation of 200,000,000 francs. The estimated production cost is 210 fr. per 220 lb. bag c.i.f. New York. The growing season lasts about three months and all the sugar and rum is sent directly to France, where it produces sufficient income to cover imports until the next crop. The crop ended the latter part of May this year and the entire crop had been sold and shipped to France, but no payment has been received as the funds are frozen in France.

It can be readily seen, therefore, that the situation in Martinique is desperate, and that unless some provision can be made whereby the French West Indies can dispose of their products and buy the necessary goods in the Western Hemisphere, the people will soon be in dire distress. It is hoped that a plan can be worked out to permit commercial agreements between Martinique and the American countries.

Business men feel that there should be a resumption of consular relations between the United States and Martinique. In order for a French Citizen to obtain a visa to visit the United States he must go to Trinidad, and with the present strained relations between England and France, they are unwilling to do this.

- - - - -

PREPARED BY

T. E. Chandler,
Comdr., U. S. Navy.

- 3 -

CONFIDENTIAL

FILED UNDER DATE OF AUGUST 2, 1940,

83

LAST DATE COVERED IN THIS MEMO

O

7/25/40
11:00

Young: The Secretary gave the copy of the list of complaints from the British (in regard to delays in obtaining licenses which you prepared) to Wells. Give Mrs Klotz another copy of this for the Secretary's files.

Give a copy of the list to General Watson and explain it to him. He feels that he is responsible as he got the job for Col Maxwell.

Take list to Secretary Stimson and explain it to him.

You should invite complaints from the British in reference to these delays in issuance of licenses until the matter is straightened out.

Give copy of list to Col Maxwell.

How many Allison engines were turned out last week

Bell: The Secretary wants you to arrange for some one to represent the Treasury as an Inspector in the American Banks in Paris and to keep the Treasury informed as to how the Germans treat the American Banks. The man selected should be a very intelligent person and should be ready to leave within a week.

Mrs Klotz: The Secretary wants to know how you are feeling. He said that if you are not feeling fine you should go away for the rest of the week. He urges you to do this. He said that he is feeling fine and that he is getting a good rest.

Young - nothing new - will take care of matters as directed - 15 Allison engines from 21 to 27 July.

Bell - Will have a bank examiner ready to go upon the Secretary's return.

Mrs Klotz - Feeling fine - does not feel that she can go away. Heat simply terrible - worst spell ever had - appreciates offer of time off. Sends greetings to Secy & Mrs M.

7/29/40
2:30 p.m.

Bell: In reference to man who is to go to Paris - he should be pro-allies and a good observer and a reporter to keep the Secretary informed about anything out of the ordinary as well as information on how the Germans treat the American Banks. Do not wait till the Secretary returns to send the man.

Bell said banks were opening only on small basis so far. N.Y. is not behind the problem.

Young: Tell Purvis that HMJR thinks that the English should send over at once the most important man they have who knows the world oil situation in order that he may discuss it with the Secretary. They will have to take a gamble on whether or not the man will get any results. HMJR will discuss with him both the European and Far Eastern oil situation. Tell them in as much as the Secretary got the idea up here and has not had a chance to discuss it with anyone the man will have to come over more or less secretly. HMJR recommends strongly that they take the gamble and send the man over here.

The Secretary says also to tell them that if his memory serves him right they were to have 14000 planes before the 3000 per month and if they have not already ordered them they should do so without fail before the army changes its mind. *111*

Young said A.K. - nothing to take up.

CoastGuard Plane and Sinton and crew should be at Malom by Thursday night ready for a flight some time Friday to Bar Harbor airport. ~~XXXXXXXX~~ Check on available information on the condition of Bar Harbor airport to see if it is OK. It was OK last time the V 151 went in there.

Capt Chalker said plane would be here as requested
Mrs Klotz: How feeling? The Secretary again urges that you take the rest of the week off if the heat continues. He says that he is relaxing as much as when he was on the ranch.

Feeling fair - heat continues - sends regards

7/30/40
10:15am

Mrs Klotz

Nothing to take up. Feeling fair - rain in Wash late afternoon of 29th. Said never experienced anything like the heat there in whole life.

Young

Nothing to take up.

✓

Bell

Nothing to take up.

Bell said nothing to report - White is back and looks well in fact does not think he needs any more vacation this year.

Feeling pretty good - the heat really awful this morning.

Said Knudsen had had no luck in jamming legal opinions down Jones' throat - it is not important however as every thing going fine on it.

Said has thought more about problem. Possible men to send are:-

- Two bank examiners
 - (a) One who has examined American banks in foreign territory already.
 - (b) Another who has assisted men above.
- Two Customs attachés
 - (a) Waite
 - (b) One recently brought back.

Matthews our agent from Vichy if he has no difficulty crossing line.

Cochran says a man by name of George is drafting clerk if left at Embassy would be fine.

Bill would recommend some one already there.

- 1st Choice Matthews if available
- 2nd Choice ~~George~~ if available
- 3rd .. Waite

Will send letter on it.

ASK TELEPHONE OPERATOR WHAT HMSR BARNABOR TEL. NO. IS.

Mr. Klotz

How many and what is the price of raspberries this week

*Miss Wais gone unable to get info.
Weather Chaser — sends regards*

10:30am

Bell

If a man can get to Paris the Secretary says that he would rather have a Bank Examiner assigned to the job. — *Thinks will wait till you get back*
Wells thinks difficult to get new man in and without when there
The Secretary said to tell you that he expects you to go away Friday for a week — *orders are*
orders. Thinks tax bill may come up.

quell them — tax lagging — Cooper & Daugherty
had conference with Abbeilink & Si — Pres said he
wanted action — Fulltax committee meets
Today — will let you know 1/2 what happens

could get info with out creating notice.

White

The Secretary wants you to get yourself posted on the oil situation particularly oil leaving Columbia - Venezuela - Mexico. He wants to know where it is going. Be ready by Monday.

Will leave by Monday — had fine trip.

C.G.

Plane on way via Bar Harbor.

Sinton & Harding

8/1/40

Bell:

The Secretary says for you to go away on a weeks vacation anyway. If he can not handle the tax matter he will send the plane for you to bring you back for a day.

✓

2:30 pm.

White:

With that oil information also be able to give the Secretary all information you can get about the refineries in the Dutch East Indies. Do they make aviation gas?

✓

Telephone Number of HMSr

BH 266

~~601 what last position on plane~~

8/2/40

Mrs Klotz

Have you gotten the circulars of the place that the Secretary is going to in Canada? If not get after Young to get them from Ballantyne.

not in message given to telephone operator.

Young

Secretary wants you to ask Ballantyne how many aircraft the British have completed in our factories and waiting for engines. The Secretary wants full details Monday.

✓

Gas ton

The Secretary said if there is a Treasury car near Bar Harbor he would like to have you arrange for it to meet the plane there this afternoon to furnish transportation for the plane crew.

Mr Gaston not in instructions given to C. Bell.

~~get~~



Washington D.C.

Aug 1st - 6:35 PM

To Mr Morganthau
Swim Pond Camp
Malone N.Y.

Have to be at
Hyde Park Sunday
Delighted to see you
telephone when you
reach Hickell
Franklin D Roosevelt

original in White house folder



DEPARTMENT OF STATE
WASHINGTON

August 2, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses eight copies each of paraphrases of telegrams nos. 189 and 190, dated July 30 and August 1, respectively, from the American Embassy, Santiago, regarding blocked French funds in the United States.

Despatch no. 698 dated July 27, from the American Embassy at Santiago, will be communicated to the Treasury when it is received.

Enclosures:

1. No. 189, July 30,
from Santiago. (8).
2. No. 190, August 1,
from Santiago. (8).

TO THE SECRETARY
OF THE TREASURY
WASHINGTON
JUL 31 1940

RECEIVED
JUL 31 1940

RECEIVED
JUL 31 1940

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Santiago.

DATE: July 30, 1940, 5 p.m.

NO.: 189.

URGENT.

FOR THE SECRETARY AND THE UNDERSECRETARY.

With further reference to Embassy's despatch no. 698 dated July 27, and apropos of the French Government's attempt to have the United States release \$415,000 of French Gov't. funds which are blocked in the U.S., in order to meet its contract for lentils and beans in Chile, I am asked by the Minister of France to tell you that this transaction is bona fide. Undoubtedly the purchase was contracted for with payments beginning early in April when transfer of the money could have been made to Chile, but the French were hoping to convert francs and therefore held up the purchasing agents, who had bought, from their own pockets, in pesos. All the agents here were British and they complained to the British Embassy after 2 months. Then, after receiving instructions from London, the British agreed to take over in excess of seventy percent of the lentils and beans; the sale was effected, the price paid in sterling, and thus the (omission) and lentils no longer belong to the French or the agents. This was proposed to the French Minister by the British as a gesture of
friendliness

-2-

friendliness and at the time the Minister seemed pleased. The Minister was informed that the beans and lentils could not reach France under any circumstances because the British ships would be instructed to not take them. No French ships will come. The French Legation yesterday called the agents in and complained and told them they would not be released from the contract; the Legation threatened the agents ~~regarding~~ in Nazi fashion regarding commercial dealings with Chile in the future. The British are sure that the plan is to break the blockade of the French gold in the United States. The French Commercial Attaché, Chayet, told the agents, when they replied that they didn't receive their money, that the United States was to blame in spite of the fact that, though the payment was due on April 2, it was not made. The French Ambassador in Argentina is handling the affair. The French Commercial Attaché complained to the Under Secretary of Commerce and tried to get him to bring pressure on us, and he talked the matter over with Brooks without knowledge of the fact that seventy percent of the beans and lentils has been bought and paid for by the British and that the British are thinking of taking the rest.

BOWERS

EA:MSG

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Santiago, Chile.

DATE: August 1, 1940, 4 p.m.

NO.: 190.

Please refer to my 189 of July 30, 5 p.m.

It is stated by the Under Secretary of Commerce that the Chilean Embassy at Washington has been requested by the Foreign Office, by telegraph, to make an effort to secure the unblocking of French funds in the U.S. to cover 1,644 tons of beans which the French ordered last winter at pesos 3,611,000. A single influential Chilean firm holds most of these beans; the French would -omission- them in stock here awaiting the contingent termination of Great Britain's blockade, or they would endeavor to secure permission to send the beans to the Red Cross of France.

According to information I have received, the British will buy these beans but the price they offer would cause a small loss to the Chilean firm of about 40 pesos per ton, or about two thousand dollars. Therefore, this matter has small intrinsic practical importance and the attitude of the Foreign Office represents only a technical compliance with requests which it knows the Germans have forced the French to make. All the aspects of the case are well understood by the Foreign Office, and if the request is unsuccessful, the Foreign Office probably won't be disappointed.

BOWERS

EA:MSG



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 Frozen Credits /406

August 2, 1940

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury and
encloses five copies of a paraphrase of telegram no. 69,
dated August 1, 1940, from the American Consulate General
at Algiers, regarding frozen French credits in the
United States.

Enclosure:

Paraphrase of telegram
no. 69, August 1, 1940,
from American Consulate General,
Algiers.

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
WASHINGTON
D. C.
AUG 2 1940

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
WASHINGTON
D. C.
AUG 2 1940

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
WASHINGTON
D. C.
AUG 2 1940

Department of State

BUREAU
DIVISION

EA

ENCLOSURE
TO

Letter drafted

ADDRESSED TO

Secretary of the Treasury
.....

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Algiers, Algeria.

DATED: August 1, 1940, 4 p.m.

NO: 73

Refer to my telegram of July 31, No. 69.

Bank at Tunis refuses to discount draft of American
Consul there he reports.

EA:fmc

TO THE SECRETARY
TECHNICAL ASSISTANT
JULY 31 1940

COPIES OF THE
JULY 31 1940

RECEIVED
JULY 31 1940



DEPARTMENT OF STATE
WASHINGTON

August 2, 1940.

In reply refer to
EA

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 33 dated August 1 from the American diplomatic agent at Tangier which relates in part to restrictions imposed under Executive Order no. 8389.

Enclosure:

Telegram no. 33,
dated August 1, 1940 (4).

JT

PLAIN

TANGIER

Dated August 1, 1940

Rec'd 8:32 p.m.

Secretary of State,
Washington.

33, first.

Concerned over rapidly approaching serious food shortage in Tangier, the International Administration has officially requested this Legation to present the situation for the benevolent consideration of the United States Government.

To feed itself alone Tangier requires monthly sugar 200 tons, flour 900 tons, condensed milk 400 cases, cottonseed oil 100 tons, soap 100 tons.

All except uncertain amounts of flour still obtainable from French Morocco can only be obtained from United States. Present stocks barely sufficient one month,

The difficulties present are first transportation and second financial. The stoppage of American shipping has cut off the sole free market from which the zone can be supplied. An irregular service of small Portuguese sailing boats might be used for transshipment from Lisbon

at

-2- #33, August 1, from Tangier

at greatly added expense if the money difficulty could be avoided.

However, blocking of Tangier dollar credits in the United States renders local merchants helpless to purchase in America or Portugal as American dollar has now become the only acceptable medium.

The Administration therefore requests the Department to consider (one) possibility resumption export line service to neutral Tangier and (two) liberation in New York of Tangier dollar credits to feed the town.

BLAKE

LMS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 30, 1940

TO Mr. Cochran
FROM Mr. Dietrich

Mr. Livesey of the State Department called regarding a cable which was being sent to the Vice Consul recently assigned to Martinique. Among the items mentioned in the cable was the question of financing exports from the United States to Martinique and Guadeloupe. It seems that the Export-Import Bank was approached in this connection after difficulty had been experienced in securing a license to release Martinique funds in the United States. I understand from Mr. Livesey that Martinique and Guadeloupe banks have funds at the French American Banking Corporation which he feels should be used in financing exports. He asked me to find out what our attitude was about releasing such funds.

I called Mr. Pehle and he told me that an application had been received from the Martinique bank for a general license. After taking the matter up with the Secretary the application was not approved but word passed along that the Treasury would consider applications for specific transfers. Mr. Pehle also stated that a similar application was received from Guadeloupe and that it would probably be handled in the same manner.

I called Mr. Livesey and gave him the information which I obtained from Mr. Pehle and I mentioned to Mr. Livesey the question of this Government's attitude towards allowing exports from the United States to the islands of Martinique and Guadeloupe. I also stated that this was a broader question which did not come under the Treasury but was mainly one for the State Department.


August 2, 1940

In conversation by telephone this morning with Mr. Livesey, the above question came up. I told Mr. Livesey that the French Purchasing Commission had taken some steps toward spending their funds in this country for the purchase of food stuffs for the French West Indies. Livesey agreed with me that it is much preferable that the French should continue to spend their own balances on this market for this purpose, rather than cause Martinique and Guadeloupe to seek loans from the Export-Import Bank. It is not known, of course, how long the French Government officials in this country would be disposed to follow their present policy.



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



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and submits four copies of a memorandum dated August 2, 1940 requesting urgent license for transfer of \$1200 for fares of the staff of the Legation of Mexico in France from Vichy to Lisbon, Portugal, and of a memorandum of the same date requesting license for transfer of indicated amounts for account of the Government of Mexico to serve European cities.

Enclosures:

Memoranda of August 2, 1940 21

THE DEPARTMENT OF STATE
RECEIVED

28

TRANSLATION

Embassy of Mexico

Confirming the oral representations made by the Embassy of Mexico to the Chief of the Division of the American Republics of the Department of State, the Embassy would be very grateful to the Department mentioned if it would urgently arrange for the necessary permission in order that the National City Bank of New York might remit for account of the Government of Mexico the following amounts to the European countries (sic) listed below:

Berlin	\$ 5,900.83
Rome	2,728.66
Stockholm	4,695.47
Geneva (League of Nations)	3,296.28
Hamburg	2,886.50
Genoa	3,368.60
Milan	1,318.86
Stockholm	882.64
Goteborg	<u>809.84</u>
Total	\$25,887.78

Washington, D. C.
August 2, 1940.

RA:Bursley:GRS

TRANSLATION

Embassy of Mexico

The Financial Attaché of the Embassy of Mexico, whose offices are at 70 Pine Street, New York City, reports having encountered difficulties at the National City Bank of that City in making a remittance to Vichy, France, in the amount of \$1,200, the total of the fares of the staff of the Legation of Mexico in France from ^{Vichy to} ~~from the City of~~ Lisbon, Portugal.

In view of the urgency with which these funds are needed in Vichy and pending resolution by the Department of State of the definitive way in which funds can be made available to all the Foreign Service of Mexico in Europe, it is desired that by the most rapid channels and with urgent character the Treasury Department issue instructions to the National City Bank in order that it may remit this amount of \$1,200.

Washington, D. C., August 2, 1940.

RA:Bursley:GRS

August 2, 1940

Files

Mr. Cochran

STRICTLY CONFIDENTIAL

On July 31 Mr. Hawks telephoned me from New York. He referred to Acting Secretary Bell's letter of July 30 instructing the Federal Reserve Bank of New York to pay the balance due on French gold imported on the Vincennes. Hawks asked me how notice should be given France of this final payment. I told him that it should be from the Federal Reserve Bank of New York direct to the Bank of France.



ENC:dm:8.2.40

TELEGRAM SENT

JR

GRAY

August 2, 1940

6 p.m.

American Legation

Kaunas.

153.

Your 178, July 26, your 183, July 28, and your 195, July 31.

Advise Bank of Lithuania that Treasury will grant licenses to Federal Reserve Bank of New York and other banking institutions in the United States holding dollar accounts of the Bank of Lithuania, authorizing transfer, upon instructions of Bank of Lithuania, to special free dollar accounts of dollar funds of the Bank of Lithuania, up to a total amount not exceeding one hundred thousand dollars, upon receipt from you through this Department of certification that equivalent amount of dollar funds has been furnished by the Bank of Lithuania in exchange for Lithuanian lita to American citizens and their families, and to aliens permanently domiciled in and documented for readmission to the United States. You are authorized to issue appropriate certification.

HULL
(FL)

EA:FL:EU:LWH



DEPARTMENT OF STATE
WASHINGTON

August 2, 1940.

In reply refer to
EA

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a Pro Memoria addressed to the Department of State on August 2 by the Bulgarian Minister at Washington, regarding Danish credits affected by Executive Order no. 8389.

Enclosure:

From Bulgarian Minister,
Pro Memoria, August 1, 1940.

22

PRO MEMORIA

According to information furnished by the National Bank of Bulgaria, the Bulgarian firm, Nikola Tshilov of Sofia, has exported to Denmark several shipments of sun flower seed cake in the following amounts:

\$505.00
813.09
6,361.73 and
3,770.75

It is to be noted that all of the shipments have taken place before the first of April, last.

In accordance with the terms agreed upon the payment was guaranteed by a letter of credit issued by the Kopenhagska Commercial Bank of Copenhagen with the Bulgarski Kredit Bank of Sofia, and the transfer of the amounts were to be effected through the Irving Trust Company of New York.

The transfer has been delayed on a account of control formalities as to the quantity and quality of the shipments.

Consider^{ing} that the regularity of the above transactions could in no way be questioned the Bulgarian Government would much appreciate if the Treasury Department would take appropriate action in order to authorize the Irving Trust Company of New York to effect the transfer in question.

August 1, 1940.



RDS

PLAIN

STOCKHOLM

Dated August 2, 1940

Rec'd 9:33 p.m.

Secretary of State,
Washington.

790, Second.

Riksbank July 30 nearest million crowns metallic reserve 725, Foreign Exchange 578, note cover 2030, note circulation 1430, noninterest bearing deposits 295, Recent gradual improvement foreign exchange reserve due partly repatriation American balances fearing blocking. Government proposed today's Riksdag measure to impose added income tax on company earnings for last four months 1939 at following rates: 50% tax on first 20% by which earnings exceeded comparable 1938 earnings and 60% tax on 21 to 50 and 70% tax on all over 50. Additional budget No. 1 1940-41 introduced today calls for nearest million crowns 46 for operating bud get including 41 for defense purposes and 64 for capital budget of which 50 for state war risk insurance. State income and property tax 1940 estimated 488. Defense loan 500 closing November already oversubscribed. Swedish-Hungarian trade and payments agreement signed July 31 effective through December 1940 fixes goods quotas improving Sweden's export prospects and provides payment
in

-2- #790, Second, from Stockholm

in free exchange. Poor fruit crop expected due late frosts and drought. State Transport Commerce and State Shipping Board merged into new State Traffic Commission under Public Supply Department.

INFORM COMMERCE, TREASURY, AGRICULTURE.

STERLING

JRL

AS

GRAY

(Paris)
Vichy

Dated August 2, 1940

Rec'd 8:52 a.m., 3rd

Secretary of State,
Washington.

233, August 2, 5 p.m.

FOR THE TREASURY FROM MATTHEWS.

The following "order for the establishment of a control office for banks in French occupied territory" issued by the majority Governor of occupied territory, a copy of which I have just received, was published on July 26 in the JOURNAL OFFICIAL of Paris.

"By virtue of the plenary powers which have been conferred upon me by the Fuehrer and Supreme Chief of the German army I decree as follows:

One. An office of bank supervision shall be set up in occupied territory. This office has its headquarters in Paris.

Two. Enterprises which professionally carry on banking operations and savings banks (receiving and supplying money, purchasing, selling, receiving on deposits and managing securities for others' accounts) which have their head
office

AS-2- No.233, August 2, 5 p.m., from Vichy.

office or place of management in occupied territory, are subject to the control of the Office of Bank Supervision; they are obliged to follow the instructions of the Office of Bank Supervision.

Three. The Office of Bank Supervision is especially authorized:

(a) to examine the books and accounts of the credit establishments subject to its supervision, as well as the cash, securities, bills, et cetera, and to request information regarding all transactions, as well as to make important operations dependent upon its consent.

(b) to examine or require submission of balance sheets and documents pertaining thereto.

END SECTION ONE.

MURPHY

W70

AC

GRAY

Paris
(Vichy)

Dated August 2, 1940

Rec'd 9:25 a.m.

Secretary of State
Washington

233, August 2, 5 p.m. (SECTION TWO).

(C) To prohibit the carrying on of the business or any particular transactions, especially the disposal of securities, the repayment of obligations or commercial communications.

(D) To order the deposit or the transfer of the securities of the controlled credit.

(E) To withdraw from authorized persons the right to represent the credit establishments and to confer this right upon others.

Four. Transactions which are depending upon the consent of the Office of Bank Supervision (3a), but which have been carried out without its consent are null and void.

Five. After the present order has come into effect credit establishments already existing can only be established upon the previous written authorization of the Office of Bank Supervision.

(The word

- 2 - #233, August 2, 5 p.m. (SECTION TWO) from Vichy

(The word "not" before "already" was apparently omitted.)

Six. The expenses of the supervision are to be borne by credit establishments so supervised.

Seven. The provisions of this order do not apply to the Bank of France.

Eight. Infractions of the terms of this order or of the orders issued in execution thereof are punishable by prison and a fine, or one of these penalties.

Nine. The present order comes into force on the day of its publication.

For the Commander-in-Chief of the Army, the Chief of the Military Administration in France."

MURPHY

TFV

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 233, DATED
AUGUST 2, 1940, 5 P.M., FROM AMERICAN
EMBASSY, VICHY, FRANCE.

It is to be noted that, according to the above, German control is made practically complete over all banks in the territory of occupation, which was to be expected of course. The Guaranty Trust, J.P. Morgan and the National City Bank consider this order to be very important; I have been asked by them to communicate its text to their head offices if possible.

I have been promised by Rueff (who had lunch today with me) that he will send me the text of an order governing the Bank of France, which is somewhat similar. Rueff said that it was, in its terms, "even broader" and applied to the Bank of France in entirety, whether or not in occupied territory. He said the implication seemed to be that whether the Bank of France now takes back all of its personnel and accounts to Paris or not made little difference. Rueff came to Vichy to talk this question over with the 2 or 3 officials of the Finance Ministry who remain here yet.

He said that the Bank of France hasn't replied yet to the inquiry regarding its gold reserve nor has it replied to a similar inquiry concerning holdings of foreign exchange. In this connection refer to Embassy's 213 of July 30, 6 p.m.

Rueff

-2-

Rueff hasn't heard whether or not the privately owned safe deposit vaults (see Embassy's telegram) were actually opened on Wednesday at Paris.

MURPHY

EA:MSG

TO THE DIRECTOR
TECHNICAL SERVICES
TECHNICAL SERVICES
ON 11-15-42
END VNO 3 11 15 42
END VNO 2 11 15 42
BREVETED DELIVERY
RECEIVED
11-15-42

C O P Y

2nd August, 1940

Dear Mr. Cochran,

It was a great pleasure to meet you the other day and I much appreciate your kindness in introducing Mr. Pinsent and me to Professor Chamberlain, with whom we had a very interesting talk. I look forward with pleasure to the prospect of co-operation with you and your colleagues.

Professor Chamberlain asked me then if we had any information on two points. I enclose:

1. A copy of a memorandum which we have prepared on financial measures taken in Latin American States with regard to territories occupied by Germany.
2. Some information which we have received from London with regard to the action there in the matter of French balances.

I believe that the phrase "pro-Allied French territory" in the second paragraph refers to those parts of the French Empire which have not been defined as enemy territory. The parts defined as enemy territory are European France (including Corsica) Algeria, French Zone of Morocco and Tunis. This definition was circulated by the Foreign Exchange Committee in their Circular No. 198 of the 23rd of July.

Yours sincerely,

R.J. Stopford

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

RJS:MK

MEMORANDUM

Financial Measures taken in Latin-
American States with regard to ter-
ritories Occupied by Germany.

In paragraph 9 of the aide-memoire dated the 3rd July 1940, which was given by His Majesty's Ambassador to the State Department on that day, a note was promised giving more in detail the direction in which action was desired by the Latin-American States.

The following is information available in the British Embassy as regards the present position in the different States.

Argentina. A decree was issued about June 27th laying down that all transfers of funds to countries with which Argentina has clearing agreements must be effected through the clearing accounts. The Central Bank will control all transfers of funds and securities to such countries, and all operations in cash or securities debits to existing or future accounts in Argentine banks in the names of residents in such countries. Special permits are required from the Central Bank for transfers to France and the French Colonies and Protectorates.

Brazil. The supply of exchange for the purpose of imports from territories occupied by Germany, including France, is now closed, (the regulations in general do not allow payments to foreign countries except for the purpose of imports). There do not appear to be any other restrictions on the use or sale of the assets of occupied territories in Brazil.

Uruguay. French, Dutch and Belgian funds have been blocked, but it appears that this measure does not extend to Colonial territories, which are, however, as an extra precaution, allowed to operate only through banks in the United States. There is no control over the import of securities, though the Bank of the Republic is watching the position.

Chile. The Government has taken no measures of the kind referred to, and has declined to block the assets of occupied countries. The Chilean Government also allows payments to occupied countries through compensation agreements to continue; the countries with which such agreement exist include Belgium, Denmark, France and Holland.

Venezuela. The Venezuelan Government has taken no measures of this kind, and His Majesty's Government believe that any suggestion from them to that Government that the latter should block enemy assets would meet with no response.

Colombia. French funds have been blocked provisionally but it is believed that the Exchange Control would reconsider the position if the French Government were to request it.

- 2 -

His Majesty's Government agree that Argentina and Brasil are the most important of the countries under consideration, but they consider that Uruguay, Chile and Venezuela are also of importance in this connection. The Argentina Government appears to have gone further than the others, though it does not appear that the steps which that Government have taken go as far as those which have been taken by the United States Government. His Majesty's Government desire strongly to urge that the United States Government should use its influence with these five countries to induce them to take measures corresponding to those which have been taken by the United States Government itself, or to measures which may hereafter be taken by the United States Government such as the blocking of the assets of Germany and Italy themselves.

British Embassy,
Washington, D. C.

July 12th, 1940.

All French balances including those of French controlled banks operating in neutral territory were blocked on June 17th.

Balances of branches in pro-Allied French territory are temporarily not blocked. Balances of private customers in enemy territory are vested in the Custodian.

Branches in London of French banks were permitted clearing in London of current transactions. All other transactions require a license.

The ability of such branches to carry on divorced from their offices in enemy territory is now under consideration.

Many United Kingdom branches of French companies are being granted licenses to continue operations with related branches in non-enemy territory on assurances given by the latter to treat United Kingdom offices as head office and to ignore France. (Names of more important cases will be communicated later). French directors of the United Kingdom companies ceased office on July 10th and the majority of French shareholdings have been vested.

We are considering the question of remittances to unoccupied France.

(Prepared by Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, and handed to Mr. Cochran in the Treasury at 12:30 noon, August 2, when Mr. Leroy-Beaulieu was making his last visit prior to his departure for France.)

121

New York, August 2, 1940.

MEMORANDUM ON THE FREEZING OF FRENCH ASSETS IN THE U.S.

Up to the present time, the freezing of French assets in the U.S. has been put into application with the greatest astrigency. Consequently, even the minor operations involving very small sums, or those operations which do not present any risk of the sums being diverted from their object, cannot be carried out.

The following examples can be given:

- 1.) Americans having friends in France, either American or French, in dire need of funds, are prevented from sending them even the smallest sums.
- 2.) Americans desiring to send funds for charity purposes in France have been prevented from doing so.

It is to be pointed out here that these restrictions do not apply to Americans wanting to send money either to German friends or to German charities, which they are perfectly free to do.

- 3.) Transfers from a French frozen account in an American bank to another frozen account in the same bank have not yet been permitted. In a number of cases, these transfers were asked for in order to cover an overdraft in one of the accounts, for which a debit interest was being paid, which means an unjustified loss for the bank.

(Ex.: copper credits).

- 4.) The French banks in the U.S. have not been allowed to invest their frozen funds in earning assets (short term bonds, etc.).

BRITISH EMBASSY,
WASHINGTON, D.C.

August 2nd, 1940

Personal and Secret

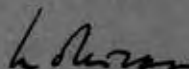
Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
early on the morning of August 2nd.

Destroyer "Whitshed" reported
damaged yesterday arrived at Harwich under
own steam. Casualties five killed, fifteen
wounded, eight missing.

Strong naval forces covering convoy
in Eastern Mediterranean attacked five times
by enemy aircraft on July 27th; fifty-three
bombs dropped, no ship hit. July 31st
cruiser "Sydney" had two ratings slightly
injured.

On July 29th southeast of Crete two
aircraft from British aircraft carrier
engaged three Italian aircraft; shot down one,
damaged another. One of our aircraft forced
to land on the sea and sank, pilot rescued.

On July 31st British armed merchant
cruiser proceeding to Freetown attacked
three times, some damage caused by near misses.
During last attack two enemy bombers driven
off by one Anson.

British merchant ship reported having
sighted yesterday morning disguised as merchant
ship raider 900 miles southwest of Freetown.

Polish/

Polish merchant ship arrived at Freetown on July 30th having escaped from Dakar on July 27th although part of her machinery had been removed by the French authorities. Captain reports that "Richelieu" hit by two torpedoes in attack by our aircraft on July 8th.

2. R.A.F. During bombing on July 30th - July 31st, two large explosions observed on oil refinery and synthetic oil plant set on fire. Two fires caused in railway yards. Aluminium factory at Cologne, aerodromes and anti-aircraft batteries in northwest Germany and Belgium all successfully attacked.

Yesterday of twenty-eight Blenheims despatched twelve obliged to abandon task. One shot down enemy fighter and one is missing. Direct hit on hangar on enemy aerodrome reported. In the afternoon four Blenheims bombed three E-boats off Havre; boats dispersed and at least seven near misses registered.

Last night thirty medium bombers despatched against oil targets in Hannover aerodrome, also twelve Hampdens sent mine-laying in Kiel area. Three machines missing.

3. German Air Force. During night of July 30th- 31st, later reports state, two R.A.F. fuel oil depots straddled but missed, two bombs dropped close to Octane factory.

Mo/

No air bombing reported yesterday;
very slight activity.

Last night, enemy activity on wide
area, but few bombs dropped, no casualties
reported. Bombs, mostly incendiary, dropped
in Thames and Mersey Estuaries and in Cardiff
and Bristol areas.

4. Summary of air casualties:

Day of July 31st: Enemy confirmed 2 Messer-
schmitts 109, unconfirmed 2 bombers and 1 fighter
British confirmed 1 Blenheim and 2 Spitfires.

Night of July 31st - August 1st: Enemy nil,
British 3 missing.

Total: Enemy 2, British 6.

5. Shipping casualties yesterday.

By U-boat: British ship (6,300 tons) outward
bound in convoy torpedoed and sunk off northern
Ireland.

By mine: Norwegian ship (1,300 tons) carrying
coal, sunk in Bristol Channel.

6. Malta. Yesterday morning nine enemy
fighters and one bomber engaged by three
Gladiators over Islands; bomber turned back,
one fighter shot down. One Gladiator shot down,
pilot rescued.

7. Reported from four separate sources that Italian battleships "Giulio Cesare" and "Conte di Cavour" recently inadvertently attacked by Italian aircraft and severely damaged with numerous casualties. Reports suggest that resemblance to British "Hood" when viewed from air accounted for the mistake.

8. German divisions in France believed distributed as follows:-

Northern France (within approximately 50 miles of the coast between Dunkirk and Brest) forty.

Swiss Frontier (Bale to Geneva) seven, (Possibly including one armoured).

Bordeaux to Spanish Frontier, three, (possibly including one motorised).

West of France, fifteen.

Total: sixty-five.

August 2, 1940

My dear Mr. Hoover:

In the absence of Secretary Morgenthau, I am acknowledging receipt of the following communications:

July 30 - Present situation in Martinique;

July 31 - Economic conditions within Mexico;

July 31 - Retail merchants restricting credit to men between the ages of 21 and 31 because of the Conscription Act;

Aug. 1 - Labor conditions at the Boeing Aircraft Company, Seattle.

I shall be glad to bring this material to the Secretary's attention on his return to the office.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

August 2, 1940

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Private Secretary.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

**Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.**

July 30, 1940

PERSONAL AND
CONFIDENTIAL

BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith a memorandum
pertaining to the present situation in Martinique.
This information was received from a source which
has heretofore been found to be reliable.

Sincerely yours,

J. E. Hoover

Enclosure

July 30, 1940

MEMORANDUM

Re: CONDITIONS IN MARTINIQUE

NAVAL SITUATION

At the port of Guadeloupe the French training ship *Jeanne d'Arc* with a complement of 700 men arrived on July 3, 1940. Three other vessels are in the port, a banana ship and an empty cargo ship which do not have steam up and a cargo ship heavily laden with sugar and rum which has steam up. All three vessels are flying the French flag.

In Martinique a strict military and naval censorship is in force. The harbor at Fort-de-France is closed to all traffic between the hours of 5:00 p.m. and 7:00 a.m.

The French Cruiser *Belle Bertin* is docked at the wharf of Cte. Atlantique. This is the cruiser which brought the gold from France. The gold is now located in an old fort near Fort-de-France and the consensus of opinion is that it will remain there indefinitely. The *Belle Bertin* was reported to be in the battle of Narvik and shows the effect of damages. She is also reputed to have assisted in the evacuation of British troops from Dunkerque. The vessel is freshly painted, has steam up and the crew appears to be in good spirits. The *Belle Bertin* is berthed behind a mined submarine net which extends a distance of about 100 feet from the tip of the wharf to the stern of the S.S. *Duc Adreux*, a passenger ship tied up to the opposite side of the wharf. All guns on the *Belle Bertin* which point to sea are stripped and ready for action. Those pointed shoreward are covered and plugged. This is true of the guns of the three converted auxiliary cruisers, the *Quarey*, *Beteral* and *Belfleur*. One of these vessels is constantly on duty in a sheltered arm of the outer harbor where it is practically invisible from the entrance to the harbor. They are equipped with three-inch guns. The patrol boat, *Lamentin*, *Troisilet* and *Balata*, with one-inch guns mounted fore and aft, are constantly patrolling the entrance to the harbor.

The airplane carrier *Bearne* anchored in Lamentin Bay was brought into the inner harbor to discharge her planes. There were more than 100 planes on board. The planes are said to be Curtiss

751C-CTEGB's with one propeller, the serial numbers on the planes discharged being from 56 to 96. The discharged planes are heavily guarded. It is said they were removed because this is the hurricane season and they were brought ashore in order to be protected in the event of a hurricane. Other reports were that the planes were landed at the insistence of the British. There were twelve to fourteen flyers on the Bearne who departed about the middle of July on the British Cruiser Dundee.

Five French seaplanes based at Port-de-France each carry two bombs and a machine gun and make regular patrol flights beginning at 6:00 a.m. each morning.

A French passenger ship, the S. S. Cuba, was accompanied into the Port-de-France on July 13, 1940, by a French plane and auxiliary cruiser. From the zig-zag course she took upon entering observers believed that the harbor might be mined at certain points. The Cuba carried about 500 loyal Spanish refugees and 100 German, Czech and Austrian refugees. Twelve French passengers disembarked at Port-de-France. The others were transferred to the S. S. Sainte Domingue, which sailed the following Tuesday, presumably for Mexico.

Martinique has communications with the outside world through a wireless receiving station located behind the Pan-American Airways dock, the sending station for ships, a government owned sending station and a short wave commercial broadcasting station. The French cable to Europe is via London or to Madrid via Buenos Aires. Communication to the United States is via French cable to St. Thomas and Puerto Rico.

Admiral Robert, the High Commissioner, is not, as reported by some sources, in charge of the combined English and French West Indies Fleet. He stated to the informant that there was no English blockade of Martinique as evidenced by the arrival of the S. S. Cuba and one or two American cargo ships. He did state that British Cruisers were nearby and would undoubtedly try to prevent any French naval units from leaving. He felt that his relations with the British Admiral at Bermuda were most cordial and mentioned that the British Cruiser remained twenty miles off shore on July 11 at his request after signalling its intention to engage in target practice. Admiral Robert is apparently pro-British and hopes for an amicable settlement between the two countries.

POLITICAL CONDITIONS

The internal situation in Martinique is said to be serious. There are foodstuffs for normal usage for five or six weeks. There would be no actual starvation for several months. The food supply in Guadeloupe is low and has been aggravated by the arrival of the French training ship with her complement of 700 men. Little food is produced on the island. All staples are imported from France. The white residents are of the opinion a serious food shortage would be productive of riots. The government is endeavoring to carry on public work projects in order to provide work and quiet the uneasiness and unrest. The mass of the population of Martinique, 250,000, is controlled by black political leaders who in turn are controlled by the whites. The black leaders are becoming increasingly difficult to handle, demanding greater concessions in the form of higher wages, shorter hours and better treatment. While there are three social classes, white, mulatto and black. A very few white families, who are closely intermarried, control the country. The important government officials are all appointed directly from France and are French whites. There are many government employees who receive their education in France at the expense of the Martinique government.

While Admiral Robert, the High Commissioner, is said to be pro-British, the Governor, Monsieur Henri Bressollers, who arrived in Martinique four months ago, is said to be definitely anti-British and has vehemently denounced the British support of Blum and his Popular Front government which he says was responsible for the defeat of France. He thought the recognition of the Petain Government was the only recourse open to the French. His further attitude is reflected by his statement that British Officers at Dunkerque forced French soldiers to remain behind while the British were being evacuated. He predicts a German invasion of England and the total defeat of the English unless they accept German peace terms. He then visualizes a continental bloc to effect trade pacts with the Pan American trade bloc and stressed the hope that the United States would make a trade agreement with the French West Indies.

Monsieur Andre Garcin, President of the Bank Credit Martiniquais, does not believe in the stability of the Petain government. While he prefers to remain French he thinks that an American protectorate is the best solution for the time being.

Other persons in Martinique, including M. E. Aubery, industrialist and reputed the wealthiest man in Martinique; Leon Hayot, industrialist; Andre Dorn, sugar factory manager; Robert de Jaham, engineer; Renee Cottrell, ship agent; M. Latil, Manager of French Cable; Chief of Police, Captain de Jaham of Martinique Colonial Army; R. A. de Schusten, former American Vice-Consul; Leon and Victor Albert, and others seem to be of the opinion that while they would prefer remaining French if possible they would welcome an American protectorate at least temporarily, and that they do not look with favor upon the present French Government.

The Colonial Army of Martinique consists of 1800 native soldiers, 150 white commissioned and non-commissioned officers, for the most part equipped with rifles and bayonets. There are about 150 gendarmes, mostly white, scattered throughout the island. The police of Fort-de-France are captained by M. Ancelle, who claims to have American citizenship and at one time lived in the Canal Zone.

ECONOMIC CONDITIONS

Since the armistice between France and Germany the French West Indies have been isolated from their capital. Some residents think this isolation only temporary and the economic adjustment in France will soon begin. Others, far more numerous, consider the present situation hopeless and would welcome any solution of the dilemma in which they find themselves. The situation both politically and economically is described as being very tense and chaotic.

Admiral Robert is of the opinion that one of the most pressing problems is a solution of the problem of exchange in order that there may be a free flow of trade between the United States and the French West Indies. Commerce is now at a standstill. Assets of Martinique citizens in banks at Trinidad and Santa Lucia, British West Indies, are frozen.

There has existed a liberal French economic regime which protected French products sold in the colonies as well as the colonial products sold in France. Prices were high because of the duties and the high freight rates between France and the colonies. The prosperity of Martinique is said to be due to the high subsidy granted on island products, sugar, rum and bananas constituting more than ninety per cent of the exports. France has always absorbed the

products of Martinique and furnished by far the greater part of the imports, consisting largely of wheat flour, salt fish, rice, corn, coffee and table oils. For this reason Martinique has not been forced to look for any markets in the Western Hemisphere. High duties against products of the French colonies have constituted an additional barrier to trade with Latin American countries. The average imports for the past eleven years amounted to 199,000,000 francs annually. The exports during the same period were 221,000,000. The principal crop is sugar. Harvest was completed in the latter part of May. The entire crop for this year has been sold and shipped to France but no payment has been received as the funds are frozen in France.

To relieve the desperate situation the informant believes some provision must be made whereby the French West Indies can dispose of their products and buy the necessary goods in the Western Hemisphere, and hopes that a plan will be perfected to permit commercial agreements between Martinique and the American countries. Business men of Martinique feel that there should be a resumption of consular relations between the United States and Martinique. At present for a French citizen to obtain a visa to visit the United States he must go to Trinidad, and with the present strained relations between England and France the residents are unwilling to do this.

* * * * *

JOHN EDGAR HOOVER
DIRECTOR

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**Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.**

July 31, 1940

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith copies of a
memorandum received from a confidential source
which pertains to economic conditions within Mexico
and which may be of interest to you.

Sincerely yours,

Enclosures

J. E. Hoover

C O P Y

July 17, 1940

The President is discussing two reorganization schemes concerning two vital branches of industry: oil and railroads, both of which have not been as prosperous in the workmen's hands as had been anticipated. These discussions have now been going on for some time without any visible results. As a matter of fact the Railroads seem to be going from bad to worse. Lack of discipline is still causing constant accidents with the consequent loss of life and material. Service is bad and rates are high, and the public is getting pretty tired of these conditions.

Lic. Suarez and Sub-secretary of Foreign Affairs, Lic. Beteta, heading the Mexican delegation to the Havana conference, are said to have left last night for Cuba to be in time for the inauguration on the 20th. Mr. Suarez wanted to hear propositions from the Mining Industry by which help could be extended through the proposed Inter-American Cartell to be discussed at Havana. The uncertainty and vagueness surrounding the Havana Meeting made it impossible to talk about suggestions. So, what was given to Mr. Suarez were merely the facts about the present situation. Before expecting help from the outside, especially in regard to financing the country, they should endeavor to bring some relief from the inside. Lowering of taxes, stabilized labor conditions, a stabilized exchange, etc., would be the most essentials. But in that respect nothing has been done. On the contrary, the exchange is showing a tendency again towards a lower dollar. It went again today to 4.96 and someone claims to have heard the President say that he will get exchange back to 3.60 before leaving office.

There has been no change in the status of the Cananea strike, but the agitation for sympathetic strikes in the industry seems to have died down.

(The last paragraph refers to the strike at Anaconda's Copper Mines in Sonora which is of several months' duration.

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C O P Y

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

PERSONAL AND
CONFIDENTIAL

BY SPECIAL
MESSENGER

July 31, 1940

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

My dear Mr. Secretary:

I have been informed that retail merchants, generally, throughout the United States are restricting, to a large extent, the matter of granting credit, such restriction being caused by anticipation of the enactment of the Conscription Act. I am further informed that an official of the National Association of Furniture Dealers recently voiced an opinion that within a few weeks it is doubtful if any unmarried man between the ages of twenty-one and thirty-one will be able to obtain credit privileges unless considered an extraordinarily good credit risk because of family connections.

I thought you might be interested in this information.

Sincerely yours,

J. E. Hoover

JOHN EDGAR HOOVER
DIRECTOR

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Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

August 1, 1940

PERSONAL AND CONFIDENTIAL
SPECIAL MESSENGER

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

My dear Mr. Secretary:

With reference to my letter dated July 17, 1940, I am transmitting herewith as of possible interest to you a copy of a memorandum dated July 31, 1940, containing additional information received from a reliable confidential source concerning labor conditions at the Boeing Aircraft Company, Seattle, Washington.

Sincerely yours,

J. E. Hoover

Enclosure

July 31, 1940

MEMORANDUM

Information has been received from a reliable confidential source that negotiations between the Boeing Aircraft Company, Seattle, Washington, and the Aeronautical Mechanics Union in regard to the proposed strike to take place August 1, 1940, are still under way and there is no present indication as to the outcome of these negotiations.

It is reported that John Bader, President of the Boeing Aeronautical Mechanics Union, in a noonday speech on July 30, 1940, instructed plant employees to leave the plant without damaging property in the event the strike occurs. Bader reportedly further instructed that if any of the employees observed another employee damaging the company's property, he should "beat up" that employee and then bring him before Bader so that any other action necessary might be taken as to the offender.

The informant stated that in view of the above, Boeing Aircraft Company officials are not anticipating any trouble should the strike occur on August 1, 1940.

August 2, 1940.

Dear Mr. Purvis:

For your confidential information, I attach herewith a copy of a letter which I have received from Mr. H. S. Vance of the Advisory Commission. This letter indicates that some more or less definite arrangement has been made by Mr. Baker, of the British Purchasing Commission, to coordinate your machine tool program with the United States national defense program.

I have received your note of August 1st concerning the use of the Federal Reserve Bank by the Dominion Government, with attached letters from the Honorable C. D. Howe. I shall call these to the attention of the Secretary immediately upon his return.

Sincerely yours,

(Signed) Philip Young

Philip Young,
Member, President's
Liaison Committee.

Mr. Arthur B. Purvis,
British Purchasing Commission,
15 Broad Street,
New York, New York.

PI/jm



BRITISH PURCHASING COMMISSION

August 1, 1940.

Dear Mr. Young:

Use of Federal Reserve Bank by the
Dominion Government

As promised I send you, for the Secretary, a copy of the Hon. C. D. Howe's letter to me of July 26th. We can perhaps discuss this subject next week when the Secretary returns.

Yours sincerely,

Arthur B. Purvis

Phillip Young, Esq.,
Washington, D. C.

RECEIVED

AUG 2 1940

Office of the
Secretary of the
Treasury

O
P
Y

Office of
The Minister of Munitions and Supply
Ottawa, Canada

July 26th, 1940

Dear Mr. Purvis:

In the course of our luncheon with Mr. Morgenthau in Washington, Mr. Morgenthau suggested that the Dominion Government should pay for its purchases in the United States through the Federal Reserve Bank of New York.

I have discussed the matter with our Minister of Finance and with the Governor of the Bank of Canada, and enclose the comments of Mr. Graham Towers on Mr. Morgenthau's suggestion.

It occurs to me that the proper procedure for placing this matter before Mr. Morgenthau is through yourself. I would be glad if you would place the information before him and let me have his suggestions in the light of Mr. Towers' letter.

I am sure that the Treasury here will follow Mr. Morgenthau's wishes after he has given consideration to the views expressed by Mr. Towers.

Yours very truly,

(Signed) C.D. Howe.

B. Purvis, Esq.,
Director General,
British Purchasing Commission,
15 Broad St.,
New York

BANK OF CANADA

Ottawa, July 24th, 1940

Dear Mr. Howe:

You will recall that in conversation a short time ago you told me that Mr. Morgenthau had discussed with you the procedure followed by Dominion Government in making payments for purchases of war supplies in the United States, and had enquired whether these payments could all be made from a Bank of Canada account with the Federal Reserve Bank of New York. Since the Bank of Canada commenced operations, it has carried an account with the Federal Reserve Bank, so that there are no insuperable difficulties in the way of adopting Mr. Morgenthau's suggestion. But, for reasons which I am indicating below, it would be more convenient to follow another procedure.

As matters stand, I believe that Munitions and Supply contracts are made direct with the suppliers in the United States - this being true even when the organisation headed by Mr. Purvis acts as the agent in the first instance. When the time comes to settle with the various contractors, payments are made by means of cheques issued by the Controller of the Treasury, drawn on the Dominion Government's account with the Bank of Montreal in New York. There have been a few exceptions to this rule: for example, some payments have been made through American banks such as the National City Bank. In that case, the Controller of the Treasury issues a cheque on Bank of Montreal, New York, in favour of the National City Bank. I believe, however, that it has been suggested that exceptions of this character should be eliminated, and that all payments to contractors should be made through Bank of Montreal.

This being the case, there are two possible alternatives to Mr. Morgenthau's suggestion:-

- (1) Arrangements could be made by Dominion Government so that he could get the information which he would like to have from the Bank of Montreal. It must be admitted, however, that there are undesirable features to this procedure.
- (2) Arrangements could be made through the Controller of the Treasury to supply him with information in respect to payments made for purchases of munitions and supplies. Mr. Morgenthau would then obtain, in a convenient way, all information which would be available to him if payments were all made through our account with Federal Reserve Bank.

The Hon. C.D. Howe.....2.....July 24th, 1940

The main U.S. dollar account of the Dominion Government is carried direct with Bank of Canada, and we, in turn, hold the balances with the Federal Reserve Bank of New York. But the use of the Bank of Montreal in New York for chequing purposes, and for maintenance of moderate working balances, does represent a very material convenience so far as the Dominion Government is concerned. Perhaps after giving consideration to the foregoing you might wish to have a talk with Dr. Clark to decide what reply should be made to Mr. Morgenthau.

In our conversation you also enquired whether we had received any estimate of Munitions and Supply contracts which would be placed in the United States during the course of the next few months - as Mr. Morgenthau had indicated interest in such information. We have received no estimates.

Yours sincerely,

(Signed) G. F. Towers

The Hon. C.D. Howe,
Minister of Munitions and Supply,
Ottawa.

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THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D.C.

July 31, 1940.

Mr. Philip Young
Assistant to the Secretary
U. S. Treasury Department
Washington, D. C.

Dear Mr. Young:

Will you please express to Mr. Ballantyne our appreciation of his release of four Giddings and Lewis boring machines to Koppers Company who have an important contract for gun mounts, and could not have met delivery requirements except for the concession of the British Purchasing Commission.

In regard to this general subject, Mr. Baker of the British Purchasing Commission was here yesterday and we found ourselves in complete agreement on the matter of coordinating the pressing needs of machine tools for our defense program, and the needs of Britain and Canada, regardless of the terms of British and French contracts outstanding.

Mr. Baker will spend a day or more each week in Washington, working with Mr. Donald Nelson to this end.

I am sure that this is an important accomplishment which will be mutually advantageous to the British and ourselves.

Sincerely yours,

/s/ H. S. Vance

H. S. Vance

MT

PLAIN

Shanghai VIA NR

Dated August 2, 1940

Rec'd 4:39 p.m. Aug 3

Secretary of State,

Washington.

731, Second.

FROM COMMERCIAL ATTACHE. Weekly Financial.

Shanghai open market foreign exchange rates slightly easier during week due to persistent import cover but selling at the lower rates by hoarders and overbought speculators prevented further decline. Inter bank spot selling rates this morning around five fifteen sixteenths cents and three twenty seven thirty seconds pence saving high during week of six one eighths and three twenty nine thirty seconds and a low of five seven eighths and three twenty seven thirty seconds, August delivery one thirty second cent and one sixty fourth. Penny lower, September delivery three thirty seconds cent and one sixty fourth penny lower than August rates. Note local rates this morning on a parity of sterling United States dollar of three point seven one whereas New York free sterling closing rate for August first was at three point eight eight five, indicating that Shanghai developing independent free sterling market. Chinese financial circles express belief that present steady rates due to marketing time by speculators who are unwilling to operate on account of their belief in the

-2- 731, August 2, 4:39 p.m. from Shanghai.

in the possibility of unexpected attempts for a China Japan peace and their apprehensions of world wide repercussions in case of actual German invasion of British Isles, sentiments similar to those which prevailed recently in New York stock market. (END SECTION ONE)

HUTRICK

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PLAIN

Shanghai via NR

Dated August 2, 1940

Rec'd 8:30 a.m. 3rd

Secretary of State,
Washington.

731, August 2, (SECTION TWO)

These circles also believe that despite present saturation of commodity hoarding and business industrial setback in Shanghai, unslackened import demand will weaken rates in late August and early September. It is also believed locally that a break in rates with erratic fluctuations may be expected in September as cash is now again abundant in Shanghai and speculators may use such funds for exchange operations, however should any Sino-Japanese peace negotiation develop entire picture would be changed. Other quotations this morning: gold bars around yuan five four five naught having high during week of yuan five five three naught and low of yuan five three hundred, wai wah cash discount rate four point six percent, Bank Japan yen one for Chinese yuan one point two eight, military scrip yen one for Chinese yuan one point two four, Central Bank gold unit for yuan two point seven naught seven or United States dollars naught point six three five, Shanghai customs gold unit rates for duty payment purposes at Hua Hsing yuan two point eight nine five or Chinese
yuan

-2- #731, August 2, (SECTION TWO) From Shanghai via MR

yuan four point five seven four because Hua Hsing yuan commands today premium of fifty eight percent over Chinese yuan, Tientsin exchange rates five nine sixteenths cents and three five eighths pence, Tientsin Shanghai remittance charge seven point two five percent, (END SECTION TWO)

BUTRICK

TFV

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PLAIN

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SHANGHAI VIA N.R.

Dated August 2, 1940

Rec'd 8:00 p.m.

Secretary of State,
Washington.

731. (SECTION THREE)

Tientsin Federal Reserve Bank yuan nine four point seven five for Chinese yuan one hundred, Shanghai-Tientsin remittance Shanghai-Chinese yuan eleven hundred Tientsin to receive FRB yuan one thousand. Yesterday's closing quotations: Chinese domestic bonds average five one point eight eight ex interest, Shanghai general stocks average two three four point naught six, Shanghai rubber shares average two five eight point one eight. Ministry Finance Chungking as of August 1st lowered "commercial rates of yuan" from seven pence to four one half pence, former rate unchanged since early July last year. United States dollar equivalent of four one half pence determined by New York free sterling rates. This has no connection with Shanghai open market rates though for a time Shanghai exchange rates lowered a little on receipt of the news. Note this "commercial rate of yuan" is difference from official stabilisation rates of yuan at thirty cents and fourteen one half pence which remains unchanged. For details relation of "commercial rates" refer Consulates 565 and 566 of July 6 last year transmitting Commercial Attaches Nos. 6 and 7 to Commerce. Ministry's
act

-2- #731, (SECTION THREE) From Shanghai via H.R .

act on mere recognition of fact that commodity prices in Chinese
controlled interior have risen and that adjustment is necessary.

INFORM COMMERCE.

(END OF MESSAGE)

BUTRICK

JRL

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August 2, 1940

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MEMORANDUM FOR THE FILES:

Cabinet meeting - Friday, August 2, 1940

The President congratulated Secretary Hull on his success at the Havana conference. He told him that he thought he had done a grand job and the publicity on the success of the conference could not have been better. Mr. Hull said he had nothing to discuss at the Cabinet today.

After I had shown the President the Times Index of business activity and the statement on national defense expenditures for the past year, he asked me about the excess profits tax bill. I had intended taking this matter up at the close of the Cabinet and asking for a conference with him for Mr. Sullivan and myself to discuss the situation, but he started right out discussing the whole matter. He asked me if I had been informed of his conferences with Messrs. Doughton and Cooper and with Senator Harrison on the proposed tax bill. I told him that I had not been informed except to the extent that the conferences had been reported in the newspapers, which were not very fully stated. He then told me that he had made it plain to these gentlemen that we must have an excess profits tax bill this session; that he did not want to be bothered with the details of the bill but would leave that entirely to the legislative branch of the Government, but he did want to impress upon them that he had to have a bill of some kind this session and if there were any mistakes in it, they could be corrected at the next session. I then told him the situation as Mr. Sullivan had related it

to me earlier in the day, that apparently from the conversations which Mr. Sullivan had had with the representatives of the Ways and Means Committee and the Senate Finance Committee, about the only thing the Committees were thinking of is a "face-saving" bill, and not one that will really get the revenue on an equitable basis. I told him that Mr. Stam's bill did not get any revenue from a corporation which had been earning, say 35 per cent on its invested capital over the past four years, unless it earned more than that rate in the years to come. I also stated that I did not think this could be termed a fair excess profits tax bill. The President then said he did not want this bill to get bogged down because of differences between the Treasury experts and the Congressional experts. The main thing now is to get a bill through and then straighten it out next January. He said even the amount of revenue is not so important at this time. I then asked him if he would take a "face-saving" bill if that is what the Committees insist upon. He said, "Yes." He asked that I pass this message on to you.

Mr. Stimson said that he also had the tax bill on his agenda to discuss at the Cabinet meeting. He wanted to stress the fact that the delay in enacting legislation covering the amortization question was holding up many contracts in the Army. Mr. Knox also said it was holding up many in the Navy; that industry was just not signing the contracts as long as this question remained open. Mr. Stimson said that he thought haste is certainly important in the interest of national defense. He wondered if the two committees could not agree immediately upon the provisions covering amortization and publish the fact that they had agreed. He thought this would help a great deal and that many of the

contracts would be signed if they thought that Congress would go ahead with the program agreed upon.

The President then suggested that we try to write a preamble to the proposed tax bill which would lay down the general principles with respect to (1) the amortization question; and (2) the excess profits tax question; and that the two committees in Congress agree to the preamble to the proposed bill. That preamble made public would be an inducement to industry to sign the national defense contracts. I told him that we could probably work out the preamble but I did not think that the fact that the two committees agreed upon it would necessarily bind the two Houses of Congress. The President agreed to this, but said that if this preamble could not be agreed upon by the two committees, then he thought they might agree upon a joint statement concerning amortization, which statement would be made public and used by the War and Navy Departments in its negotiation for national defense contracts. He thought this statement should assert that the plants built for emergency national defense could be amortized within a five-year period with a provision that if the emergency ends before the five-year period is over, an amended tax return could be filed.

Mr. Stimson then discussed the status of the conscription bill on the Hill. He said that he thought it might take a word from the President to move the bill along. There was quite a discussion of the principles of conscription and the various organizations in the country which are opposed to it. The President said that he had already told Congressional leaders that it was up to Congress to fix the age

limitation in the conscription bill, but that he had announced publicly that he was in favor of the draft. He also stated it was generally known that Mrs. Roosevelt was a pacifist and that she was tied up rather closely with the youth movement. As a result of this, she is getting a great deal of mail. She told the President last night that 95 per cent of her mail at this time is opposed to the draft bill. Yet, she says, when you analyze this mail, it is perfectly apparent that their reasons are false and are not based upon known facts to the writer. She said that many of them feel that because of the statements in the Press regarding the age limitation of 20 to 65, a great many old people and those who are better fitted for some other line of work will find themselves in a military training camp. The President said that the view is of course just plain nonsense. No responsible official of the Government had any such idea. He discussed at great length his conference of this morning with a group of women representatives of various organizations throughout the country. He said there were about 165 present. He thought that when he got through discussing the theory of the draft, they were quite well impressed with what the Administration is trying to do in this connection.

Mr. Jackson discussed at some length a few anti-trust cases and then brought up the Westrick case. The President asked him if the publicity had in any way hurt his case against Dr. Westrick. Mr. Jackson stated that the publicity had not hurt the case, but that it had destroyed a place where the Department of Justice had been able to get a great deal of information of the workings of the German machine.

Now that this had been made public, Dr. Westrick would have to move to another place or the Germans would probably get another man to replace him. This means that the Department of Justice will have to find out who this new man is and where he is located. There was then a discussion of Jim Mooney's article in this week's Saturday Evening Post along this general line. Mr. Jackson said that it is amazing the contacts Dr. Westrick had been able to make since being in this country. He did not think that the Fifth Column activities are now so much concerned with blowing up plants, but they are more concerned with getting the industrial leaders of the country on their side. They have, therefore, attempted to impress large industrial leaders, like Henry Ford, that American industry should trade with Germany; that the war should stop, and it is only England's fault that it is now being carried on; that as soon as it is over, trade will be resumed with Germany and there will be a profit for all. The Americans who have their plants closed or operating under strict orders in Germany, are promised that their plants will be reopened and freed.

Mr. Knox then gave an account of a conference he had last evening with the British Ambassador. He said that the British Ambassador called him while he was at dinner and told him he had a very important matter that he wished to discuss with him that evening. Mr. Knox stated that he went over to the Embassy and talked with the Ambassador for some time, and the Ambassador gave him quite a pitiful story. Mr. Knox seemed very much worried about the whole situation. The Ambassador made a great plea for 50 American destroyers and he wanted Knox to exhaust every means

that he could think of before giving him a negative reply. He said the shipping situation in Great Britain is quite serious and unless they get these 50 destroyers, he did not know what would happen to the British Isles. Mr. Knox said he then asked the Ambassador if his country had ever considered selling a part of the Islands in this Hemisphere for these destroyers and other supplies. He thought that the British should understand that the United States would anyway have to defend these Islands if we are called upon to defend this Hemisphere. The Ambassador said that he had not discussed this with his Government, but that he would be glad to take it up if Mr. Knox wanted him to. Mr. Knox asked the Ambassador if it would hurt the British Government if this desperate situation were made public in the United States in our discussion with the Legislative Branch regarding ways and means of transferring these destroyers to his Government. He said they would have to take that chance but the situation demanded action.

Mr. Hull was asked if acquiring any part of the British territory in this Hemisphere would violate the agreement just reached in Havana. The President and Mr. Hull both thought that it might, and the President then suggested that probably we could lease a part of this territory along the same general lines as we are now leasing a naval base in Trinidad. There was then a general discussion of this whole question as to the ways and means which might be found to furnish the British the additional destroyers. Every one thought it was quite important that if we did furnish the British these ships, that the British in return would promise that no part of its fleet would under any condition fall into hands of the German Government if the British lost the war, but

- 7 -

that the British fleet would at least be sent to this Hemisphere. There was some question as to whether this should be part of the formal agreement or whether it might not be better to have it as an informal understanding.

Mr. Hull thought that about the only way to accomplish the transfer of the destroyers to the British Government would be to repeal that old law which prohibits such sale, and this repeal could not be accomplished without some very definite understanding between the President and Mr. Willkie. It was, therefore, suggested that the President have William Allen White, who not only has the confidence of the President, but also has the confidence of Mr. Willkie, come to Washington to thoroughly acquaint himself with this question by discussing it with the British Ambassador and Secretaries Hull and Knox. The latter two were instructed to prepare a statement which Mr. White would take to the President at Hyde Park on Monday or Tuesday, and after getting the President's approval, White would discuss it with Mr. Willkie. If agreement is reached, an attempt will then be made to get legislation on the subject after the publication of the joint statement. Messrs. Wallace and Jackson thought it poor politics to consult Willkie. Jim Farley thought it an excellent thing to consult him, it was for the good of the country, and to him what was for the good of the country, was good politics.

Mr. Hinckley of Commerce again brought up the importance of the tax measure in connection with the production of airplanes. He said that the airplane manufacturers were contributing approximately \$100,000

to a fund, supposedly for educational purposes, but he had a suspicion that it might be used in connection with any tax program. At any rate, he thought the delay in the tax measure was also causing a delay in production of planes.

He said that Civil Aeronautics Authority had 18,000 youths in actual training for work in the Air Corps and that they had 12,000 additional on ground training. They were employing at the present time about 1800 training planes in 500 universities throughout the country. The President asked him how many persons would receive their preliminary course in 1941. He said that about 45,000 students would receive the preliminary course and about 9 to 10,000 would receive their secondary course. When these students have received their secondary course, practically all of them will make pilots for the Army and Navy.

He stated there was a great need for about 3800 airports in this country which will cost about \$500,000,000. The airports today are not at all suited for the heavy Army and Navy planes and it is quite important that some consideration be given to this matter. The President said that he had asked Congress for all of the money that he intended to ask for this session. He is wondering if the Civil Aeronautics Authority could not use some of the WPA money. Mr. Hinkley said that he could use some of the WPA funds, but the amount was limited. He thought Colonel Harrington had some \$35,000,000 for this purpose, but that was quite inadequate.

swB

NATIONAL DEFENSE EXPENDITURES

	<u>War</u>	<u>Navy</u>	<u>Total</u>
July, 1939	\$ 49M	\$ 60M	\$ 109M
August	45	69	114
September	46	62	108
October	52	63	115
November	50	68	118
December	54	71	125
January, 1940	58	74	132
February	57	72	129
March	64	78	142
April	62	97	159
May	67	87	154
June	64	89	153
Total fiscal year 1940:	\$ 668M	\$ 890M	\$ 1,558M
Total fiscal year 1939:	490	673	1,163
July, 1940	79	98	177

August 2, 1940

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The only transactions in registered sterling effected today by the six reporting banks were purchases of £30,000 for customer account.

The Federal Reserve Bank of New York stated that £5,000 in registered sterling were purchased from it by a non-reporting bank.

In the open market, sterling was first quoted at 3.88-1/2. Although it eased during the morning to 3.86-1/2, it subsequently recovered, closing at 3.88. The reporting banks executed orders to sell £36,000, of which £31,000 were for account of Far Eastern and Near Eastern banks, and £5,000 for commercial concerns. Orders to purchase £49,000 were also executed, and of these, £35,000 were for commercial concerns, the other £14,000 being bought for European banks.

The discount for the Canadian dollar continued to widen, and the closing quotation was 12-1/2%, as against yesterday's 12%.

The other currencies closed as follows:

Swiss franc	.2274
Lira	.0505
Reichsmark	.4005
Cuban peso	10-5/8% discount
Mexican peso	.2018 bid, .2036 offered

There were no gold transactions consummated by us today.

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

\$2,361,000 from Portugal, shipped by the Bank of Portugal, to the Federal Reserve Bank of New York, to be earmarked for its account.
270,000 from England, shipped by the Swiss Bank Corporation, London, to its New York agency, for sale to the U. S. Assay Office.
\$2,631,000 Total

The State Department forwarded to us a cable stating that the following gold shipments were made from England, all of which are for sale to the U. S. Assay Office at New York:

\$ 56,000 shipped by Sharps and Wilkins, London, to the Central Hanover Bank and Trust Company, New York.
43,000 shipped by Johnson Matthey, London, to the Canadian Bank of Commerce, New York.
36,000 shipped by Johnson Matthey, London, to the Chase National Bank, New York.
33,000 shipped by Sharps and Wilkins, London, to the Chase National Bank, New York.
\$168,000 Total

- 2 -

The Bombay gold price was slightly higher at the equivalent of \$33.72.

Spot silver in Bombay was equivalent to 44.56¢, off 1/16¢.

In London, the prices fixed for spot and forward silver were both unchanged at 22-5/16d and 22-1/16d respectively. The U. S. equivalents were 40.51¢ and 40.06¢.

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 four purchases of silver totaling 600,000 ounces under the Silver Purchase Act. Of this amount, 250,000 ounces represented a sale from inventory, and the remaining 350,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL



August 2, 1940

Professor Chamberlain.

Mr. Cockran

Mr. Liversy told me yesterday by telephone that the Swiss Minister in Washington had taken up with Mr. James Dunn, Advisor to the Secretary of State on Political Affairs, the question as to whether there was any likelihood of this Government blocking Swiss assets in the United States. In a previous memorandum I have recounted a conversation which I had with the Swiss Minister on Monday, following the appearance in the weekend press of a story that Germany had made severe demands upon Switzerland for gold, fuel and feedstuffs. The Swiss Minister had told me that he had received a flat official denial of this story from his Government.

I told Mr. Liversy of the call which I had received from the Swiss Minister. I added that he could let Mr. Dunn know that the Treasury was not now contemplating the imposition of control on Swiss assets in the United States. The question had not been submitted to Secretary Mergenthau, now on holiday, and there is no present plan to open this question. We are, however, watching Swiss balances in this country.

JMF

JR

PLAIN

London

Dated August 2, 1940

Rec'd 2 p.m.

Secretary of State,
Washington.

2528, second.

FOR TREASURY FROM BUTTERWORTH.

1. With reference to the first paragraph of my No. 1832 of June 25, I am cabling the text of the Anglo-Brazilian agreement signed July 30, supplied by the British Treasury which states "though it may not be verbally exact, as we have not yet had a copy sent us as signed: these are the operative articles and we shall not know till the mail arrives whether there are some heads and tails to add; but these do not matter." The British Treasury also asks that the text be treated as confidential since it is between the two central banks and will not be published.

"1. All trade and financial payments between Brazil and the sterling area shall be contracted in sterling. In the case of debts due to Brazil necessarily payable in milreis, e.g. dock dues, shipping expenses etc., from persons resident in the sterling area, milreis may be purchased from the Bank of Brazil by sterling area debtors against credit of sterling to a Brazilian special account.

"2.

-2- #2528, August 2, from London.

"2. The Bank of Brazil shall quote rates for sterling based upon the corresponding rates for dollars fixed by the Brazilian authorities and the official middle price for gold in London which at 168/6 per fine ounce is equivalent to £4.02-1/2 equals pounds 1.

"3. All sterling payments to Brazil from persons resident in the sterling area shall be made to the special account of the Bank of Brazil at the Bank of England or to special accounts of the Bank of Brazil with their correspondents in the United Kingdom registered at the Bank of England, or to special accounts of other banks operating in Brazil which may, subject to the prior agreement of the Bank of Brazil and of the Bank of England, be opened with their United Kingdom correspondents after registration at the Bank of England. Sums standing to the credit of a Brazilian special account may be freely transferred from one Brazilian special account to another but may not be transferred to a non-resident account except to a Brazilian sterling area account. A non-resident account means the account of any person resident outside the sterling area.

"4. Sterling accruing to Brazilian special accounts shall be used for the payment of commercial and financial services in sterling due from Brazil to the sterling area

such

-3- #2528, August 2, from London.

such as - (a) payments through the usual service bankers in respect of federal, state and municipal debt. (b) Other sterling requirements of the Brazilian Government. (c) Interest and dividends and other remittances on other sterling area investments in Brazil. (d) Shipping freights and insurance. (e) Sterling area exports to Brazil. (f) Purchases in the market or directly of federal, state and municipal bonds of the public debt of Brazil issued in Great Britain and of issues of British owned undertakings in Brazil subject to agreement between Brazilian Government and undertakings concerned. (g) All other payments by Brazil to sterling area.

"5. The Brazilian authorities shall take all possible steps, in cooperation with the United Kingdom exchange control, to ensure that all payments and remittances to the sterling area will be made from a Brazilian special account and not otherwise.

"6. The balance of the special account of the Bank of Brazil at the Bank of England shall carry a guarantee based on the official middle price of gold in London (at present 1688. 6D. per fine ounce). Should any alteration in the official price of gold in London occur the sterling balance on this special account shall be revalued accordingly.

"7. Notwithstanding the foregoing provisions of this agreement,

-4- #2528, August 2, from London.

agreement, the Bank of England may authorize the opening or maintenance of accounts with banks in the United Kingdom, to be denominated 'Brazilian sterling area accounts', in the name of persons resident in Brazil but having close connections with any territory in the sterling area, to which credits representing income arising in the sterling area would be permitted. Transfers from special accounts to Brazilian sterling area accounts may be permitted. Funds standing to the credit of these accounts may be used only (a) for payments to persons resident in the sterling area, other than payments in respect of goods exported from the sterling area to Brazil or remittances of financial services; and (b) payments to a Brazilian special account. They may not be paid to any other non-resident account (as defined in paragraph 5).

"8. Upon the expiry of this agreement- (a) the guarantee provided for in clause 6 shall continue to apply to the balance held on the special account of the Bank of Brazil at the Bank of England.

(b) Balances remaining on Brazilian special accounts shall be utilized for the purposes laid down in clause 4.

"9. The sterling area comprises the United Kingdom, any other part of His Majesty's Dominions (except Canada, Newfoundland and Hong Kong), any territory in respect of which

-5- #2528, August 2, from London.

a mandate on behalf of the League of Nations has been accepted by His Majesty and is being exercised by His Majesty's Government in the United Kingdom or any dominion, any British protectorate or protected state, Egypt, the Anglo-Egyptian Sudan and Iraq.

"10. This agreement shall take effect immediately and shall remain in force until 30th September 1941. If neither the Bank of Brazil nor the Bank of England shall have given notice to the other six months before the above-mentioned date of their intention to terminate the agreement it shall remain in force until the expiration of six months after the date on which either the Bank of Brazil or the Bank of England shall have given to the other notice of termination."

2. The British Treasury is going ahead with its network of payments agreements. As previously reported, a payments agreement has been made with Hungary and the agreements with Sweden and Rumania remain, for what they may be worth. Agreement has been reached with Portugal and the mechanism put into effect but the Portuguese have been unwilling to sign a definitive arrangement until after the procedure has operated experimentally for a while. The British Treasury states in confidence it intends to approach the Spanish about payments for articles outside of the clearing

-6- #2528, August 2, from London.

clearing and also to have further discussions with the Turks in this connection but Anglo-Turkish negotiations are really a perpetual matter.

Agreement has been reached with Uruguay but not yet signed. An agreement with Chile is under active discussion. Negotiations have started with Bolivia and a counter draft to the Venezuelan proposals of some time ago is being prepared. A British representative plans to arrive in Peru on the 14th for discussions there.

There have been desultory conversations with Japan which would like a gold settlement weekly. This is unacceptable to the British who however cannot see how it would benefit Japan to agree to a payments arrangement similar to those being made with other countries. The British Treasury feels that sooner or later it will have to put up the question of whether a unilateral clearing is to be imposed on Japan but has not yet approached the Foreign Office about this hypothetical contingency.

KENNEDY

HPD

CABLE

FROM: Treasury Attache Nicholson,
Shanghai, China.

DATE: August 2, 1940

For the Secretary of the Treasury.

Shanghai market August 1 closed quiet at 3-55/64
for cash and August for sterling 5-31/32 for cash 5-15/16
for August for U. S. dollars. Gold bars closed at 5405 and
wei wah at discount of 4.70%.

NICHOLSON

C O P Y

Federal Reserve Bank
of New York

INCOMING CABLEGRAM

Sydney, August 2, 1940

Federal Reserve Bank of New York

New York

No. 82

Referring to our letter of March 14

- (1) Effective on August 1 Australian exchange control has been adjusted to conform generally with that of United Kingdom
- (2) Exports are now required to be paid for as follows
 - (a) To the United States and territories (except American Samoa) Switzerland and Sweden in Dollars Swiss Francs and Swedish Krona respectively or in registered Sterling under letter of credit or otherwise
 - (b) To other countries with which United Kingdom have made special account arrangements in official sterling under letter of credit or otherwise
- (3) Other transactions follow closely the line of United Kingdom Control
- (4) We shall be pleased to cable more details if you wish
Full information goes forward by mail.

Governor
Commonwealth Bank of Australia.

August 2, 1940

Professor Chamberlain

Mr. Cochran

At our Group Meeting yesterday I mentioned that I had just received a telephone call from Mr. Livesey of the Department of State, in regard to the application of Charles Pettines (No. 66) of July 25, 1940) for the issuance of a letter of credit to pay for an importation of \$5,000 worth of graphite from Tannarive, Madagascar, to be shipped by the Societe Generale des Graphites.

Mr. Livesey stated that Mr. Laros, representing the above-named individual, had been in touch with the Department of State in regard to this application, as well as an earlier application, No. 6407 of July 26, and is very anxious that favorable action be taken immediately by the Treasury since a ship specially chartered to bring graphite to the United States is now ready to sail. Mr. Livesey mentioned that the Department of State had occupied itself with the question of obtaining graphite, an important strategic material and had had an exchange of cablegrams on this subject. Consequently the Department of State would like to see this matter expedited.



HMC:lap-3/2/40

August 2, 1940

Professor Chamberlain

Mr. Cochran

At 9:45 this morning Mr. Livesey telephoned me that the State Department had received two cablegrams from our Embassy at Santiago, Chile, in regard to payments for Chilean products contracted for by France. He is sending over the cablegrams as soon as paraphrases are made. He explained that despatch 695 of July 27 which is mentioned in one of these communications has not yet been received. He will provide us with copies thereof as soon as it arrives. He asked if we knew anything of the transactions under reference. From the text of the first of the cablegrams it appeared to me that the transaction which the French Embassy in Buenos Aires had desired, namely, the payment to it of \$20,000,000 for purchases as well as for maintenance of diplomatic and consular officers in certain Latin American countries, was perhaps involved.



RMC:lap-8.2.40

August 2, 1940

Professor Chamberlain

Mr. Cochran

While talking by telephone with Mr. Livesey of the Department of State this morning I mentioned the subject of the taxation treaty between France and the United States which was discussed in our Group Meeting yesterday afternoon. Mr. Livesey volunteered that the subject of ratification of this treaty had come up within the last month in his Department. Judge Moore had recommended that the Department of State should not take the initiative in pushing the Senate toward giving advice and consent on this treaty. Neither should the Department of State attempt to block action thereon. It was decided that the Senate should be left entirely free. If it should take favorable action, the question would then be left to the President as to whether he would ratify the convention. If this is done prior to the close of the present year, it would become effective on January 1, 1941.

BMP

BMC:lmp-5/2/40

August 2, 1940

Professor Chamberlain

Mr. Cochran

At 11:30 A. M. on July 31, Mr. Livesey telephoned me that a Foreign Officer on duty in the Department of State, Mr. Kalmaley, has been sending in the past a monthly check for \$100 to an alien in Biarritz in France named Mrs. Maria Eusee Fraze, 19 Avenue Carnet. Inquiry is now made as to whether such remittances could be effected. After talking with Mr. Fehle, I told Mr. Livesey that the Treasury was continuing to refrain from approving remittances of this type to aliens in countries whose assets are blocked in the United States.



RMC:lap-8/2/40

August 2, 1940

Professor Chamberlain

Mr. Cochran

By telephone last evening Mr. Liversy of the Department of State told me that Mr. Robert Fell of the European Division of the State Department had received a personal letter from Mr. Paul Van Zeeland, ex-Prime Minister of Belgium, asking Fell's assistance in obtaining the freeing of his funds held in the United States. Mr. Van Zeeland made the point that he had come to this country last Autumn to take up residence here as an officer engaged in refugee relief work, and had left the United States only temporarily to return to Europe with the view to offering his services to Belgium in the war. He had arrived in Belgium too late for this, and is now back in the United States to resume the work for which he came to this country. I told Mr. Liversy that I believed Mr. Van Zeeland's application had been received and that instructions would go out refusing it. Liversy stated that the application was No. 6261 of July 22, 1940.



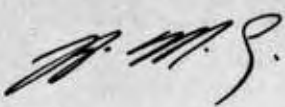
HMC:lap-S/2/40

August 2, 1940

Professor Chamberlain

Mr. Cochran

Mr. Livesey of the State Department told me at 6:00 last night that he had on his desk a letter from Belgian Special Ambassador Thonnin dated July 19, 1940, which he hesitated to file since there was no record of any reply having been made thereto. This letter concerned funds advanced by Thonnin for paying service on Belgian dollar bonds, and a copy thereof was transmitted to the Treasury Department by a third person note dated July 24. Mr. Livesey desires to know whether action has been taken in the premises by the Treasury, and whether any reply has been made by us directly or otherwise to Ambassador Thonnin.



ENC:lap-5/2/40

August 2, 1940

Professor Chamberlain

Mr. Cochran

Mr. Alexander of J. P. Morgan and Company, Inc., telephoned me from New York at 4:00 p.m. yesterday. He stated that his firm was the paying agent for two French Government loans, one seven percent and one seven and one-half percent. The sinking fund installments of \$350,000 are due each month. Approximately ninety percent of the outstanding bonds of these two issues are now held in France. Heretofore the French Government has deposited francs with Morgan and Company in Paris to take care of the bonds held in France.

Due to changed conditions, Morgan and Company in New York have now drawn up a cablegram for transmission to their firm in Paris suggesting a method of taking care of future service on these two loans. Mr. Alexander read me the draft of the cablegram, but I did not take it down. I told him that I could not express an opinion thereon, but would be glad to submit it to my colleagues in the Foreign Funds Control Group, which was then meeting. Mr. Alexander decided not to ask this, but to go ahead and send the cablegram. If this is favorably received in France, his organization will then apply for the necessary license, and Mr. Alexander will let us know if and when such action is taken. I told Mr. Alexander that no assurances could be given him now as to what decision the Treasury would take, in the absence of full information being provided to us.

JMR

EMC:lap-8/2/40

August 2, 1940

Professor Chamberlain

Mr. Cochran

Mr. Livessy of the State Department told us at 6:00 yesterday evening that Assistant Secretary of State Davis had received an urgent appeal from the Mexican Ambassador for assistance in obtaining the release of funds from the National City Bank for Mexican diplomatic representatives in Europe. The Mexican Ambassador was to provide the Department of State at once with a written statement. I told Mr. Livessy that if the Department of State would then transmit this document to us, we would consider it promptly.

A handwritten signature in dark ink, appearing to be 'JMF' or similar, is written in the center of the page.

EMC:lap-6/2/40

August 2, 1940

Professor Chamberlain

Mr. Cochran

Mr. Livesey telephoned me from the State Department at 11:45 today to the effect that a cablegram had been received from the State Department representative at Kaunas, Lithuania, in regard to the desire of ninety-two American citizens resident in Lithuania to return to the United States on the American transport which is due to sail from Petsamo on August 5. It appears that the local authorities will permit these people to pay their transportation in lits but will not allow them to take their capital out of Lithuania in lits, unless the American Government will make available to Lithuania an equivalent sum in dollars. If any action is to be taken by the American authorities to assist in the situation, it must be done at once since it is understood that there will be only the one sailing from Petsamo, and it is a question of five days' travel to reach Petsamo from Kaunas. I told Mr. Livesey that I could suggest no immediate solution, but would submit the matter to our Group this afternoon. In the meantime, Mr. Livesey is seeking the advice of Mr. Berle on the subject, since there would be involved a question of recognition of political authorities, etc., of primary interest to the Department of State.

B. W. S.

WMD:lsp-8/2/40

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G-2/2657-235

M.I.D., U.D.
 Tentative Lessons
 Bulletin No. 28
 August 2, 1940.

TENTATIVE LESSONS FROM THE RECENT
 ACTIVE CAMPAIGN IN EUROPE

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

CONTENTS

GERMAN ATTACKS UPON MODERN
 PERMANENT FORTIFICATIONS

1. Pioneer Troops.

a. Duties.

Pioneer troops constitute the special units which have served as spearheads for all successful German attacks upon modern permanent fortifications during recent hostilities in Europe. These units are generally referred to as assault detachments.

Pioneers are primarily charged with the duty of reducing strongly fortified areas, emplacement by emplacement. In operations other than those against permanent fortifications, they have been used for capturing and clearing barricades, for overcoming resistance in towns and villages, for slowing down enemy movements, clearing the way for the advance of wheeled and foot elements, and providing for the protection of flanks, gaps, and the rear through efficient use of demolitions and obstacles.

b. Personnel and Organization.

Composition of the assault detachment is not rigidly fixed; rather, it varies according to the nature of the fortifications to be reduced. Its nucleus is an engineer unit, often a company, whose routine and traditional duties have been taken over by special labor and technical groups. Such groups assume responsibility for map reproduction, rear communications, and other engineering functions in order that the pioneers may be left free for activities which are strictly combatant in nature. Other elements,

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such as infantry, antitank, and antiaircraft units, are joined with the engineers to round out the detachment. The senior officer, often an engineer officer, is in command.

Organization is further discussed in Paragraph 2.b.(1) of this lesson.

c. Equipment.

Pioneer troops generally have available the following equipment:

- (1) For protection of personnel: Gas masks, protective clothing for passage through fire.
- (2) For detecting and removing mines: Mine detectors, prodding rods, spades, picks, axes.
- (3) For cutting passages through wire: Bangalore torpedoes, wire cutters.
- (4) For scaling walls: Ladders, both rigid and cable.
- (5) For crossing water barriers: Collapsible and inflatable rubber boats, each carrying about 12 men.
- (6) For blinding enemy observation: Smoke candles, smoke grenades.
- (7) For effect against armor plate: Flame throwers thermite grenades.

Note: The flame thrower now in use is said to have a range of 50-60 yards and a jet of heat sufficient to melt 3/4-inch armor plate at that range. It can be carried by one man. After use, the flame thrower must be returned to the factory for recharging.

- (8) For placing charges: Long poles equipped for this purpose.
- (9) For demolishing structures: Issue explosives, including 6.6 lb. block equipped with a hand-grenade type of detonating cap.

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RESTRICTED6. Historical Note.

In March, 1915, two German engineer companies and a small detail of field artillery were united near Cologne to form what has since been called the original assault detachment. While the detachment was almost entirely wiped out in subsequent action, the conception of assault tactics which it developed was considered sound. A few months later Captain Rohr, an infantry officer, adopted for his Rohr Storm Battalions the principle of employing engineer troops, with their specialized knowledge and equipment, for assault purposes. Great successes resulted in further adoption of the principle within the German Army, in continued emphasis upon it after the war, and in extensive study of it in the Engineer Training School at Dessau-Rosslau. It was during the Polish campaign that the Germans first used direct antitank and antiaircraft fire in support of assault operations. The recent and important contribution of the engineers, or pioneers, in the reduction of permanent fortifications in the west will be shown in this lesson.

2. Technique Employed in Assault Operations.

Observation and study of attacks upon permanent fortifications in Poland, Holland, Belgium, and France indicate that the typical assault operation may be divided into six phases: Reconnaissance, Preparation, Long Range Bombardment, Approach, Assault, and Occupation.

a. Reconnaissance Phase.

The area to be attacked is thoroughly reconnoitered for information regarding features of terrain; location of bunkers, strong points, and installations protective objectives; type of weapons to be encountered and dead angles of those weapons. Such information is obtained from aerial and ground photographs and observation, maps, reconnaissance in force, and reports of intelligence agents.

The speed and precision with which the Germans attacked and captured the Belgian fort at Eben Emael and Fort 505 of the Maginot Line suggests that, through reconnaissance, they had obtained much, if not all, of the following information:

(1) Eben Emael: The walls of the fort were almost vertical and about 40 meters high. The King Albert Canal provided a water barrier 500 meters wide around two sides. Overhead cover consisted of 2 meters of reinforced concrete and 5 meters of earth. The fort was gas-proof. Among its weapons were 35 pieces of artillery and 20 double machine guns, which provided all-round defense. Every

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aperture, every sentry position, every means of defense, and every topographic feature in and about the fort was known to the Germans.

(2) Fort 505: The fort was located about 3/4 of the distance up the forward slope of a hill. It comprised two armored sections, or combat blocks, and one casemate, all of which were connected with one another and with other forts by underground passages. There were four armored turrets, one of which could be elevated and lowered. The fort was armed with artillery up to the caliber of 105 mm. and with machine guns. It was protected by outpost positions - concrete dugouts and bunkers - located 1000 meters in front.

b. Phase of Preparation.

The composition of the assault detachment, the material and equipment to be used, and the training necessary for the troops are determined only after a careful study of information obtained through reconnaissance. It is impossible to place too much emphasis upon the necessity of making thorough preparation and developing a plan providing for effective coordination of all elements participating.

(1) Composition of Attacking Force.

General organization and pioneer units has been discussed in Paragraph 1.b. of this lesson. The following specific examples should be noted:

(a) Eben Emael: The assault was made by a pioneer battalion supported by an infantry battalion, light tanks, antitank units, antiaircraft artillery, air detachments, and a parachute infantry company of about 100 men.

(b) Fort 505: The attacking force was composed of a company of pioneers supported by an infantry battalion, medium and heavy field artillery, antitank units, antiaircraft artillery and air detachments.

(2) Choice of Equipment and Materiel.

Knowledge of terrain and obstacles is important for proper selection of weapons and equipment for pioneer troops. Those have been described in Paragraph 1.c. of this lesson.

Mortars and high velocity, flat trajectory weapons are used by supporting artillery and infantry. Photographs indicate that 37mm. and 75mm. guns are employed at very short range. In addition, a promi-

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nent German general staff officer reports the development of a shell which breaks up concrete at low muzzle velocity. While the construction of the shell is undetermined, its effect is said to depend upon a specially constructed point and a delay fuse rendering high muzzle velocity unnecessary.

(3) Training of Attacking Force.

When the necessary composition of the force has been determined and the choice of proper equipment and material has been made, the troops to be used are given careful practice upon terrain approximately as closely as possible that of the area to be attacked. Maps and scale models are studied. The actual storming is rehearsed step by step, with particular stress upon coordination of all elements. For example:

(a) Eben Emael: In a carefully guarded area of Poland, a replica of Fort Eben Emael was constructed. For several weeks the assaulting troops, including parachutists, rehearsed the attack in all its details. Each parachutist was assigned a particular task, such as overcoming a sentry, rushing an entrance, or closing an exit.

(b) Fort 505: Plans were made for repelling a possible counter attack, and troops designated for this operation rehearsed it carefully.

c. Phase of Long Range Bombardment.

This phase begins with the establishment of local air superiority. The bombardment is then effected by air forces and long range artillery, which, over a period of several hours, bomb and shell the entire area to be attacked. Activity is directed primarily at strong points and defending artillery. Under cover of this fire, roads which might be used for counter attack are blocked, while pioneer troops, light and medium artillery, antitank and anti-aircraft guns are moved up within range of the objective.

In the operations at Sedan, no artillery preparation was made because physical conditions did not permit the forward movement of both tanks and artillery without curtailment of the momentum of the drive. Instead, the area to be attacked was subjected to a 25-hour dive bombardment, which was effective beyond artillery ranges. This enabled tanks to cross the entire fortified zone in one bound and had a devastating effect upon the nerves of defending troops.

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d. Approach Phase.

Light and medium artillery go into action, seeking especially to register hits at vulnerable points, such as loop holes, vision slots, door hinges, cupolas, turrets, and ventilating systems. The bombardment includes both high angle and flat trajectory fire. High velocity artillery, antiaircraft and antitank guns are brought up as far as possible for the purpose of direct fire upon the fortifications. The effects of this close range bombardment are as follows:

- (1) Camouflage is dislodged.
- (2) Mine fields and obstacles about emplacements are broken up.
- (3) Some defending weapons are silenced.
- (4) Craters to be used as cover for advancing pioneer troops are formed.
- (5) Breaks and cracks in concrete are effected. They facilitate the use of explosive charges in a later phase.

Under cover of this fire, as well as under the protection of rifle and machine gun fire by the infantry, the assault detachment moves as far forward as possible, taking advantage of craters and dead spaces created by the bombardment. Bangalore torpedoes and other distributed charges are used for clearing a path through barbed wire entanglements.

Where water barriers exist, pioneers and infantrymen are brought across in collapsible rubber boats, which can be launched, loaded, paddled, and unloaded with great speed. As soon as possible, the bridge train comes forward, and engineers begin the construction of a light pontoon bridge for use by tanks and other supporting units.

Certain instances and exceptions should be noted:

(1) Eben Emael: Belgian and German reports differ as to the manner in which the pioneers crossed the Albert Canal. The former say that the Belgian soldier whose duty it was to destroy two bridges over the canal was killed before he could perform his task and that the troops marched across. The German accounts say the pioneers crossed in collapsible boats. However, since they admit that there were tanks and vehicles waiting on the far bank to assist them in the advance towards the fort, they imply the bridges were used to some degree in the operation.

(2) Fort 505: The close range bombardment was particularly successful in this attack. Many hits on apertures

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were registered. Concrete bunkers and field positions in front of the fort were neutralized by direct fire even before the approach of the pioneers.

e. Assault Phase.

When, under cover of close range bombardment, the assault detachment has reached a position close enough to rush the first emplacement to be attacked, the detachment commander orders a rocket signal for the cessation of artillery, antiaircraft and antitank fire. This fire is shifted to the next emplacement to be assaulted.

The assault detachment now closes in on the emplacement, taking advantage of weapons particularly suited to the accomplishment of its mission. Smoke candles and smoke grenades are used to blind enemy observation. Flame throwers and thermite grenades produce effect upon armor plate and help to blind bunker ports. Hand grenades and explosive charges are placed in any available openings, including the weak points developed by direct fire upon the concrete face, and a special effort is made to place explosives inside the bunker. Charge-placing poles are used to great advantage throughout this phase of the assault. Explosive charges can be built up in sections to obtain tremendous disrupting effects.

In conjunction with frontal assaults at important points, parachute troops have been landed, upon several occasions, behind fortified zones for the purpose of attacking bunkers from the rear. Their effort has been supported generally by the fire power of aviation, but there is no evidence to indicate that aviation has been used for bombardment of bunkers in direct support of frontal attacks.

The following variations of assault technique should be noted:

(1) Eben Emael: Parachutists took up positions on the fort side of the Albert Canal before the pioneers crossed the water barrier, and one German report says that they held these positions for 24 hours before they were joined by the pioneers. In addition, surprise landings were made by parachutists and troops in gliders, either on top of the fortification or within its walls, apparently during the assault phase. All troops so landed were probably provided with flame throwers and other pioneer equipment. Reports differ as to whether overhead cover was provided for the entire fort. A London official source indicates that it was not, and that an air photograph made after the capture showed the ground area within the walls pitted with bomb craters. The photograph also showed six parachutes and ten gliders inside the fort. The gliders were large; they carried from 10 to 20 men each. Apparently they were towed up to a certain height

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by power-driven aircraft and then released.

(2) Fort 505: The destruction of its ventilating system was a large factor in putting this fort out of action. It was accomplished through liberal use of high explosive charges. During the assault phase, the French attempted a tank counter attack from the flank, but this effort was rendered fruitless by German infantry, light fast tanks, and antiaircraft units, which had been carefully prepared and rehearsed in anticipation of such an attack. All German units were subjected to heavy artillery and machine gun fire from nearby forts throughout the operations against Fort 505.

f. Phase of Occupation.

Infantry and mechanized units advance, occupy positions reduced by the assault detachment, and begin exploitation of the break through. The attack towards the interior is made with all possible dispatch in order that defenses in the rear may be taken by surprise.

At Sedan the rapid advance of mechanized, motorized, and line infantry divisions was protected by intensive air support, and excellent coordination of air and ground forces was a major factor in the German success. The break-through was facilitated by the fact that the Allies had inadequate airpower, a shortage of antiaircraft artillery, and ineffective armor-piercing ammunition.

3. Conclusions.

The foregoing summary of steps in German attacks upon modern permanent fortifications is, in itself, explanatory of the success achieved. Perhaps the two most important elements in this success are:

- a. Organization and use of engineers as pioneers, described above.
- b. Complete coordination of all elements involved, in accordance with a carefully detailed and rehearsed plan based upon painstaking reconnaissance.

RESTRICTED

August 2, 1940

Secretary Morgenthau

E. H. Foley, Jr.

I am attaching a digest of decisions reviewed by the Board of Tax Appeals during the week ended August 2, 1940. Also attached are decisions of the United States Processing Tax Board of Review received during the week ended August 2, 1940.

Smith

DECISIONS of the UNITED STATES PROCESSING TAX BOARD OF REVIEW
received during the week ending August 1, 1940.

Farmers Rice Milling Co., Inc.

v.

Docket No. 12

Commissioner of Internal Revenue.

- Issues: 1. Is the surrender of tax-payment warrants a payment of tax within the meaning of Title VII of the Revenue Act of 1936?
2. Did petitioner bear the burden of any amount of processing tax, refund of which is claimed?

Decided in favor of the Government on the first issue, citing Standard Rice Co., Inc. v. Scofield, Collector of Internal Revenue, 27 F. Supp. 854. In view of decision on first issue, the Board did not consider second issue.

Matthews dissents: In a twenty page memorandum attached to the decision the following reasons were given for the dissent:

1. Title VII of the Revenue Act of 1936 and the Agricultural Adjustment Act show on their face that satisfaction of the tax by tax-payment warrants was intended as payment.
2. The legislative history of the sections of the Agricultural Adjustment Act dealing with tax-payment warrants shows that Congress intended that a tax satisfied by such warrants be considered for all purposes as paid.
(Decision by the Board dated July 29, 1940, signed by John W. Edwards, Member.)

Arkansas State Rice Milling Company

v.

Docket No. 117

Commissioner of Internal Revenue

Issue	}	Same as in above.
Decision		
and		
Dissent		

(Decision by the Board dated July 29, 1940, signed by H. Stewart McDonald, Member.)

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El Campo Rice Milling Co., Inc.
v.
Commissioner of Internal Revenue.

Docket No. 20

Issue	}	Same as in above.
Decision		
and		
Dissent		

(Decision by the Board dated July 29, 1940,
signed by H. Stewart McDonald, Member.)

Jack J. Croft
v.
Commissioner of Internal Revenue.

Docket No. 265.

Issue: Should the petition be dismissed for failure to
comply with Rules 4, 5, 6 and 7 of the Rules of
Practice and Procedure before the Board? An
imperfect petition was filed.

Decided in favor of the Government.
(Order of dismissal by the Board dated July 30, 1940,
signed by Charles West, Member.)

No dissents.

The Hub, Inc.
v.
Commissioner of Internal Revenue.

Docket No. 278.

Issue	}	Same as in above.
Decision		
and		
Dissent		

J. Manly Smith
v.
Commissioner of Internal Revenue

Docket No. 284.

Issue	}	Same as in above.
Decision		
and		
Dissent		

- 3 -

Ramon Suriaga**v.****Commissioner of Internal Revenue.****Docket No. 194.**

Issue: Should the petition be dismissed for failure to comply with Rules 4, 5, and 6 of the Rules of Practice and Procedure before the Board? An imperfect petition was filed on September 12, 1939. On January 5, 1940, the petition was dismissed for failure to comply with the Board's rules. On March 20, 1940, the Board on petitioner's motion extended the time allowed to comply with its rules.

Decided in favor of the Government.
(Order of dismissal by the Board dated July 21, 1940, signed by Charles West, Member.)

No dissents.

DECISIONS REVIEWED BY THE BOARD OF TAX APPEALS
RECEIVED DURING WEEK ENDING AUGUST 1, 1940

1939, 92800) George H. Whiteley, Jr., 42 B.T.A. No. 61 (Income Tax) Opinion
of Mr. Disney.

Issue 1: Was petitioner in substance the grantor of a trust created which was in form created by his wife, where the corpus thereof was owned by him prior to the creation of the trust?

Yes - decided in favor of the Government; consequently petitioner is taxable on the income under Sec. 166 because as designated beneficiary of trust he was (a) entitled to all of the net income of the trust; (b) could, with the consent of nominal settlor (wife) require trustee to distribute to him amounts of principal for his maintenance, support, enjoyment, etc; (c) could vote and exchange the stock; (d) exercise power of appointment on the corpus by will; (e) sell, exchange, etc. property of trust. Also taxable under Sec. 167 on income used to pay insurance on his life.

Issue 2: Is petitioner taxable on income of irrevocable trusts created for benefit of his children, the trusts providing that income thereof was to be distributed to donor to be used solely for children's maintenance, support, education and enjoyment and if not so used to be invested but during taxable year income was not distributed but became part of corpus?

Yes - decided in favor of the Government. If trust income may in discretion of grantor be distributed to him, it is taxable to him whether distributed or not. Sec. 167(a)(2). Henry A. Loeb, 40 B.T.A. 517. The restriction (that it should be used only for education, maintenance, etc.) entailing only what would cause grantor's taxability under Douglas v. Willcuts, 296 U.S. 1, does not prevent application of rule in Loeb case. Also, since income could be spent for "enjoyment" of minors, which is not legal obligation of father, no difference from a mere distribution to grantor.

Dissent: Members Murdock and Mallott.

Dissent: Mr. Leech (Members Smith, Van Fossan & Tyson agree) - Grave doubt as to correctness of majority decision on first issue.

Conclusion on second issue inconsistent with other Board decisions. Grantor is taxable only on income actually received and used to discharge his legal obligations. Fact that discretion to distribute income vested in grantor and not in trustee unimportant. Loeb case inapplicable. Here use of income was restricted to that of meeting grantor's legal obligation and since it was not received or used it is not taxable to him.

Case: Mrs. Alice Easterson, 42 B.T.A. No. 42. (Gift Tax) Opinion by Mr. Turner.

Here husband and wife, owning community property, executed a joint will and covenant providing that the survivor should receive a life interest in the entire community estate with remainders over to their six children, and after husband's death, petitioner (wife) executed an instrument of transfer releasing to her children all of her interest in one-half of the original community estate, what property right of wife was released - what constituted the subject matter of gifts to the children?

Called in favor of the Government. A full life interest in one-half of the original community estate.

Court rejected petitioner's contention that upon her husband's death and her acceptance of benefits under the will, she was divested of all rights in and to her one-half interest in the community estate except those provided for in joint will and covenant, and under that instrument she had no right except to support and maintenance which she termed limited life estate; and that relinquishment thereof to remaindermen did not constitute taxable gift.

Held that although joint will and covenant could have been revoked by mutual consent during joint lives of makers, after husband's death and petitioner's acceptance of benefits thereunder, she could not repudiate covenant to detriment of beneficiaries. Children's remainder interests became vested when husband died and petitioner accepted benefits under will and thereafter petitioner had no interest in community estate other than a full life interest. At husband's death, will operated to pass a life interest in his undivided one-half interest in community estate to petitioner with remainders in fee to the children, while as to petitioner, it operated as transfer to children of remainders in fee in her undivided one-half interest in said estate. Children's vested remainder interests in fee vested in 1931 and unaffected by fact that instrument may still operate as petitioner's will and control the disposition of other property at her death.

Dissents: Mr. Mellott (Members Smith and Harron agree) (upholding position asserted answer). Remainder interests of husband and wife did not pass to children and become vested in fee in 1931 at husband's death. Petitioner remained owner of an undivided one-half interest in fee in community property after her husband's death. Under instrument transferring her undivided one-half interest in community estate, she therefore conveyed her undivided one-half interest in fee in community property and should be taxed thereon. Mere probating of joint will does not pass interest of both makers while one survives. The surviving party to an agreement for mutual will, can revoke it after death of the first maker; hence no estate of the survivor vested under the will; all that vests in such case is right to enforce the contract against survivor.

July 8-1-40

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 2, 1940

TO Secretary Morgenthau
FROM Mr. White

Subject: The Work of the Habana Conference

OBJECTIVES:

The American delegation sought action on three lines:

- (a) To provide safeguards against possible changes in ownership and administration of European-held territories in this hemisphere.
- (b) To reduce the effectiveness of subversive activity by totalitarian powers in Latin America.
- (c) To reach agreement on a statement of general principles on the economic side, with a view to subsequent implementation to check economic penetration by totalitarian powers.
- (d) In addition, the occasion was provided to canvass informally the situation regarding commodity surpluses and to get first-hand up-to-date information on the economic situation.

ACCOMPLISHMENTS:

- (a) The American delegation succeeded in getting the Conference to approve a satisfactory declaration on the subject of European-held territories in this hemisphere, despite the considerable resistance of Argentina and certain other countries. The Argentine signature requires the approval of the Government in Buenos Aires, and ratification similarly is required in other countries. (See appendix, attached, for gist of declaration.)
- (b) The agreement regarding subversive activity is an important step in the right direction, although I do not know whether the State Department got all it hoped for.

- (c) The statement on economic principles is substantially as desired by the United States. (See appendix, Page 2, for outline of resolutions.)

COMMITMENTS:

- (a) I do not know whether Secretary Hull or Mr. Berle made any commitments on the economic side in order to win agreement on the "Act of Habana". I believe that they did not go beyond the assurance that proposals for economic and financial cooperation would be given careful and sympathetic consideration in Washington.
- (b) Secretary Hull and Mr. Berle were quite pleased with your telegram regarding possible use of the Stabilization Fund and I am sure it helped.
- (c) At the request of Secretary Hull and Mr. Berle, I had long conversations with delegates from Brazil, Argentina, Chile, Peru, Colombia and Mexico, and brief conversations with technical men from some of the other countries. Information not otherwise available was obtained and some progress was made in clarification of the economic problems confronting the Americas. Naturally, I made no commitments of any kind but offered no discouragement to their hopes for assistance from the United States.

The Immediate Future:

Several delegations indicated that they expected to proceed to Washington to enter into discussions of economic cooperation. The Treasury will probably be asked to undertake discussions regarding possible operations for currency stabilization. Accordingly, we are preparing surveys of the situations in individual countries which will be of use when the subject comes up. Among the countries which are expected to propose cooperative action in the near future are Brazil, Chile, Argentina, Colombia and Mexico.

(Appendix)

The Gist of the Declarations:

1. On the political side, the "Act of Habana" declares that when areas in this hemisphere now held by non-American states are in danger of becoming subject-matter of exchange of sovereignty, the American nations may establish regions of provisional administration, for the defense of the continent and for the benefit of the areas; when the emergency has passed the areas would revert to original status or be organized into autonomous territories.

It is specifically stated that transfer of interests would not be recognized and the American nations reserve the right to judge if a transfer or intent to transfer may impair the political independence of such regions even if no formal change occurs.

An emergency committee of one representative per nation shall be set up and come into being as soon as two-thirds of the nations name their representatives.

But where immediate action is needed and action by the committee cannot be waited on, any American nation may act individually as its defense or continental defense requires. This appears to give the United States the privilege of intervening when a European possession is threatened with totalitarian control. In other words, it whitewashes the protective seizure by the United States of such European possessions as the United States may deem essential to preserving the status quo in this hemisphere.

Administration may be executed by one or more American states. Any country is free to stand aside from the actual measures taken. Some details of administration are stated, as for example: no condition of privilege for particular nations shall be created by the administrator; natives of the administered regions shall be allowed to participate in administration; rights under local laws and customs shall be continued where possible.

Division of Monetary
Research

2. On the subject of subversive propaganda, each republic agreed to take suitable action within its country to suppress subversive activity, to consult regarding a menace of subversive activity when the State directly interested requests it, and to exchange information on such activity.
3. On the economic side, the declaration reaffirms adherence to liberal principles of peaceful international trade, looking forward to the day when such doctrine might be embraced by non-American nations but urging in the meantime closer inter-American cooperation towards a stronger inter-American economy as a unit.

The Inter-American Financial and Economic Advisory Committee, which has been meeting in Washington since the Panama Conference of 1939, is charged with making recommendations along several lines, as follows:

Greater use of surplus commodities within the country producing the surplus and more effective interchange of surpluses among American nations, including humanitarian distribution of a portion if found feasible;

Promotion of orderly marketing while protecting normal trade channels; means of raising standard of living;

Stimulation of flow of developmental capital, especially by joint enterprises in whose capital and administration two or more republics participate, with the recommendation that the Inter-American Bank give such enterprises favorable consideration.

Among the suggestions rejected was one referring to ownership of European-owned utilities in the event of a German victory.

Copies of the Final Act of the Conference are attached.

DEPARTMENT OF STATE

FOR THE PRESS

AUGUST 3, 1940
No. 364FINAL ACT

and

CONVENTION

of the

SECOND MEETING OF MINISTERS OF FOREIGN AFFAIRS
OF THE AMERICAN REPUBLICS

Habana, Cuba

July 30, 1940

CONVENTION

AND

FINAL ACT

OF THE

SECOND MEETING OF MINISTERS OF FOREIGN AFFAIRS OF
THE AMERICAN REPUBLICS, SIGNED IN THE CITY OF LA HABANA,
THE THIRTIETH DAY OF JULY, ONE THOUSAND NINE HUNDRED AND FORTY.

The Governments of the American Republics, in order that their Ministers of Foreign Affairs or their Personal Representatives might meet for purposes of consultation in accordance with agreements approved at prior Inter-American Conferences, duly accredited the Delegates hereinbelow expressed (following the order of precedence determined by lot) who met in the City of La Habana during the period comprised between the twenty-first and the thirtieth of July, one thousand nine hundred and forty, in answer to the invitation of the Government of the Republic of Cuba:

HONDURAS

His Excellency Silverio Laino, Personal Representative of
His Excellency The Minister of Foreign Affairs.

HAITI

His Excellency León Lalou, Secretary of State for Foreign
Affairs.

COSTA RICA

His Excellency Luis Anderson Morúa, Personal Representative of
His Excellency The Secretary of Foreign Affairs.

MEXICO

His Excellency Eduardo Suárez, Personal Representative of
His Excellency The Secretary of Foreign Affairs.

ARGENTINA

His Excellency Leopoldo Melo, Personal Representative of
His Excellency The Minister of Foreign Affairs.

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URUGUAY

His Excellency Pedro Manini Rios, Personal Representative of
His Excellency The Minister of Foreign Affairs.

ECUADOR

His Excellency Julio Tobar Donoso, Minister of Foreign Affairs

BOLIVIA

His Excellency Enrique Finot, Personal Representative of
His Excellency The Minister of Foreign Affairs

CHILE

His Excellency Oscar Schnake, Personal Representative of
His Excellency The Minister of Foreign Affairs

BRAZIL

His Excellency Mauricio Nabuco, Personal Representative of
His Excellency the Minister of Foreign Affairs.

CUBA

His Excellency Miguel Angel Campa, Secretary of State.

PARAGUAY

His Excellency Tomás A. Salomoni, Minister of Foreign Affairs.

PANAMA

His Excellency Narciso Garay, Secretary of Foreign Relations and
Communications.

COLOMBIA

His Excellency Luis López de Mesa, Minister of Foreign Affairs.

VENEZUELA

His Excellency Diógenes Escalante, Personal Representative of
His Excellency The Minister of Foreign Affairs

EL SALVADOR

His Excellency Héctor Escobar Serrano, Personal Representative of
His Excellency The Minister of Foreign Affairs.

DOMINICAN REPUBLIC

His Excellency Arturo Despradél, Secretary of State for
Foreign Affairs.

PERU

His Excellency Lino Cornojo, Personal Representative of
His Excellency The Minister of Foreign Affairs.

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NICARAGUA

His Excellency Mariano Argüelles, Minister of Foreign Affairs.

GUATEMALA

His Excellency Carlos Salazar, Secretary of Foreign Affairs.

UNITED STATES OF AMERICA

His Excellency Cordell Hull, Secretary of State.

The Meeting held its inaugural session on the twenty-first day of July, One thousand nine hundred and forty, at four o'clock in the afternoon, in the Hall of Sessions of the House of Representatives, in the National Capitol, in the presence of His Excellency Dr. Federico Laredo Bru, President of the Republic of Cuba, under the provisional presidency of His Excellency Miguel Angel Campa, Secretary of State, with Dr. Cosar Salaya y de la Fuente, acting as Secretary General.

The Regulations for the Meeting were approved by the Governing Board of the Pan American Union at a session held the twenty-ninth day of June, One thousand nine hundred and forty, and the Agenda at a session held by the same body on the fifth day of the current month.

The aforesaid Regulations and Agenda were ratified by the Meeting in the preliminary session held the twenty-second of July, One thousand nine hundred and forty, at ten o'clock in the morning.

At the Plenary Session held the same day at four o'clock in the afternoon, Dr. Miguel Angel Campa, Secretary of State of the Republic of Cuba, was elected Permanent President of the Meeting.

In compliance with the provisions of Articles VII and VIII of the Regulations, the following Committees were created: Credentials, Coordination, Neutrality, Preservation of Peace in the Western Hemisphere and Economic Cooperation. For the constitution of the latter three Committees the division in three parts or chapters of the Agenda of the Meeting was taken into consideration.

At the same Preliminary Session at which the Regulations were ratified, the members of the above-mentioned five Committees were appointed, as follows:

COMMITTEE ON CREDENTIALS:

Their Excellencies:

Narciso Garay, (Panama)
Tomas A. Solomoni, (Paraguay)
Carlos Salazar, (Guatemala)
Eduardo Escobar, (El Salvador)
Silverio Lainez, (Honduras)

COMMITTEE ON COORDINATION:

Their Excellencies:

Leopoldo Melo, (Argentina)
Mauricio Nabuco, (Brazil)
Cordell Hull, (United States of America)
Leon Laleau, (Haiti)

COMMITTEE ON NEUTRALITY:

Their Excellencies:

Leopoldo Melo, (Argentina)
Luis Anderson, (Costa Rica)
Oscar Schnake, (Chile)
Pedro Manini Rios, (Uruguay)
Enrique Finot, (Bolivia)
Carlos Salazar, (Guatemala)
Silverio Lainez, (Honduras)

COMMITTEE ON PRESERVATION
OF PEACE IN THE WESTERN HEMISPHERE:

Their Excellencies:

Cordell Hull, (United States of America)
Diógenes Escalante, (Venezuela)
Mauricio Nabuco, (Brazil)
Julio Tobar Donoso, (Ecuador)
Arturo Despradel, (Dominican Republic)
Tomas A. Salomoni, (Paraguay)
Narciso Garay, (Panama)

COMMITTEE ON ECONOMIC COOPERATION

Their Excellencies:

Eduardo Suárez, (Mexico)
Luis Lopez de Mesa, (Colombia)
Lino Cornajeo, (Peru)
Mariano Argüelles, (Nicaragua)
Leon Laleau, (Haiti)
Hector Escobar Serrano, (El Salvador)
Miguel Angel Campa, (Cuba)

At the same Preliminary Session already mentioned, it was unanimously resolved that the Committee referred to in Article VI was to be made up by the Ministers of Foreign Affairs of the American Republics or their Personal Representatives.

It was likewise resolved that the Delegations that presented projects corresponding to matters pertaining to any of the three last mentioned Committees, had the right to belong to the corresponding Committee, as ex-officio members.

The Second Meeting of the Ministers of Foreign Affairs of the American Republics approved the following Votes, Motions, Declarations, Recommendations and Resolutions:

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I.

INTER-AMERICAN NEUTRALITY COMMITTEE

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

ONE: To urge the Inter-American Neutrality Committee to draft a preliminary project of Convention dealing with the juridical effects of the Security Zone and the measures of international cooperation which the American States are ready to adopt to obtain respect for the said Zone.

TWO: To entrust the Inter-American Neutrality Committee, which functions at Rio de Janeiro, with the drafting of a Project of Inter-American Convention which will cover completely all the principles and rules generally recognized in International Law in matters of neutrality, and especially those contained in the Resolutions of Panama, in the individual legislation of the different American States, and in the recommendations already presented by the same Committee.

THREE: When the aforementioned Project has been drafted, it shall be deposited in the Pan American Union, in order to be submitted for the signature, adhesion and ratification of the respective Governments of the American Republics.

FOUR: Pending the drafting, acceptance and ratification of the Project, it is recommended that the American States adopt in their respective legislation concerning neutrality, the principles and rules contained in the Declarations of Panama and in the Recommendations already drafted, or which may hereafter be drafted by the Inter-American Neutrality Committee, it being suggested that the incorporation of the said Resolutions and Recommendations in the respective legislations be made, in so far as practicable, in a codified and joint form.

FIVE: To direct that the aforementioned Inter-American Neutrality Committee submit, whenever it may deem advisable, its Recommendations direct to the Governments of the American Republics, provided, however, that it shall report also concerning them to the Pan American Union.

SIX: To recommend that the Pan American Union circulate, among the Governments of the American States, the minutes of the Inter-American Neutrality Committee of Rio de Janeiro, and that the minutes be published by the Pan American Union, when the said Committee deems it opportune.

SEVEN: That the Inter-American Neutrality Committee may function with the attendance of a minimum of five members, and that, whatever be the number of members present at the meetings, resolutions shall be adopted with the favorable vote of at least four members.

EIGHT: That even though the Committee is permanent in nature, it is authorized to hold periodical meetings and to adjourn for a specified time, without prejudice to the calling of extraordinary sessions by the President, when some urgent and important question is to be considered.

NOTE: To extend a vote of applause and congratulations, for its meritorious work, to the Inter-American Neutrality Committee of Rio de Janeiro, and to its members, Their Excellencies Afranio de Mello Franco, L. A. Podesta Costa, Mariano Fontecilla, A. Aguilar Machado, Charles G. Fenwick, Roberto Cordoba, Gustavo Herrera, Manuel Francisco Jimenez and S. Martinez Mercado.

II.

NORMS CONCERNING DIPLOMATIC AND CONSULAR FUNCTIONS

WHEREAS:

1. One of the bases of the spiritual unity of the Americas has its roots in the firm adherence by the peoples of the Continent to the principles of international law.
2. The American republics on February 20th, 1928 signed, at Habana, a Convention on diplomatic officers which contains the principles generally accepted by all nations.
3. The said Convention establishes, among others, the following principles:
 - (a) Foreign diplomatic officers shall not participate in the domestic or foreign politics of the state in which they exercise their functions.
 - (b) They must exercise their functions without coming into conflict with the laws of the country to which they are accredited.
 - (c) They should not claim immunities which are not essential to the fulfillment of their official duties.
 - (d) No state shall accredit its diplomatic officers to other states without previous agreement with the latter.
 - (e) States may decline to receive a diplomatic officer from another, or, having already accepted him, may request his recall without being obliged to state the reasons for such a decision.

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

To urge the Governments of the American Republics to prevent, within the provisions of international law, political activities of foreign diplomatic or consular agents, within the territory to which they are accredited, which may endanger the peace and the democratic tradition of America.

III.

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III.

COORDINATION OF POLICE AND JUDICIAL
MEASURES FOR THE DEFENSE OF SOCIETY
AND INSTITUTIONS OF EACH AMERICAN
STATE

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WHEREAS:

1. The First Meeting of Foreign Ministers of the American Republics held at Panama, approved on October 3, 1939 a recommendation on the coordination of police and judicial measures for the maintenance of neutrality, article 1 of which states as follows:

"That action be taken, as soon as possible, through an exchange of views between the Foreign Offices, or through an Inter-American conference, for the formulation between themselves of coordinated rules and procedure of a useful, opportune and effective manner, that will facilitate the action of the police and judicial authorities of the respective countries in preventing or repressing unlawful activities that individuals, whether they be nationals or aliens, may attempt in favor of a foreign belligerent State."

2. Experience has shown that it is not only desirable to formulate such rules and procedure with reference to neutrality, but it has also demonstrated the need to organize in the most effective manner possible the defense of society and of the institutions of each State not only against common crimes, but likewise with respect to certain unlawful activities which may affect them;

3. Such defense must be undertaken by the authorities of each State, but its efficiency depends to a large extent upon a common orientation, as uniform as possible, as well as upon an adequate and constant cooperation between such authorities;

The Second Meeting of the Ministers of Foreign Affairs of the American Republics,

RESOLVES:

ONE: The Governing Board of the Pan American Union shall convoke the States which are Members of the Union to an international conference at such place and date as it may determine to draft the international conventions and recommendations which it deems necessary to assure through the action of the proper authorities in each State, and through the coordination of such action with that of other States in the Continent, the most complete and effective defense against acts of an unlawful character, as well as against any other unlawful activities which may affect the institutions of American States.

TWO: In the said conference, each State shall be represented by a jurist with plenipotentiary powers accompanied, if deemed advisable, by experts on matters pertaining to the police authorities.

THREE:

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THREE: Before the conference is convoked, the Pan American Union shall undertake the preparatory work by means of an inquiry among the Governments of the Continent with regard to the existing legislative or administrative provisions, as well as with respect to their opinions on the various topics which it is deemed advisable to consider.

IV.

INTER-AMERICAN LEAGUE OF NATIONAL RED CROSS SOCIETIES

WHEREAS:

It is America's unavoidable duty, for reasons of human solidarity, to contribute to the alleviation of the suffering and misery of victims of war,

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RECOMMENDED:

That the Fourth Pan American Red Cross Conference, which will meet at Santiago de Chile next December, consider the desirability of organizing, along the general lines of the League of National Red Cross Societies, an Inter-American League of National Red Cross Societies, which shall coordinate the action of the said Red Cross Societies of the American countries and the cooperation of the Inter-American League and its Executive Committee with the League and the International Committee of the Red Cross.

V.

PRECAUTIONARY MEASURES WITH REFERENCE TO THE ISSUANCE OF PASSPORTS

WHEREAS:

1. A Passport is essentially an identification document which accredits in foreign countries the holder thereof as a national of the country which issues it;
2. Such document has an eminently international character, inasmuch as its possessor uses it solely as a document of identification outside the territory of his country of origin or of adoption;
3. The States of the American Continent must exercise the utmost care in issuing passports for the use of their respective nationals, in order that they may find greater facilities in traveling through the countries of America;
4. It is their duty to prevent the use of counterfeit passports,

The

-9- The Second Meeting of the Ministers of Foreign Affairs
of the American Republics, 210

RESOLVES:

ONE: To recommend to the Governments of the American Republics the adoption of the precautionary measures in the issuance of passports which each deems appropriate.

TWO: To recommend to the countries of America the adoption of uniform punitive measures against the use of counterfeit or altered passports or passports of more than one country.

VI.

ACTIVITIES DIRECTED FROM ABROAD AGAINST
DOMESTIC INSTITUTIONS.

The Second Meeting of Foreign Ministers of the American Republics,

RESOLVES:

ONE: That having in mind the equal concern and equal responsibility of the American Republics for the preservation of the peace and security of the hemisphere, each one of the Governments of the American Republics shall adopt within its territory all necessary measures in accordance with its constitutional powers to prevent and suppress any activities directed, assisted or abetted by foreign governments, or foreign groups or individuals, which tend to subvert the domestic institutions, or to foment disorder in their internal political life, or to modify by pressure, propaganda, threats, or in any other manner, the free and sovereign right of their peoples to be governed by their existing democratic systems.

In the event that the peace of any of the American Republics is menaced by such activities, the respective Governments agree that they will immediately consult together, if the State directly interested wishes to request it, taking into account the provisions of this resolution and the special circumstances which may affect the peace or the tranquility of the American Republics.

The American Republics being juridically equal as sovereign and independent states, each shall act in its individual capacity in any steps undertaken in this connection.

TWO: In order to make such consultation more efficacious, the governments of the American Republics further declare that the fullest interchange of information between them is essential with regard to the aforementioned activities within their respective jurisdictions.

THREE: The governments of the American Republics agree that any government which obtains information purporting to show that activities of the aforementioned character are

taking

-12- taking place, or are threatening to take place, within the territory of one or more of the American Republics, shall at once communicate in the strictest confidence to the Foreign Minister of such nation or nations the information so obtained. 2 //

FOUR: The governments of the American Republics declare that, under existing world conditions, the fullest interchange between them of all information of the character described, is in the common interest of them all, and will assist in the preservation of the peace and integrity of the Americas.

VII.

DIFFUSION OF DOCTRINES TENDING TO PLACE IN JEOPARDY THE COMMON INTER-AMERICAN DEMOCRATIC IDEAL OR TO THREATEN THE SECURITY AND NEUTRALITY OF THE AMERICAN REPUBLICS.

WHEREAS:

1. At the first Meeting of Foreign Ministers held at Panama the American Republics once more affirmed their adherence to the democratic ideal that prevails in this Continent, considering that this ideal might find itself endangered by virtue of the action of foreign ideologies inspired by diametrically opposed principles;

2. That the "General Declaration of Neutrality of the American Republics", signed at Panama on October 3, 1939, recognized as one of the principles of neutrality, admitted by the American States, that they "shall prevent in accordance with their internal legislation, the inhabitants of their territories from engaging in activities capable of affecting the neutral status of the American Republics";

3. The Convention on the rights and duties of states in the event of civil strife was signed at the Sixth International Conference of American States at Habana in 1928, which has been ratified by the majority of the American States;

4. The exclusion of foreigners from the enjoyment and exercise of strictly political right is a general rule of internal public law incorporated in the constitutions and laws of states;

5. The Sánchez de Bustamante Code of Private International Law, accepted and put into force through the Convention concluded and signed at the Sixth Inter-American Conference on February 20, 1928, establishes an identical rule excepting, of course, special provisions contained in the internal legislation of the American States;

6. The aforesaid exclusion from the enjoyment of political rights implies the tacit prohibition for foreigners to engage in political activities within the territory of the state in which they reside;

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7. The present European conflict has revealed the existence of foreign political organizations in certain neutral states with the deliberate purpose of making attempts against public order, the system of government and the very personality of such states;

8. Such foreign political organizations would constitute in the American States a denial of the latter's democratic institutions, a menace to their right of self-preservation and a threat of violation of their regime of neutrality, and

9. In order to protect the security and neutrality of the American Republics in so far as they might be affected by illicit activities on the part of individuals or associations, either national or foreign, tending to foment civil strife or internal disturbances and to propagate subversive ideologies, it is advisable to coordinate the measures which may be adopted either in common or individually to combat these dangers.

The Second Meeting of Ministers of Foreign Affairs of the American Republics

RESOLVES:

ONE: To reiterate the recommendation made at the First Consultative Meeting held at Panama to the effect that the Governments of the American Republics "take the necessary measures to eradicate from the Americas the spread of doctrines that tend to place in jeopardy the common inter-American democratic ideal", and also that they take the measures which may be advisable to prevent any activities susceptible of jeopardizing American neutrality.

TWO: To recommend to the Governments of the American Republics the following rules with respect to civil strife, internal disturbances, or the spread of subversive ideologies:

(a) To use the necessary means to prevent the inhabitants of their territory, nationals or aliens, from participating in, collecting supplies, crossing the boundary or sailing from their territory for the purpose of starting or promoting civil strife, internal disturbances, or spreading subversive ideologies in another American country;

(b) To disarm and intern every rebel force crossing their boundaries. There shall be observed, in so far as they are applicable, the rules of internment drafted by the Inter-American Neutrality Committee at Rio de Janeiro;

(c) To forbid the traffic in arms and war material, except when intended for the government, unless the belligerency of the rebels has been recognized, in which latter case the rules of neutrality shall be applied, and

(d) To prevent that within their jurisdiction there be equipped, armed or adapted for warlike purposes any vessel intended to operate in favor of the rebellion.

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THREE: To reiterate the recommendation of the First Consultative Meeting, held at Panama, to the effect that action be taken, as soon as possible for the adoption of the rules and procedure that may be judged useful to facilitate the action of the police and judicial authorities of the respective countries in repressing unlawful activities that individuals, either nationals or foreigners, may attempt at any time in favor of a foreign state.

FOUR: To recommend to the Governments of the American States that they adopt the following legislative or administrative norms, without prejudice to the respect due to their individual and sovereign right to regulate the juridical status of foreigners;

(a) Effective prohibition of every political activity by foreign individuals, associations, groups or political parties, no matter what form they use to disguise or cloak such activity;

(b) Rigorous supervision of the entry of foreigners into national territory, particularly in the case of nationals of non-American States;

(c) Effective police supervision of the activities of foreign non-American groups established in the American States;

(d) Creation of an emergency penal system for the offenses set forth in this article.

FIVE: To encourage the reciprocal communication, directly or through the Pan American Union, of information and data concerning the entry, rejection and expulsion of foreigners and the adoption of the preventive and repressive measures provided for in the previous article;

SIXTH: Any of the American Republics directly affected by the activities referred to in this Resolution may initiate the procedure of consultation.

VIII.

PROJECT ON EXTENSION OF TERRITORIAL WATERS

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

That the project presented by the Delegation of Uruguay, concerning the extension of territorial waters, together with the modifications introduced by the present Consultative Meeting be transmitted for study to the Committee of Experts for the Codification of International Law; and that there also be requested the opinion of the Inter-American Neutrality Committee at Rio de Janeiro regarding the same project.

IX.

IX.

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PROJECT ON REFUGEES

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

That the projects presented to the Meeting by the Delegations of Argentina, Uruguay and Mexico (Projects Nos. 35, 36 and 42) concerning refugees and assistance to minors proceeding from evacuated areas be referred for consideration to the Pan-American Union.

X.

TRANSOCEANIC RAILWAY BETWEEN ARICA AND SANTOS
BY WAY OF BOLIVIA

The Second Meeting of Foreign Ministers of the American Republics

RESOLVES:

To recognize the importance and usefulness for continental defense of the Arica (Chile)-Santos (Brazil) transoceanic railway, through Bolivia, and to recommend to the American nations, especially to those directly interested in the project, the advisability of proceeding as soon as possible with the financing of the section still to be constructed.

XI.

CODIFICATION OF INTERNATIONAL LAW

WHEREAS:

1. The Eighth International Conference of American States approved several resolutions with the purpose of coordinating, intensifying and accelerating the work of codification of international law in America;

2. The said Conference also adopted other resolutions on the coordination and improvement of the inter-American peace instruments;

3. According to historical tradition and the most profound convictions of the American peoples it is urgent at this time, when the bases of law and of pacific relations among peoples are the object of serious attacks, that the nations of America once again reaffirm their effective support of the principles of international law and of the pacific settlement of international controversies and prove their firm intention to work for the maintenance and preservation of those principles

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

RESOLVES:

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ONE: To recommend to the Governments of the American Republics that they adopt the necessary measures to carry out the resolutions approved by the Eighth International Conference of American States relative to the codification of international law and the improvement and coordination of the inter-American peace instruments.

TWO: To urge the various organizations in charge of the study of matters to which the above-mentioned resolutions refer, to submit, as soon as possible, their recommendations and observations so that the Governing Board of the Pan-American Union may convoke the meeting of the International Conference of American Jurists within the next two years.

THREE: To request the Pan-American Union to communicate the present resolution to all Governments members of the Union, together with a report on the present status of the work provided for in the above-mentioned resolutions of the Eighth Conference.

XII.

PROMOTION OF CONTINENTAL SOLIDARITY

WHEREAS:

The sentiment of solidarity between the American Republics constitutes a genuine force for continental defense, to which all of them should lend unreservedly their maximum cooperation, removing any obstacle that might jeopardize this principle of American public law, in order that no State of this Continent may find itself deterred from offering its fullest and most decided cooperation, both in the political and economic fields, to the fulfillment of that ideal;

The Second Meeting of the Ministers of Foreign Affairs of the American Republics,

RESOLVES:

To recommend to the American States that in any case in which internal legislation or contractual acts in force constitute a hindrance to the fullest cooperation which a State should lend to the principle of continental solidarity, it initiate, through legal means, the revision of such acts, in so far as this may be possible.

XIII.

HOSTILE ACTS IN TERRITORIAL WATERS AND IN THE SECURITY ZONE

WHEREAS:

1. At the First Meeting of Foreign Ministers held at Panama for the purpose of preserving peace, the neutrality

of the American Republics was established, during the war begun in Europe; the irrevocable purpose was asserted of complying strictly with those duties within the principles of International Law and the clauses of the Conventions codifying them, and due respect was demanded for the situation created by those norms;

2. Within this purpose of maintaining security on this Continent, a maritime zone, adjacent to the territorial area of each nation was established, excluding such zone from hostile acts from the land, sea, or air;

3. In the hostilities, belligerency has transgressed the principles of International Law, has disregarded the duties imposed by neutrality, and has also brought about hostile acts, not only in the zone excluded by the XV Resolution of Panama, but also contrary to sovereignty in the maritime zone of some of the Republics;

4. Without prejudice to the juridical procedure and settlement which should be given in each case to the claims raised because of these transgressions, it is necessary and opportune that the voice of the Republics of America condemn them and state the irrevocable purpose of practicing and demanding respect to the fullest extent for the norms regulating the existence of the international community;

THE SECOND MEETING OF FOREIGN MINISTERS OF THE
AMERICAN REPUBLICS

DECLARES:

ONE: That it condemns hostilities within territorial waters, as contrary to the right of sovereignty of the nation having jurisdiction over them and to the tenets of International Law.

TWO: That it considers such hostilities within the Security Zone to be prejudicial to the votes and joint resolutions of the Republics of America for the preservation of peace on this Continent.

XIV.

THE PEACEFUL SOLUTION OF CONFLICTS

WHEREAS:

In behalf of the closest possible unity of the Continent, it is imperative that differences existing
between

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between some of the American nations be settled.

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

To recommend to the Governing Board of the Pan American Union that it organize, in the American capital deemed most suitable for the purpose, a committee composed of representatives of five countries, which shall have the duty of keeping constant vigilance to insure that States between which any dispute exists or may arise, of any nature whatsoever, may solve it as quickly as possible, and of suggesting, without detriment to the methods adopted by the parties or to the procedures which they may agree upon, the measures and steps which may be conducive to a settlement.

The Committee shall submit a report to each Meeting of the Ministers of Foreign Affairs and to each International Conference of American States regarding the status of such conflicts and the steps which may have been taken to bring about a solution.

XV.

RECIPROCAL ASSISTANCE AND COOPERATION FOR THE
DEFENSE OF THE NATIONS OF THE
AMERICAS

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

DECLARES:

That any attempt on the part of a non-American State against the integrity or inviolability of the territory, the sovereignty or the political independence of an American State shall be considered as an act of aggression against the States which sign this declaration.

In case acts of aggression are committed or should there be reason to believe that an act of aggression is being prepared by a non-American nation against the integrity or inviolability of the territory, the sovereignty or the political independence of an American nation, the nations signatory to the present declaration will consult among themselves in order to agree upon the measure it may be advisable to take.

All

-16- All the signatory nations, or two or more of them, according to circumstances, shall proceed to negotiate the necessary complementary agreements so as to organize cooperation for defense and the assistance that they shall lend each other in the event of aggressions such as those referred to in this declaration. 218

XVI.

MAINTENANCE OF PEACE AND UNION AMONG THE
AMERICAN REPUBLICS

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

DECLARES:

ONE: That the Governments of the American Republics are irrevocably determined to maintain and strengthen their union, in order that America may fulfill its high mission on behalf of civilization;

TWO: That they will, therefore, omit no effort to prevent any controversy which might impair their solidarity;

THREE: That they will also make every effort to settle in a friendly manner and as soon as possible the differences which exist between them, in order that their reciprocal confidence and their cooperation for continental defense against any foreign aggression may be further strengthened;

FOUR: That they reaffirm their strong desire to avoid the use of force in this continent as a means of solving differences between nations and, therefore, to resort exclusively to juridical and pacific methods;

FIVE: That they consider it essential to extend the sphere of action of these methods, so that in all cases they may be decisively effective for the preservation of peace;

SIX: That they will, likewise, make every effort to the end that these principles and aspirations may be adopted in the relations between the nations of America and those of other continents.

SEVEN: That during the present period of hostilities they will strive for the maintenance of law and justice, in accordance with the declaration of Panama;

EIGHT: That they vehemently desire that peace be established on bases which will be lasting and inspired by the common welfare of all peoples;

NINE: That they are disposed to maintain international relations on juridical bases resting on the solid foundation of moral forces, in order to reestablish definitely the bonds of human community; and

TEN:

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TEN: That, faithful to their ideals, they will coordinate their own interests with the duties of universal cooperation.

XVII

PROCEDURE ON CONSULTATION

WHEREAS:

1. It is incumbent upon the present Meeting, as provided in paragraph 3 of Chapter II of the Agenda, to examine the functioning of the System of Consultation among the Governments of the American Republics established by the resolutions of the Inter-American Conference for the Maintenance of Peace and of the Eighth International Conference of American States, for the purpose of suggesting measures susceptible of perfecting it;

2. The high motives which led the American Republics to put the aforementioned system into effect, will continue to make advisable the convoking of other Meetings such as those of Panama and of Habana, whenever the lofty interests of the Continent so require;

3. Future Meetings, as in the case of the present one, will have to be convoked under the pressure of events and under emergency conditions which will make it difficult and inadvisable to determine in advance the most appropriate time and country for the Meeting;

4. Prior to the First and the Second Consultative Meetings, the experience and knowledge of the Governing Board of the Pan American Union was resorted to, and in convoking future Meetings, it would be advisable to take advantage of the collaboration of that body.

The Second Meeting of the Ministers of Foreign Relations of the American Republics,

RESOLVES:

ONE: The Government which desires to initiate consultation in any of the cases contemplated in the Conventions, Declarations and Resolutions of the Inter-American Conferences, and to propose a Meeting of the Ministers of Foreign Relations or of their representatives, shall address the Governing Board of the Pan American Union indicating the questions with which it desires the consultation to deal, as well as the approximate date on which the Meeting should be held.

TWO: The Governing Board shall immediately transmit the request, together with a list of the subjects suggested, to the other Governments' members of the Union, and invite the observations and suggestions which the respective Governments may desire to present.

THREE: On the basis of the answers received, the Governing Board of the Pan American Union will determine the date for the Meeting, prepare the appropriate Agenda, and adopt, in

accordance

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accordance with respective Governments, all other measures advisable for the preparation of the Meeting.

FOUR: The Governing Board of the Pan American Union shall proceed to draft regulations for Consultative Meetings which shall be submitted to all the American Governments for their approval.

FIVE: The Third Meeting of the Ministers of Foreign Relations of the American Republics will be held at Rio de Janeiro, the capital of Brazil.

SIX: After the next Meeting, the designation of the country where each Consultative Meeting shall be held, shall be made by the Governing Board of the Pan American Union in accordance with the procedure set forth in the present Resolution.

XVIII.

RELATIONS BETWEEN THE GOVERNMENTS OF CHILE
AND SPAIN

The Second Meeting of Ministers of Foreign Relations of the American Republics,

Pursuant to the declaration of Continental Solidarity proclaimed at the Eighth Pan American Conference held at Lima and ratified at the Consultative Meeting at Panama in 1939,

DECLARES:

That it has followed with concern the conflict which has arisen between Chile and Spain, and that, notwithstanding its cordial sentiments toward Spain, it expresses its lively sympathy and fraternal solidarity with the attitude assumed by the Government of Chile in defense of principles fundamental for the free peoples of America, and that it expresses its hope that the relations between the two States will be reestablished as soon as possible.

XIX.

THE QUESTION OF BELIZE

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

To express the keen desire and wishes of the American countries in favor of a just, peaceful, and prompt solution of the question of Belize between Guatemala and Great Britain.

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XX.

ACT OF HABANA CONCERNING THE PROVISIONAL ADMINIS-
TRATION OF EUROPEAN COLONIES AND POSSESSIONS
IN THE AMERICAS

WHEREAS:

1. The status of regions in this continent belonging to European powers is a subject of deep concern to all of the Governments of the American Republics;

2. As a result of the present European war there may be attempts at conquest, which has been repudiated in the international relations of the American Republics, thus placing in danger the essence and pattern of the institutions of America;

3. The doctrine of inter-American solidarity agreed upon at the meetings at Lima and at Panama requires the adoption of a policy of vigilance and defense so that systems or regimes in conflict with their institutions shall not upset the peaceful life of the American Republics, the normal functioning of their institutions, or the rule of law and order;

4. The course of military events in Europe and the changes resulting from them may create the grave danger that European territorial possessions in America may be converted into strategic centers of aggression against nations of the American Continent;

The Second Meeting of Ministers of Foreign Affairs of the American Republics,

DECLARES:

That when islands or regions in the Americas now under the possession of non-American nations are in danger of becoming the subject of barter of territory or change of sovereignty, the American nations, taking into account the imperative need of continental security and the desires of the inhabitants of the said islands or regions, may set up a regime of provisional administration under the following conditions:

(a) That as soon as the reasons requiring this measure shall cease to exist, and in the event that it would not be prejudicial to the safety of the American Republics, such territories shall, in accordance with the principle reaffirmed by this declaration that peoples of this continent have the right freely to determine their own destinies, be organized as autonomous states if it shall appear that they are able to constitute and maintain themselves in such condition, or be restored to their previous status, whichever of these alternatives shall appear the more practicable and just;

(b) That the regions to which this declaration refers shall be placed temporarily under the provisional administration of the American Republics and this administration shall be exercised with the two-fold purpose of contributing to the security and defense of the Continent, and to the economic, political and social progress of such regions and,

RESOLVES:

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RESOLVES:

To create an emergency committee, composed of one representative of each of the American Republics, which committee shall be deemed constituted as soon as two-thirds of its members shall have been appointed. Such appointments shall be made by the American Republics as soon as possible.

The committee shall meet on the request of any signatory of this resolution.

If it becomes necessary as an imperative emergency measure before the coming into effect of the convention approved by this Consultative Meeting, to apply its provisions in order to safeguard the peace of the continent, taking into account also the desires of the inhabitants of any of the above-mentioned regions, the committee shall assume the administration of the region attacked or threatened, acting in accordance with the provisions of the said convention. As soon as the convention comes into effect, the authority and functions exercised by the committee shall be transferred to the Inter-American Commission for Territorial Administration.

Should the need for emergency action be so urgent that action by the committee cannot be awaited, any of the American Republics, individually or jointly with others, shall have the right to act in the manner which its own defense or that of the continent requires. Should this situation arise, the American Republic or Republics taking action shall place the matter before the committee immediately, in order that it may consider the action taken and adopt appropriate measures.

None of the provisions contained in the present Act refers to territories or possessions which are the subject of dispute or claims between European powers and one or more of the Republics of the Americas.

XXI.

INTER-AMERICAN SANITARY COOPERATION

WHEREAS:

1. According to reports received by the meeting the principal epidemic diseases, such as bubonic plague, yellow fever and malignant malaria, which were an international menace and could be spread through international commerce, have been effectively controlled to such an extent that for all practical purposes the danger of their international propagation is believed to have been eliminated;

2. Diseases and epidemics are intensified in cases of alterations in the normal life of peoples, reaching alarming degrees whenever wars between nations are unleashed; and

3. The satisfactory results obtained have been due to effective cooperation between various countries, the Pan American Sanitary Bureau and the Rockefeller Foundation, pursuant to the sanitary treaty known as the Pan American Sanitary Code, which has been ratified by all the Governments,

The

The Second Meeting of the Ministers of Foreign Affairs
of the American Republics

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RESOLVES:

To express its satisfaction for the efficient results obtained to date and to recommend that cooperation with relation to sanitary activities continue and, as far as possible, be extended with a view to further improving sanitary, social and economic conditions, recognized as essentially interdependent and beneficial nationally as well as internationally.

XXII.

PROJECT REGARDING COOPERATION BETWEEN PAN AMERICAN
INSTITUTIONS

The Second Meeting of Ministers of Foreign Affairs of
the American Republics

RESOLVES:

That the project presented by the Dominican Delegation regarding cooperation between official Pan American institutions in defense of the continental principles of peace and democracy be transmitted for consideration to the Pan American Union.

XXIII.

PAN AMERICAN HIGHWAY

WHEREAS:

1. It has been the invariable desire of all the American Republics, expressed since the First Inter-American Conference, to make effective and practical their solidarity by means of the construction of a network of highways to unite all of their capital cities, and the satisfaction of this desire, as a result of world circumstances, has become a vital and urgent need;

2. In carrying out these aims, the American Republics signed at Buenos Aires, on December 23, 1938, at the Inter-American Conference for the Maintenance of Peace, a convention to advance the financing, the technical studies, and the construction of the highway referred to;

3. The recommendations contained in Resolution III, approved at the First Meeting of the Ministers of Foreign Affairs of the American Republics, held at Panama in 1939, included the following:

"10. To make every effort in order to complete their respective sections of the Pan American Highway and to recommend to the countries which have ratified the Buenos Aires convention that they

designate

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designate as soon as possible one or more experts to expedite the fulfillment of the recommendations of the Third Pan American Highway Congress."

4. The Pan American Highway, by promoting close relations and commerce between nations, would benefit equally all the inhabitants of the Americas; and

5. The distribution of the cost of constructing the highway among the nations which it crossed on the sole basis of the territorial extension of each country, in addition to not being equitable, makes impossible or delays indefinitely its construction;

The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

ONE: To invite the American nations which as yet have not ratified the Convention of Buenos Aires relating to the Pan American Highway, to do so as soon as possible.

TWO: To recommend to the Financial Commission created by that Convention that, in drafting the plans for financing the construction of the Highway, it study the desirability of taking into account, in distributing the total cost among the nations linked by it, the following factors: the economic capacity of the individual nations; their population; their revenues; the length of the Highway in the territory of each of them; and the benefits which each nation will derive from the Highway. The said Commission should also take into account the right of those nations which have constructed all or part of their respective sections to have the estimated value of the work completed by them accepted as all or part of the contribution which would be allocated to the particular country as its share in the total cost of the Pan American Highway.

THREE: To recommend to the Inter-American Financial and Economic Advisory Committee that it collaborate fully with the Pan American Highway Financial Commission with a view to the prompt and efficacious accomplishment of its task.

XXIV.

INSURANCE AND REINSURANCE

WHEREAS:

1. The Delegation of the Dominican Republic has presented to this Second Meeting a Draft Resolution recommending to the American nations that they encourage by appropriate legislation the development of insurance, and especially of reinsurance facilities; and

2. Because of its complex technical character, a detailed study of the various aspects of this recommendation is required, which this Meeting is not in a position to undertake in view of the shortness of the time at its disposal.

The

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The Second Meeting of the Ministers of Foreign Affairs of the American Republics,

RESOLVES:

To transmit to the Inter-American Financial and Economic Advisory Committee, at Washington, the project of the Dominican Republic to the end that it proceed to make a study of it and to report its conclusions to the Governments of the American Republics.

XXV.

ECONOMIC AND FINANCIAL COOPERATION

WHEREAS:

1. At the first consultative meeting held at Panama it was resolved to declare that in view of existing circumstances, it had become more desirable and necessary than ever to establish a close and sincere cooperation between the American Republics in order that they might protect their economic and financial structure, maintain their fiscal equilibrium, safeguard the stability of their currencies, promote and expand their industries, intensify their agriculture, and develop their commerce;

2. In order to attain the objectives of the preceding paragraph, it was agreed to create an Inter-American Financial and Economic Advisory Committee, in Washington;

3. The war now in progress has increased the disruption in the channels of international commerce and the curtailment of markets for certain products of the Americas;

4. The existence of surpluses of commodities, the exportation of which is essential to the economic life of the countries of the Americas, is economically, socially, financially, and in other respects a matter of great importance to the masses of the population, and especially to those groups participating in the production and distribution of wealth in each country, and, finally, to the Governments of the entire Continent;

5. It must be anticipated that these difficulties will exist as long as the war continues and that some of them, as well as other new ones, will exist after the war ends; and

6. It is of great importance that the economic development of the American countries be directed towards a diversification of their production and, at the same time, towards an increase in their consumption capacity;

The Second Meeting of Ministers of Foreign Affairs of the American Republics

RESOLVES:

ONE: To declare:

(a) That the American nations continue to adhere to the liberal principles of international trade, conducted with peaceful motives and based upon equality of treatment and fair and equitable practices;

333- (b) That it is the purpose of the American nations to apply these principles in their relations with each other as fully as present circumstances permit;

(c) That the American nations should be prepared to resume the conduct of trade with the entire world in accordance with these principles as soon as the non-American nations are prepared to do likewise;

(d) That, in the meantime, the American nations shall do everything in their power to strengthen their own economic position; to improve further the trade and other economic relations between and among themselves; and to devise and apply appropriate means of effective action to cope with the difficulties, disadvantages and dangers arising from the present disturbed and dislocated world conditions; and

(e) That the American nations consider it necessary to maintain or improve the normal economic situation established between them in order to assure the preservation or improvement of the position enjoyed in their respective markets.

TWO: To strengthen and expand the activities of the Inter-American Financial and Economic Advisory Committee as the instrument for continuing consultation among the American Republics with respect to economic and trade matters and arrangements, having in mind especially the immediate situations which must be met as a result of the curtailment and changed character of important foreign markets. For the purpose of dealing with special problems, there may be organized subcommittees, composed of representatives of the interested countries, which should meet at such places as may be deemed most appropriate for their effective functioning.

THREE: Specifically, to instruct the said Committee that it proceed forthwith:

(a) To cooperate with each country of this continent in the study of possible measures for the increase of the domestic consumption of its own exportable surpluses of those commodities which are of primary importance to the maintenance of the economic life of such countries;

(b) To propose to the American nations immediate measures and arrangements of mutual benefit tending to increase trade among them without injury to the interests of their respective producers, for the purpose of providing increased markets for such products and of expanding their consumption;

(c) To create instruments of inter-American cooperation for the temporary storing, financing and handling of any such commodities and for their orderly and systematic marketing, having in mind the normal conditions of production and distribution thereof;

(d) To develop commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned;

(e) To recommend methods for improving the standard of living of the peoples of the Americas, including public health and nutrition measures;

(f) To establish appropriate organizations for the distribution of a part of the surplus of any such commodity, as a humanitarian and social relief measure;

(g) To consider, while these plans and measures are being developed, the desirability of a broader system of inter-American cooperative organization in trade and industrial matters, and to propose credit measures and other measures of assistance which may be immediately necessary in the fields of economics, finance, money, and foreign exchange.

FOUR: To reaffirm Resolution XIII of the Inter-American Financial and Economic Advisory Committee, and to recommend that, in order to promote the economic development of the American Nations under the terms of said resolution, each nation, upon its own initiative and in consonance with the program of the Inter-American Development Commission, establish appropriate enterprises with government or private capital provided by two or more American Republics. Such enterprises may deal directly with the Inter-American Bank or other official or private credit institutions, it being recommended that the said Bank give its sympathetic consideration to the possibility of granting them financial aid.

XXVI

VOTE OF THANKS

The Second Meeting of Foreign Ministers of the American Republics

RESOLVES:

ONE: To express its gratitude to His Excellency, The President of the Republic of Cuba, Dr. Federico Laredo Bru, and to his illustrious Government for all the attentions and courtesies extended to all the delegations attending the Meeting.

TWO: To record its profound appreciation of the efficacious and admirable work performed by His Excellency, Dr. Miguel Angel Campa, President of the Meeting and Secretary of State of Cuba, and of the skillful and courteous manner in which he has conducted the deliberations of the Meeting.

THREE: To congratulate the Secretary General, Dr. César Salazar y dela Fuente, and the personnel of the Secretariat, for their admirable contribution to the work of the Meeting, and the many courtesies extended to the members of the several Delegations.

IN WITNESS WHEREOF, the Ministers of Foreign Affairs of the American Republics or their personal representatives, sign and seal the present Final Act.

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Done in the City of Habana, this thirtieth day of July, one thousand nine hundred and forty, in texts in the English, Spanish, Portuguese and French languages, which shall be deposited in the archives of the Pan American Union. The Secretary General of the Meeting shall transmit the original of the present Final Act to the Pan American Union through the intermediary of the Department of State of Cuba.

Reservation of the Bolivian Delegation:

4. - As to the Resolution concerning the Inter-American Committee of Rio de Janeiro (I):

"The Bolivian delegation desires that the peculiar situation of its country be borne in mind, mediterranean state lacking coasts, whose right to free transit has been recognized in the Convention of Habana, of 1928, on Maritime Neutrality and by bilateral treaties entered into with frontier nations. "The application of the principles suggested by the Inter-American Committee on Neutrality, in so far as respects internment, would signify a disregard of the rights of Bolivia on this subject, which has surely not been in the minds of the authors of the project, and would lead to the danger that, in the event of war, the internment of the members of the armed forces of its country, who were forced to cross into neutral territory would take place."

Reservation of the Chilean Delegation:

5. - "The Delegation of Chile, convinced of the need of giving practical application to continental solidarity, approves the agreements with the understanding that Chile will only assume obligations and responsibilities when the aforementioned agreements are ratified by its constitutional bodies."

Reservation of the Chilean Delegation:

6. - As to the Resolution on Economic and Financial Cooperation. (XXV):

"The Delegation of Chile, as it did at the First Consultative Meeting of Panama, qualifies its vote in respect of 'liberal principles of international trade' to which reference is made in paragraphs a, b and c of Section 1, for the reasons stated before the Committee which dealt with this project. "It requests that record of this qualification be made in the appropriate document."

Reservation of the Colombian Delegation:

7. - As to the Act of Habana (XX) and the Declaration concerning Reciprocal Assistance and Cooperation for the Defense of the American Nations (XV):

"I vote affirmatively with the statement that I shall sign the Act of Habana and the Declaration concerning Reciprocal Assistance and Cooperation for the Defense of the Nations of the Americas, subject to approval by my Government and to the constitutional norms of my country."

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Reservation of the Venezuelan Delegation:

8. - As to the Act of Habana (XX):

"The Venezuelan Delegation signs with the understanding that the Act of Habana relative to colonial possessions is subject to ratification by the Public Power of the Nation in accordance with its constitutional provisions."

Reservation of the Peruvian Delegation:

9. - As to the Resolution on Pacific Solution of Conflicts:

"Peru accepts the proposal of the Haitian Delegation with the reservation that the Committee shall function only at the request of the interested parties."

H O N D U R A S:H A I T I:C O S T A R I C A:M E X I C O:A R G E N T I N A:U R U G U A Y:E C U A D O R:B O L I V I A:C H I L E:B R A Z I L:C U B A:

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PARAGUAY:PANAMA:COLOMBIA:VENEZUELA:EL SALVADOR:DOMINICAN REPUBLICPERU:NICARAGUA:GUATEMALA:UNITED STATES OF AMERICA:Additional Reservation of the Chilean Delegation:

As to the Act of Habana (XX) :

"The Chilean Delegation, at the time of signing the present Final Act, makes reservation in addition to the reservation set forth in yesterday's Private Plenary Session, of the rights of Chile in Antarctica."

July 29, 1940

CONVENTION

The Governments represented at the Second Meeting of Ministers of Foreign Affairs of the American Republics,

CONSIDERING:

ONE: That the American Republics have formulated at the Second Consultative Meeting the Act of Habana with regard to the destiny of colonies of non-American countries located in this hemisphere as well as with respect to the provisional administration of such colonies.

TWO: That as a result of the events which are taking place in the European continent situations may develop in the territories of the possessions which some of the belligerent nations have in America, which may extinguish or materially impair the sovereignty which they exercise over them, or leave their government without a leader, thus creating a state of danger to the peace of the continent and a state of affairs in which the rule of law, order, and respect for life, liberty and the property of inhabitants may disappear;

THREE: The American Republics consider that force cannot constitute the basis of rights, and they condemn all violence whether under the form of conquest, of stipulations which may have been imposed by the belligerents in the clauses of a treaty, or by any other process.

FOUR: That any transfer, or attempted transfer, of the sovereignty, jurisdiction, possession or any interest in or control over any such region to another non-American State, would be regarded by the American Republics as against American sentiments and principles and the rights of American States to maintain their security and political independence;

FIVE: That no such transfer or attempt to transfer or acquire any interest or right in any such region, directly or indirectly, would be recognized or accepted by the American Republics no matter what form was employed to attain such purpose;

SIX: By virtue of a principle of American international law, recognized by various conferences, the acquisition of territories by force cannot be permitted.

SEVEN: That the American Republics, through their respective government agencies, reserve the right to judge whether any transfer or attempted transfer of sovereignty, jurisdiction, cession or incorporation of geographic regions in the Americas, possessed by European countries up to September 1, 1939, has the effect of impairing their political independence even though no formal transfer or change in the status of such region or regions shall have taken place;

EIGHT:

Regraded Unclassified

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EIGHT: That in the cases foreseen, as well as any others which might leave the government of such regions without a leader, it is, therefore, necessary to establish a provisional administrative regime for such regions until such time as their definitive regime is established by the free determination of their people;

NINE: That the American Republics, as an international community which acts strongly and integrally, using as a basis political and juridical principles which they have applied for more than a century, have the unquestionable right, in order to preserve their unity and security, to take such regions under their administration and to deliberate as to their destinies, in accordance with their respective degrees of political and economic development;

TEN: That the provisional and transitory character of the measures agreed to does not imply an oversight or abrogation of the principle of non-intervention which regulates inter-American life, a principle proclaimed by the American Institute, recognized by the meeting of jurists held at Rio de Janeiro and fully reaffirmed at the Seventh International American Conference held at Montevideo;

ELEVEN: That this community has therefore international juridical capacity to act in this manner;

TWELVE: That in this case, the most appropriate regime is that of a provisional administration; and that this system entails no danger because the American Republics do not entertain any purpose whatsoever of territorial aggrandizement;

THIRTEEN: That the establishment of a special provisional regime in the present Convention and in the Act of Habana concerning the provisional administration of European colonies and possessions in the Americas does not eliminate or modify the system of consultation agreed upon at Buenos Aires and confirmed at Lima and at Panama.

FOURTEEN: Being desirous of protecting their peace and safety and of promoting the interests of any of the regions herein referred to which may fall within the purview of the foregoing recitations have resolved to conclude the following convention:

I.

If a non-American State shall directly or indirectly attempt to replace another non-American State in the sovereignty or control which it exercised over any territory located in America, thus threatening the peace of the continent, such territory shall automatically come under the provisions of this convention and shall be submitted to a provisional administrative regime.

II.

The administration shall be exercised, as may be considered advisable in each case, by one or more American States, with their previous approval.

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III.

When the administration shall have been established for any region it shall be exercised in the interest of the security of America and for the benefit of the region under administration, with a view to its welfare and progress, until such time as the region is in a position to govern itself or is restored to its former status, whenever the latter is compatible with the security of the American Republics.

IV.

The administration of the region shall be exercised under conditions which shall guarantee freedom of conscience and of worship, subject to the regulations which public order and good habits may demand.

V.

The administration shall enforce the local laws coordinating them with the purposes of this convention, but it may furthermore adopt such measures as may be necessary to meet situations in which such laws do not exist.

VI.

In all that concerns commerce and industry, the American nations shall enjoy the same situation and benefits, and the administrator is forbidden to establish a privileged position for itself or its nationals or for certain states. Open economic relations shall be maintained with all countries on a reciprocity basis.

VII.

Natives of the region shall participate, as citizens, in public administration and in the courts of justice without further qualification than their capacity so to do.

VIII.

To the extent that it may be practicable, rights of every sort shall be governed by local law and custom, and vested rights shall be protected in accordance with such law.

IX.

Forced labor shall be abolished in the regions where it exists.

X.

The administration shall provide facilities for education of all kinds with the two-fold purpose of developing

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the wealth of the region and improving the living conditions of the population, especially as regards public and individual hygiene and preparation for the exercise of political autonomy as soon as possible.

XI.

The natives of a region under administration shall have their own Organic Act which the administration shall establish, consulting the people in whatever manner is possible.

XII.

The administration shall submit an annual report to the inter-American organization entrusted with the control of the regions under administration, of the manner in which it has fulfilled its functions, attaching thereto copies of its accounts and of the measures adopted in the region during the year.

XIII.

The organization referred to in the preceding article shall be competent to take cognizance of the petitions submitted by inhabitants of the region through the medium of the administration, with reference to the exercise of the provisional administration. The administration shall transmit, with this petition, such observations as it may deem proper.

XIV.

The first administration shall be granted for a period of three years at the end of this period, if necessary, it shall be renewed for successive periods not longer than ten years.

XV.

The expenses incurred in the exercise of the administration shall be defrayed with the revenues of the region under administration but in case they are insufficient the deficit shall be met by the State or States which act as administrators.

XVI.

A commission to be known as the "Inter-American Commission on Territorial Administration" is hereby established, to be composed of a representative from each one of the States which ratifies this convention; it shall be the international organization to which this convention refers. Any country which ratifies the convention may convoke the first meeting proposing the city in which it is to be held.

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Once this convention has become effective the Commission shall elect its chairman, complete its organization and fix its definitive seat. Two-thirds of the members of the Commission shall constitute a quorum and two-thirds of the members present may adopt decisions.

XVII.

The Commission is authorized to establish a provisional administration in the regions to which the present convention refers; allow such administration to be exercised by the number of States which it may determine in each case, and supervise its exercise under the terms of the preceding articles.

XVIII.

None of the provisions contained in the present convention refers to territories or possessions which are the subject of dispute or claims between European powers and one or more of the Republics of the Americas.

XIX.

The present convention is open for signature by the American Republics at the City of Habana and shall be ratified by the High Contracting Parties in conformity with their constitutional procedures. The Secretary of State of the Republic of Cuba shall transmit at the earliest possible date authentic certified copies to the governments for the aforementioned purpose of ratification. The instrument of ratification shall be deposited in the archives of the Pan American Union in Washington, which shall notify the signatory governments of said deposit. Such notification shall be considered as an exchange of ratifications.

XX.

The present convention shall enter into force when two-thirds of the American Republics have deposited their respective instruments of ratification.

Done in the City of Habana, etc. etc.

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

August 3rd, 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,

W. A. R. L.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London on the evening of
August 2nd, 1940.

Naval.

Armed merchant cruiser "Alcantara" permitted by Brazilian authorities to remain four days in Rio for repairs.

East Coast convoys continually attacked by submarine yesterday as many as ten times. Only casualty one British tanker 2500 tons damaged.

A Canadian convoy has arrived safely in home waters.

N.

Royal Air Force.

Dense cloud over all target areas hampered medium bombers night of July 31st - August 1st.

Heavy bombers attacked oil refineries, railway targets, aeroplane base Amsterdam various aerodromes Holland. Results unobserved in most cases but bombs straddled one oil refinery and caused big explosion at another.

Yesterday morning lack of cloud cover largely prevented bombing operations but direct hit registered on new hangar one aerodrome. One Blenheim missing. In the afternoon; reconnaissance - Blenheim reported thirty enemy aircraft Cherbourg; thirteen Blenheims escorted by ten Blenheim fighters

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and to attack. Hits obtained on hangars, enemy aircraft and barrack blocks; enemy aircraft machine gunned, fires and explosions reported. Three aircraft failed to return.

Air reconnaissance Kiel yesterday showed "Seiner" and "Behrenshorn" in floating docks, "Lüne" in dock, one Hipper class cruiser in dry dock and K class cruiser. Approximately seven submarines. Considerable activity in Canal.

Last night 43 heavy bombers despatched against oil targets and military objectives in Germany. Projected operations by other bombers cancelled. All our aircraft returned.

Early this morning 14 Blenheim left to attack aerodrome in enemy-occupied territory, also aircraft depots and factories elsewhere.

5. SUMMARY AIR FORCE.

Yesterday morning enemy activity slight and chiefly restricted to reconnaissance by single aircraft or small formations. Extensive damage caused Boulton and Paul factory Norwich but not aircraft factory; steel works also slightly damaged. Six killed, 54 injured. Little doubt that this attack carried out by hostile Blenheim.

Last night activity slight. Bombs dropped on officers' mess, Parkside Park. One officer killed, six wounded; also in Scotland. Leaflet giving translation of Hitler's speech dropped Southampton. Mine-laying suspected Thames estuary and off the northeast and

Scottish coasts.

4. Summary of air casualties day of August 1st: enemy confirmed, two, unconfirmed three. British, confirmed, one fighter, four medium bombers. Total, enemy two, British five.

5. Shipping casualties. By U-boats: on July 30th British ship 5500 tons sunk off Hebrides. Early this morning three British tankers 6000 tons, 6500 tons and 11,000 tons sunk off northern Ireland during dispersal of outbound convoy. Late reports indicate sinking of Norwegian ship 1500 tons, Swedish ship 2000 tons off northern Ireland 18th, and Greek ship 3300 tons in the western approaches 17th. By mine: British ship 7500 tons mined Orfordness yesterday. Ship did not sink, tugs sent to assist.

6. Italy.

Considerable air transport activity last three days on the routes Italy - Libya, Dodecanese - Italy and Dodecanese - Libya.

One hundred German dive bombers previously reported Pola have now moved to southern Italy. Also reported 38 German dive bombers have gone to Libya via Austria and Italy.

7. Middle East. On July 29th five of our heavy bombers attacked munitions dump at Haesawa. Results unobserved. Four of our aircraft damaged. On July 30th attacks by medium

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medium and heavy bombers made on troop concen-
trations, buildings and railway station at
Kassala. All our aircraft returned.

COMPLIMENTS
OF
MR. H. K. HOCHSCHILD

There have been some political changes here recently. Humberto Alvarez Suarez left the Ministry of the Interior. That is important because he had already signed the decree dissolving Congress and Senate. The President was going on a vacation and so, constitutionally as Vice-President, he together with his radical and socialist colleagues would have run the country. His plan was not carried out because the bulk of his party is beginning to be afraid of the cooperation with the socialists and communists. There is supposed to be an election here in 1941, and unless something unforeseen happens and if this election takes place, the minority of the socialists and communists in Congress and Senate might be converted into a majority. The favourable points about the situation - there are at present not very many favourable points about the situation - are the following:

1. That the Radical Party realizes if it comes to elections next year the party might be almost wiped out;
2. That the cooperation between socialists and communists is by no means harmonious.

The simultaneous resignation of the Minister of Foreign Affairs is of no great importance, excepting that his successor, Mr. Marcial Mora, is a more desirable man and decidedly more intelligent.

The naming of Guillermo Labarca as Minister of the Interior may be of considerable importance. Mr. Labarca is an honest man who is very antagonistic to the socialists. Labarca's wife Amanda is ambitious. She desires to figure in all prominent feminine activities. Both Mr. and Mrs. Labarca are professors. The influence of Mrs. Labarca on her husband is supposed to be not very considerable.

The elimination of Alvarez and Baez and the naming of Guillermo Labarca and Marcial Mora may be interpreted as a small step in the right direction. However, the situation is still quite obscure. The armed forces are pressing for an adjustment with the Conservatives. But since the Government intends to create new taxation laws and therefore expects to be shortly in a position to improve the situation of the armed forces, not too much importance must be given to the tendency of the armed forces. What may be important will be the results of the present negotiations between some members of the Radical Party and the Conservatives to call off by a 2/3 majority in Congress and Senate the elections of next year. This would be quite a feat. If simultaneously the armed forces could be satisfied, this project would probably be put over without much difficulty.

Under the above conditions, which are not clear and not very promising, German propaganda has a fertile field for making trouble and the German Embassy is, as usual, quite active in that direction. I wish to draw attention to the fact that there exists a so-called "Instituto Cultural Germano Chileno". The name sounds pretty; the object is the customary one. Peculiarly enough, Don Miguel Cruchaga Tocornal, who is president of the Senate of Chile and member of the Conservative Party, a devout Catholic, is president of the "Instituto".

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This institute is intimately connected with a newly founded "Asociacion de Amigos de Alemania" which is supposed to defend Germany or "German reputation" during the war. In this latter institute the following men are enthusiastic cooperators:

Generals Arturo Ahumada, Francisco Javier Diaz, Tellez and Messrs. Valdez, well known propagandists for the Nazis in Chile.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Christie, the Canadian Minister, told me yesterday that Governor Graham Towers, of the Bank of Canada, urgently desired to be received by the Secretary on Monday or Tuesday next. After consultation with Under Secretary Bell, I told the Minister that the Secretary would not be available on Monday, but that he would receive Governor Towers on Tuesday. I added that Mr. Bell and I would be available to confer with Governor Towers if the Secretary might conceivably refer him to us after receiving him. The Minister thought the subject might be the finances of a third country (I presume this is France). I should like to phone the Minister on Monday to give an exact hour for the appointment on Tuesday.



CABLE

FROM: Treasury Attache Nicholson,
Shanghai, China.

DATE: August 3, 1940

For the Secretary of the Treasury.

Shanghai market August 2nd closed uncertain at
3 53/64 for cash and August for sterling 5 27/32 for cash
and August for US dollars gold bars closed at 5525 and
weiwah at discount of 4.60%

Nicholson

10:48 AM

August 3, 1940

Prof. Chamberlain

Mr. Cochran

At the request of Mr. Henderson of the Department of State I received this morning the Consul General of Estonia, Mr. Johannes Kaly. We were in turn received by Professor Chamberlain, and Mr. Bernstein joined the group.

The Estonian Consul General is the only representative of his Government in the United States. He presented to us first the question of taking care of vessels entering and departing from New York, which still fly the Estonian flag. He was reminded that the Norwegian and Danish representatives have set up commissions in New York to look after their respective shipping interests. Estonia is, of course, in a different category, since there is as yet no refugee government abroad, and the country is apparently being swallowed up completely by Russia. It is possible that some political leaders may have fled from Estonia to Finland who will endeavor to set up some sort of an authority abroad.

The Consul General was informed that we would be receptive to applications which might be made in behalf of operators and owners of Estonian flag vessels, insofar as funds for supplies, labor, demurrage, etc. are concerned. It was explained to us that these ships will probably remain in the Western Hemisphere. There is some possibility of their continuing under time charter to operate between New York and British ports. We could only assure the visitor that sympathetic consideration would be given these applications. It was pointed out that vessels of other occupied countries are managing to operate out of New York under our licenses.

On the matter of funds for his own office and apartment, the Consul General is obviously facing a difficult situation, since his resources on hand are small. He has regularly received a remittance from Estonia through the Central Bank of that country to pay his official expenses in the United States. These apparently will now be stopped. He has no authority to draw drafts on his government or on the Estonian Central Bank. When he asked us as to whether he could draw on Estonian funds blocked in this country, we found that he apparently had no authority at present. We advised him, however, that this was a matter on which he should consult with the National City Bank through which he operates. Our duty was one of supervision and licensing, but not of directing the payment of funds.

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August 3, 1940

To: The Secretary
 From: Mr. Young

High Spots of the Week with the British

The high spots of the week (July 29th to August 3rd) with the British were: the Packard contract; the 3,000 planes per month program; the arrival of Brig. Gen. D. H. Pratt and Michael Dewar; reactions from Colonel Maxwell and Under Secretary Welles to the complaints by the British on export control; the availability of 800 small guns for release to the British by the Navy; the coordination of a Canadian production program with the United States Defense Program, including suggested methods of controlling expenditures through the Federal Reserve; an additional chapter to the now famous Enfield rifle story; and the procedure for filing preliminary negotiation reports by the British.

Packard.—Purvis has agreed to pay a 10 million dollar down payment on the contract. Knudsen told me Jesse Jones wouldn't budge. Purvis has written Knudsen two letters, one acquiescing to the request for the 10 million dollar down payment, and the other stating his disappointment that a complementary program could not be worked out. Knudsen fully agreed that it was disappointing. Minor details of the contract are now being worked out with Packard. The British Purchasing Commission informed me that three Rolls engineers from England arrived in New York City Thursday night with additional blueprints.

3,000 Planes Per Month Program.—Knudsen gave Purvis data (copies of which are attached) outlining the cost of initiating a 3,000 planes per month program. To produce 3,300 airframes, 5,830 engines, and 5,830 propellers per month, there would have to be built 15 airframe plants, 6 engine plants, and 2 propeller plants, costing \$233,300,000. These plants would employ 552,000 employees and would necessitate \$646,800,000 worth of machine tool

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equipment. Knudsen said he thought these dollar amounts to be at least 10 per cent too high. Under this program no demand would be made on existing production facilities except in minor instances. Knudsen said the program was fantastic as machine tool requirements alone were approximately double the current United States annual capacity.

As an alternative, Knudsen presented a scheme for producing 1,375 planes per month at a total expenditure of \$415,000,000 representing approximately a 50 per cent cut in all items. Purvis was to discuss both programs with Morris Wilson and Sir Henry Self this week.

General Pratt and Michael Dewar.--Brig. Gen. Pratt, who was in charge of a British tank brigade at the Battle of Flanders, and Michael Dewar, British Government tank production expert, called on me Tuesday. I made arrangements for them to go to Aberdeen on Wednesday to examine the U. S. experimental tanks. After viewing our tanks, Gen. Pratt said they were superior from the waist down but did not have enough armor or fire power from the waist up. On Thursday morning I took Messrs. Pratt and Dewar to see Mr. Knudsen and later Secretary Stimson, both of whom were greatly interested. At my suggestion, Stimson called in Gen. Marshall who invited Pratt and Dewar to lunch. I understand from Mr. McReynolds that the Advisory Commission has already adopted certain ideas advanced by Pratt and Dewar for use on our tanks. There is a general tank meeting scheduled for 9:30 Tuesday morning with all interested parties to be represented.

Export Control Complaints.--In accordance with your instructions, I delivered copies of the memorandum citing complaints by the British on export control, as well as copies of the British memorandum on which mine was based, to Secretary Stimson, General Watson, and Colonel Maxwell. Stimson wanted to know why you sent it to him, but he finally broke down and confessed he would like to read it.

First reaction came from Colonel Maxwell who said that certain improvements had already been made on the basis of experience, but that he looked "forward to a stage in the development of the system beyond which little improvement can be expected insofar as delays are concerned." Further, he wanted to know whether the Treasury could recommend that the British program be given preference over all other requirements, including our own munitions program. He stated further that the Army and Navy Munitions Board and the Advisory Commission had dictated the policy being followed on machine

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tool exports without regard to the country of destination. To this obvious trap, I replied to Colonel Maxwell that the Treasury served as a liaison, that I understood other machinery had been established to settle priorities.

The next reaction to the complaint memorandum came in the form of a letter to you from Sumner Welles with a report made by Joe Green. Without any attempt to refute Green's insinuations and arguments, this memorandum represents a pathetic attempt on his part to weasel out of a bad situation. Except in a few minor instances, he does not refute the specific illustrations contained in my original memorandum, and he makes certain statements which are obviously ridiculous. If you are interested, see item No. 6 wherein Joe Green states there is no basis for the Treasury charge that the British cannot sign contracts with metal working machinery manufacturers until an export license has been secured. In the next sentence he admits that the Advisory Commission has requested such manufacturers not to sign contracts until an export license has been issued. Since last Tuesday, the British Purchasing Commission has had super-extraordinary service from the State Department, receiving as a matter of record 65 export licenses cleared on Thursday alone. At the moment there are no further export complaints from the British.

Availability of Navy Guns.--Admiral Spear has told me that the British could have 50 four-inch Naval guns with projectiles, but without powder, as well as 350 three-inch .50 calibre and 400 four-inch .50 calibre guns without ammunition. The British Purchasing Commission has cabled London to find out if these guns are desired.

Canadian Production Program and Use of Federal Reserve by Canada.--Attached is a copy of a letter from Mr. C. D. Howe with its enclosure explaining the situation which would make it difficult for Canada to clear all of its purchases through a Federal Reserve Bank account. Canada has developed plans for a tremendous production program for aircraft, munitions, and other supplies. The machine tool portion of this program alone calls for at least 45 million dollars worth of equipment, and I have transmitted to Mr. Knudsen the first request for the release of such items. Due to the fact that British orders for machine tools already absorb one-third of this country's annual capacity, and, as the Advisory Commission is anxious to take priority on part of these orders for our own Defense Program, additional demand by Canada will create a serious situation.

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At the present time machine tools cannot be exported to Canada unless they cannot be used by the Advisory Commission, the War Department, or the Navy Department. On July 17th, Purvis told Vance that no more machine tools would be shipped out of the country to England to increase British production by the addition of new facilities. The only machine tools to be exported to England would be those of immediate and vital necessity, plus those needed to complete existing facilities already established.

I would advocate the free export of all machine tools on order for British account to Canada if they could be utilized there. This procedure would leave a net balance of additional orders which Canada would like to place in the United States. I have written Mr. Knudsen outlining this situation, and I have asked the British to have in Washington next Tuesday and Wednesday the Canadian official best qualified to discuss this matter.

The 1,500,000 Rifle Story.—You may or may not recall this story where certain agencies in New York have been attempting to sell the British 1,500,000 Enfield rifles ex-United States arsenals. I have followed it carefully and it has become more serious for two reasons: first, because London has brought great pressure to bear on Purvis to buy these rifles (which are not available); and, secondly, because the various agents and subagents mixed up in the deal seem to tie in closer and closer with Washington. I talked with Mr. Foxworth, Assistant Director of the Federal Bureau of Investigation, and he said he was well acquainted with the story as they had been studying it for over two years. I have given Foxworth a photostat copy of the British Purchasing Commission file on this matter and he is investigating it.

Preliminary Negotiation Reports.—In accordance with the agreement between Purvis and Knudsen on July 17th, the British Purchasing Commission agreed to file a report covering every item of \$150,000 or more for which it is negotiating. A procedure for handling these reports has been established, and, if it functions efficiently, approval or disapproval of any report should be cleared in five days.

Unallocated Plane Orders.—The British are furnishing a complete breakdown by type, quantity, and supplier of the unallocated balance of 4,245 planes yet to be ordered for the program ending April 1, 1942.

ooOoo

PY:bj

The Advisory Commission to the Council of National Defense
Federal Reserve Building
Washington, D. C.

July 31, 1940

Mr. Arthur B. Purvis
Director-General
British Purchasing Commission
725 Fifteenth Street, N. W.
Washington, D. C.

Dear Mr. Purvis:

Referring to your letter of July 24,
I hand you herewith two sets of estimates in connection
with your 3,000 planes per month inquiry.

It is fair to assume that due to the
limited time we had to prepare the figures that they
would be approximately 10% high.

Yours very truly,

(Sgd.) W. S. Knudsen

William S. Knudsen

K:c

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CONFIDENTIAL

1,250 PLANES PER MONTH PROGRAM

1. REQUIREMENTS.

Type	No. of Engines per Plane	No. of Planes per mo.	No. of Engines per mo.
a. Heavy Bombers	4	125	500
b. Medium Bombers	2	300	600
c. Patrol Boats	2	125	250
d. Dive Bombers	1	200	200
e. Pursuit	2	200	400
f. Pursuit	1	300	300
Totals		1,250	2,250
Spare Parts (10%) in terms of complete units		125	225
TOTAL		1,375	2,475

2. SUMMARY OF FACILITIES.

	Delivery: Total : Total :			Cost of Facilities		
	Units	Floor	Em-	Millions of dollars		
	per	Area	ployees			
	Month	Million	Thou-	Build-	Machine	Total
		sq.ft.	sands	ings	Tools	
a. Airframes	1,375	15.9	159.0	47.7	127.0	174.7
b. Engines	2,475	7.0	35.0	24.5	112.0	136.5
c. Propellers	2,475	1.0	7.0	3.4	15.0	18.4
d. Miscellaneous	-	9.4	57.3	28.9	56.5	85.4
TOTAL		33.3	258.3	104.5	310.5	415.0

Prepared by: Aeronautical Section (T.P.W., A.E.L.),
National Defense Advisory Commission.

July 29, 1940

1,250 PLANES PER MONTH PROGRAM

CONFIDENTIAL

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3. DETAILS OF FACILITIES.

	Delivery:	Total :	Total :	Cost of Facilities			
	Units :	Floor :	Em- :	Millions of dollars			
	per :	Area :	ployees :				
	Month :	Million :	Thou- :	Build- :	Machine :	Total	
		sq.ft. :	sands :	ings :	Tools :		
A. Airframe							
1. Heavy Bomber	4 eng.	138	4.0	40.	12.0	32.0	44.0
2. Medium "	2 eng.	330	4.5	45.	13.5	36.0	49.5
3. Flying Boats		137	3.0	30.	9.0	24.0	33.0
4. Dive Bombers		220	1.4	14.	4.2	11.0	15.2
5. Pursuit Planes	2 eng.	220	1.8	18.	5.4	14.5	19.9
6. " "	1 eng.	330	1.2	12.	3.6	9.5	13.1
Total Airframe		1,375	15.9	159.	47.7	127.0	174.7
B. Engines							
1. Wright Aero.		1,045	3.0	15.0	10.5	48.0	58.5
2. Pratt & Whitney		1,100	3.0	15.0	10.5	48.0	58.5
3. Allison		330	1.0	5.0	3.5	16.0	19.5
Total Engines		2,475	7.0	35.0	24.5	112.0	136.5
C. Propellers							
1. Hamilton-Standard		1,275	0.4	3.0	1.4	6.0	7.4
2. Curtiss-Wright		1,200	0.6	4.0	2.0	9.0	11.0
Total Propellers		2,475	1.0	7.0	3.4	15.0	18.4
D. Miscellaneous							
1. Aluminum Sheet		6,000 tons)					
2. " Cast. & Forg.		1,500 tons)	5.0	15.0	15.0	25.0	40.0
3. Magnesium Castings		50 tons	0.1	0.3	0.3	0.5	0.8
4. Steel Forg. (Rods, Shafts, Gears)			0.3	1.8	1.7	4.3	6.0
5. " " (Cylinders)		40,000	0.2	0.3	0.7	1.4	2.1
6. Propeller Hub Forgings		-	0.1	0.4	0.5	1.0	1.5
7. Bearings O/L		-	0.1	1.5	0.3	0.5	0.8
8. Valves		2,500 sets	0.2	2.2	0.6	1.9	2.5
9. Carburetors		2,500)					
10. Magnets		5,000)	1.0	13.5	3.0	7.0	10.0
11. Starter & Generator		2,500)					
12. Shielding Harness		2,500	0.2	2.5	0.6	0.8	1.4
13. Exhaust Manifolds		2,500	0.2	1.8	0.8	1.2	2.0
14. Oil Coolers & Radiators		2,500	0.1	1.0	0.3	0.4	0.7
15. Hydraulic pumps, etc.		6,000	0.1	1.3	0.3	0.7	1.0
16. Turbo Superchargers		1,000	0.5	3.0	1.5	3.5	5.0
17. Landing Gear Struts		1,375 prs.	0.4	3.2	1.2	3.2	4.4
18. Wheels & Brakes		2,750	0.1	0.5	0.1	0.1	0.2
19. Instruments & Auto Pilots		1,375 sets	0.8	9.0	2.0	5.0	7.0
Total Miscellaneous			9.4	57.3	28.9	56.5	85.4
GRAND TOTAL			33.3	258.3	104.5	310.5	415.0

Prepared by: Aeronautical Section (T.P.W., A.E.L.),
National Defense Advisory Commission.

July 29, 1940

3,000 PLANES PER MONTH PROGRAM

1. REQUIREMENTS.

Type	No. of Engines per Plane	No. of Planes per mo.	No. of Engines per mo.
a. Heavy Bombers	4	250	1,000
b. Medium Bombers	2	600	1,200
c. Patrol Boats	2	250	500
d. Dive Bombers	1	400	400
e. Pursuit	2	400	800
f. Pursuit	1	600	600
g. Trainers-Adv.	2	300	600
h. Trainers-Adv.	1	200	200
Totals		3,000	5,300
Spare Parts (10%) in terms of complete units		300	530
TOTAL		3,300	5,830

2. FACILITIES.

	Delivery Units per Month	No. of Plants	Total Floor Area sq. ft.	Total Employees Thousands	Cost of Facilities in \$1,000,000		
					Build- ings	Machine Tools	Total
a. Airframes	3,300	15	33.2	332	116	266	382
b. Engines	5,830	6	15.0	75	52.5	240	292.5
c. Propellers	5,830	2	1.8	14.4	6.3	27.0	33.3
d. Miscellaneous	-	23	18.6	130.6	58.5	113.8	172.3
TOTAL		46	68.6	552.0	233.3	646.8	880.1

4. FACILITIES.

CONFIDENTIAL

	Delivery:		Total:		Total:		Cost of Facilities	
	Units:		: Floor:		: Em-:		: Millions of dollars	
	per	No. of:	Area:	ployees:	Build-:	Machine:	Total	
Month	Plants:	Million:	Thous-:	sq.ft.:	ands:	ings:	Tools:	
A. Airframes								
1. Heavy Bomber	4 eng.	275	2	8.	80.	28.0	64.	93.0
2. Medium "	2 eng.	660	3	9.	90.	31.4	72.	103.4
3. Flying Boats		275	2	6.	60.	21.0	48.	69.0
4. Dive Bombers		440	2	2.7	27.	9.4	22.	31.4
5. Pursuit Planes	2 eng.	440	2	3.6	36.	12.5	29.	41.5
6. " "	1 "	660	2	2.4	24.	8.4	19.	27.4
7. Adv. Trainers	2 "	330	1	1.	10.	3.5	8.	11.5
8. " "	1 "	220	1	0.5	5.	1.8	4.	5.8
Total Airframe		3,300	15	33.2	332.	116.	266.	382.0
B. Engines								
1. Wright Aero.		2,090	2	6.	30.	21.0	98.0	117.0
2. Pratt & Whitney		2,420	2	6.	30.	21.0	96.0	117.0
3. Allison		660	1	2.	10.	7.0	32.0	39.0
4. Lycoming		660	1	1.	5.	3.5	16.0	19.5
Total Engines		5,830	6	15.	75.	52.5	240.	292.5
C. Propellers								
1. Hamilton-Standard		3,200	1	0.9	7.2	3.2	13.8	16.7
2. Curtiss-Wright		2,630	1	0.9	7.2	3.1	13.5	16.6
Total Propellers		5,830	2	1.8	14.4	6.3	27.	33.3
D. Miscellaneous								
1. Aluminum Sheet	12,000 tons	1)						
2. " Cast. & Forg.	3,000 tons	2)	10.0	30.0	30.0	60.0	80.0	
3. Magnesium Castings*	"	"	"	"	"	"	"	"
4. Steel Forg. (Rods, Shafts, Gears)		2	0.6	3.5	3.5	8.5	12.0	
5. " " (Cylinders)	88,000	**	**	**	**	**	**	**
6. Propeller Hub Forgings	-	1	0.2	0.9	1.0	2.0	3.0	
7. Bearings C/L	-	1	0.2	3.0	0.6	1.1	1.7	
8. Valves	5,000 sets	1	0.5	4.5	1.2	3.8	5.0	
9. Carburetors	5,830)							
10. Magnetos	11,860)	2	2.	27.0	6.0	14.	20.0	
11. Starter & Generator	5,830)							
12. Shielding Harness	5,200	1	0.4	5.3	1.2	1.6	2.8	
13. Exhaust Manifolds	4,600	2	0.6	4.0	2.1	3.0	5.1	
14. Radiators & Oil Coolers	3,300	1	0.2	2.0	0.6	0.8	1.4	
15. Hydraulic pumps, etc.	12,000	2	0.2	2.7	0.6	1.4	2.0	
16. Turbo Superchargers	2,000	2	1.0	13.5	3.0	7.0	10.0	
17. Landing Gear Struts	3,300 prs.	2	0.8	6.4	2.4	6.4	8.8	
18. Wheels & Brakes	6,800	1	0.1	0.8	0.3	0.2	0.5	
19. Instruments & Auto Pilots	3,000 sets	4	2.0	27.0	6.0	14.0	20.0	
Total Miscellaneous		25	18.6	130.8	58.5	113.8	172.3	
GRAND TOTAL			48	68.6	552.0	233.3	646.8	880.1

* No data available. Use of magnesium insignificant.

** Cost of facilities (approx. \$5,000,000) not included in totals.

Prepared by Aeronautical Section,

National Defense Advisory Commission, T.P.W., A.E.L., July 26, 1940

* 2 *

3. FACILITY COST

Airframes	\$ 382,000,000
Engines	292,500,000
Propellers	33,300,000
Miscellaneous Parts	<u>172,300,000</u>
GRAND TOTAL	\$ 880,100,000

Prepared by Aeronautical Section,
National Defense Advisory Commission, T.P.W., A.E.L.

July 25, 1940

August 3, 1940

Prof. Chamberlain

Mr. Cochran

At our request the State Department has this morning endeavored to obtain more information from the Mexican Embassy in regard to the two memoranda which accompanied the note from the State Department which we received yesterday evening.

Mr. Livesey now informs me that we can disregard the first memorandum, which indicated a number of cities in Europe to which it is desired that dollars be submitted by the Mexican Embassy. Since these cities are not in blocked areas, there is no question for the Treasury Department. The State Department has suggested to the Mexican Embassy that the problem of remitting to the cities in question be taken up directly with their bankers.

With regard to the second memorandum, concerning funds for the transportation of the Mexican Legation staff from Vichy to Lisbon, the Mexican Embassy has been told by the State Department that the National City Bank has informed the Treasury that it has no knowledge of the transaction under reference. Consequently the Mexican Embassy should give a precise instruction to the National City, requesting that a copy of its letter or cablegram be attached to the regular application to be filed with the Federal Reserve Bank of New York for reference to the Treasury Department. We have assured the Mexican Embassy through the State Department that this transaction will be taken care of as soon as it may be received.



HMC:enk:8.5.40

ba

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

On August 2 I spoke with Mr. Knoke of the Federal Reserve Bank at New York on the desire of the Government of Afghanistan to purchase 50,000 ounces of gold to be earmarked with the Federal Reserve Bank in New York. This matter has been the subject of correspondence over several months. I referred to the paraphrase of telegram No. 167 dated July 18 from the American Legation at Tehran, a copy whereof had been sent by the State Department to the Federal Reserve Bank of New York.

Mr. Knoke told me that under date of July 30 he had written a letter to Mr. Omar, in charge of the Afghan Commercial Agency in New York, referring to their conversation of June 19, and informing Mr. Omar of the message now received through the American Legation at Tehran. Mr. Knoke stated that he reminded Mr. Omar of the request which the Federal Reserve Bank had made of him that he provide it with certain information in regard to the Banque Millie Afghan, which is to act as the financial representative of the Afghan Government in this transaction. The information desired included the statutes and latest balance sheet of the Banque Millie Afghan, in English. When this matter had been discussed on June 19, Mr. Omar had advised Mr. Knoke that he had some of the data immediately available, would procure some from London and the remainder from Afghanistan. Mr. Knoke has not heard from Mr. Omar since the visit of June 19. He does not feel that the Federal Reserve Bank can take any steps towards opening the desired gold account in the absence of the requested information. I told Mr. Knoke that neither the State Department nor the Treasury Department had any precise data in their files which would be of direct assistance. It is understood, therefore, that nothing further will be done pending some word to the Federal Reserve Bank of New York from Mr. Omar.

I am providing a copy of this memorandum to Mr. Livesey in the State Department, in order that he may advise the Near Eastern Division of the status of this case. The State Department may desire to give us a little time to hear from Mr. Omar, before answering the cablegram of July 18 from Tehran. Since we are now in touch with the Afghan representatives, that is, the commercial representative in New York and the Afghan Ambassador at Tehran, it seems unnecessary to work, for the present at least, through the Turkish Embassy in Washington.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Only two of the six reporting banks effected transactions in registered sterling today. They made purchases of £121,000, mainly for customer account. Of this amount, £12,000 were acquired from the Federal Reserve Bank of New York.

Open market sterling was first quoted at 3.87-3/4. The market was idle throughout the morning, and the final quotation was 3.88. The reporting banks executed orders to sell £24,000, of which £12,000 were for commercial concerns and £12,000 for foreign banks. Orders to purchase £14,000, all for commercial concerns, were also executed.

The other currencies closed as follows:

Swiss franc	.2274-1/2
Canadian dollar	13% discount
Lira	.0505
Reichsmark	.4005

The Federal Reserve Bank of New York purchased 85,000 Swiss francs for account of the B.I.S. In its instructions to the Federal, the B.I.S. mentioned that this transaction was being executed for the Bank of France.

We made the following purchases of gold from earmarked accounts:

\$51,272,000	from His Britannic Majesty's Government
5,005,000	from the Central Bank of the Argentine Republic
<u>\$56,277,000</u>	Total

The Federal Reserve Bank of New York reported that the Bank of the Colombian Republic shipped \$1,074,000 in gold from Colombia to the Federal, to be earmarked for its account.

The Bombay gold price was slightly lower at the equivalent of \$33.70.

Spot silver in Bombay was equivalent to 44.31¢, off 1/4¢.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, called on me yesterday evening, accompanied by Mr. E. L. Hall-Patch, His Britannic Majesty's Financial Commissioner in the Far East. I had known Mr. Hall-Patch before. After a year and a half in England, he is now returning to his duties in the Far East. He was somewhat concerned over the future of the Stabilization Funds of China, since the principal foreign exchange in one of them and part of the foreign exchange in the second consists of sterling. Under the British ruling effective July 18, 1940, such sterling can now only be utilized in the sterling area, and consequently its utility as a support for the Chinese currency is lessened. Hall-Patch had mentioned this point to Dr. Soong two days ago, and the latter is looking into it. Hall-Patch had informally recommended that the Chinese invest part or all of this sterling in commodities such as tin or rubber which can be acquired in the sterling area and then dispose of them for hard currencies which would be of more use to the Stabilization Funds. Hall-Patch did not explain to me how or whether this might be possible under the British regulations controlling exports. Hall-Patch will be in town a few days before sailing for the Far East.

Since Mr. Hall-Patch has known Mr. Jean Monnet in Europe and the Far East for several years, I asked him in regard to the latter's present whereabouts. He said that he knew nothing about Jean Monnet at present. When his job in London collapsed with the signing of the French-German Armistice, Jean Monnet offered his services to the British Government, but this offer was not accepted. Hall-Patch doubted whether Monnet could return to France because of his close connection with Daladier.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Messrs. Pinsent and Hall-Patch, the latter being the representative of the British Treasury in the Far East, called on me yesterday afternoon, Pinsent brought up the subject of whether the Channel Islands should be blocked. I have submitted one memorandum of a conversation which I had with Mr. Knoke on this subject. It was decided that Pinsent should cable his people to see whether the British are interested in the assets of those islands being frozen. It is understood that the Patino tin family has important holding companies domiciled in the Channel Islands and that other capitalists have set up organizations in those islands to assist them in avoiding taxes and other fiscal regulations. I reminded Pinsent that we had not looked favorably upon the French idea of blocking any country piecemeal. If the British suggest to us now the blocking of assets from these islands, and we accept the idea, a precedent would be established with which it might be difficult to be consistent if the Germans extend further their invasion of the United Kingdom.

J. H. F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Paul Leroy-Beaulieu, retiring French Financial Counselor, called on me Saturday to say good-bye. He was accompanied by Mr. Marcial, the representative of the Bank of France in New York. Talking with me by telephone the preceding day from New York, Leroy-Beaulieu had complained about the administration of our freezing regulations. I asked if he cared to give me an informal memorandum on this subject. He presented a one page note thereon when he called, and I am circulating this separately.

Mr. Georges Picot, now with the French Purchasing Mission in New York, will carry on Leroy-Beaulieu's work of Financial Attache until his successor, Mr. Herve Alphand, arrives from France.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In a conversation with Mr. Knoke yesterday I learned that the Hungarian National Bank had within recent days paid the sum of \$1,800,000 to the Federal Reserve Bank, representing the entire balance due the Federal on account of the "short term" credit to the National Bank of Hungary, extended in the autumn of 1931 by a group of central banks through the B.I.S., in which the Federal participated to the extent of \$5,000,000. It is my impression that the Federal brought strong pressure on the National Bank of Hungary to obtain this result, threatening to put a lien on the gold held with the Federal by the National Bank of Hungary, in the name of the B.I.S.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin.

DATE: August 3, 1940, 10 a.m.

NO.: 3369.

FROM HEATH FOR THE TREASURY AND FOR DEPARTMENT'S
INFORMATION.

Despite the fact that German-Swiss trade negotiations are reaching termination now, Swiss sources here say that no proposal has been received by the Swiss negotiators that Switzerland enter into the multilateral clearing agreement of Europe under the direction of Germany, which was foreshadowed by Funk in a speech on the new economic era in Europe--refer in this connection to Embassy's 3203 of July 26, 5 p.m.--nor have the Swiss negotiators received any indication that proposals would be forthcoming along this line. However, these Swiss circles state that no objections would be raised by Switzerland to entering an agreement for multilateral clearings (offsetting) periodically of blocked balances resulting from trade which is conducted on a basis of bilateral clearing with other countries of Europe as a transitional solution until free exchange returns, since Switzerland would be enabled thereby to reduce or get rid of its blocked credit balances in certain countries by application of them against its debit balances with other nations.

However

-2-

However, any multilateral arrangement which goes beyond the clearing (offsetting) periodically of blocked balances resulting from trade between pairs of nations and prescribes that individual trade and financial payments can no more be made direct between Switzerland and Switzerland's trading partners, but must go through a Berlin clearing office and therefore come under the German Government's scrutiny and control, will be opposed by Switzerland and only under compulsion will it be adhered to.

I have information that pressure has been successfully exerted by Germany in these negotiations to force larger exports of agricultural products and machinery from Switzerland, which Germany needs. The Government of Switzerland will have to extend export credits to its exporters probably in the amount of ^{hundred} one/million Swiss francs since it will not be possible during the war as it is now for Germany to pay for these greater purchases by increases in its exports to Switzerland. My informants state, on the other hand, that German demands for such credits are not being opposed by Switzerland because such credits will foster merchandise sales which can't be exported now on account of the war and blockade conditions; also there is tacit admission that,

in

-3-

in order to erase the memory of Switzerland's previously unaccommodating attitude toward German trade, Switzerland is definitely pursuing a policy of economic cooperation with Italy and Germany.

A statement was made to the effect that Italy was previously obligated to pay in free francs Swiss railway freights for transit shipments but now Italy, by means of the Italian Swiss clearing, is permitted to cover them.

When the war began, Switzerland had in Germany a blocked clearing balance of around sixty-five million francs. In order to absorb this balance, Switzerland successfully insisted that the arrangement be amended. Because of the new arrangement and the fact that when the war began Germany was able to increase her exports to continental countries, not only was the Swiss exchange claim against Germany wiped out in the period of about three months but a credit of around forty million Swiss francs was acquired and retained by Germany. This balance will be utilized by Germany for increasing imports from Switzerland and, through the Government of Switzerland export credits referred to above, will also further increase imports by about one hundred million Swiss francs.

(END OF MESSAGE)

KIRK

TO 11 MA 2 214 C50
121 11 MA 2 214 C50
121 11 MA 2 214 C50

RDS

PLAIN

268

SHANGHAI VIA N.R.

Dated August 3, 1940

Rec'd 11:35 p.m.

Secretary of State,
Washington.

733, Third.

FROM COMMERCIAL ATTACHE.

Special Financial. Regarding low parity of local exchange rates as compared with New York free sterling rates as mentioned in my 731 dated August 2nd, local arbitrage operators cannot take advantage this situation because American banks in Shanghai have been instructed not to undertake transactions involving the sale of free sterling acquired locally to operators for United States dollars in New York, though transactions involving selling of United States dollars for free sterling in New York are permitted. This technical handicap has more or less dissociated Shanghai free sterling from that quoted in New York. Shanghai free sterling parity as expressed in local rates has been during last week around United States dollars 3.70, unaffected by New York free sterling fluctuations, local free sterling selling today opened at parity of 3.66 as compared New York free sterling August 2nd at 3.885.

INFORM COMMERCE.

EMB

BUTRICK

VOLUNTARY

20449

ESTABLISHMENT OF NEW BANK OF ISSUE IN BELGIUM

From:

Edward A. Dow, Jr., American Vice Consul

American Consulate, Brussels, Belgium

Date of completion: July 20, 1940

Date of mailing: August 3, 1940

* * *

A decree of the German Military Commander for Belgium and Northern France, dated June 27, 1940 and published in the Verordnungsblatt fur die besetzten Gebiete of July 6, 1940, created the Bank of Issue of Brussels (Emissionsbank in Brussel- Banque d'Emission de Bruxelles) for the issue of currency in Belgium.

The decree states that the Bank is being created by the Military Commander in virtue of the authority vested in him by the Commander in Chief of the German Army. The Bank's capital is fixed at 150,000,000 Belgian francs, divided into 15,000 shares of 10,000

francs

- 2 -

francs each, of which at least 20 percent must be paid up at the time of the establishment of the institution.

The bank is authorized to issue banknotes in Belgian franc denominations and these are to be legal tender in the occupied territory of Belgium. It is authorized (1) to buy and sell public treasury, provincial and communal obligations which fall due within a period of one year from the date of purchase, (2) to discount bills of exchange and drafts guaranteed by at least two persons whose solvency is known to the Bank (bills of exchange must fall due within six months of the date of discount), (3) to make loans against interest, the loans to be for a period of not more than six months. The Bank is also authorized to carry on foreign exchange transactions with foreign countries.

The banknotes issued by the Bank are to have as coverage the credits resulting from discount and loan operations, credits of the National Bank of Belgium and "foreign exchange holdings". It is specifically laid down that the latter term is to include German currency as well as the Reichskreditkassenscheine issued for the occupied territories.

The statutes of the Bank are to be submitted for the approval of a Reich Commissioner.

At least a portion of the capital of the new bank is reported to have been subscribed by commercial banks operating in Belgium, notably the Societe Generale de Belgique.

No currency had been issued by the Bank of Issue of Brussels up to the end of July.

File No. 851.
cad/r

EMBASSY OF THE
UNITED STATES OF AMERICA

Vichy, August 3, 1940

Subject: Order setting up an office for the Super-
vision of Banks in Occupied Territory

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

With reference to the Embassy's telegram No. 233,
August 2, 5 p.m., I have the honor to transmit herewith a
copy and translation of the Order published in Paris on
July 26, setting up an Office for the Supervision of Banks
in Occupied Territory.

Respectfully yours,

ROBERT D. MURPHY
Charge d'Affaires ad interim

mg Enclosures:

1. French text of Order
 2. Translation of Enclosure No. 1
- In triplicate

Translation

Paris, July 26, 1940

JOURNAL OFFICIEL

CONTAINING THE ORDERS ISSUED BY THE MILITARY
GOVERNOR FOR FRENCH OCCUPIED TERRITORY

ORDER FOR THE ESTABLISHMENT OF AN OFFICE OF BANK
SUPERVISION IN FRENCH OCCUPIED TERRITORY

(BANK SUPERVISION ORDER)

July 22, 1940.

By virtue of the plenary powers which have been conferred upon me by the Fuhrer and Supreme Chief of the German Army, I decree as follows:

1.

An Office of Bank Supervision shall be set up in French occupied territory. This Office has its headquarters in Paris.

2.

Enterprises which professionally carry on banking operations and savings banks (receiving and supplying money, purchasing, selling, receiving deposits and managing securities for the account of others) which have their head office or place of management in occupied territory, are subject to the control of the Office of Bank Supervision; they are obliged to follow the instructions of the Office of Bank Supervision.

3.

The Office of Bank Supervision is especially authorized:

a) to examine the books and accounts of the credit establishments subject to its supervision, as well as the cash, securities, bills, etc., and to request information regarding all transactions, as well as to make important operations dependent upon its consent;

b) to examine or require submission of balance sheets and documents pertaining thereto;

c) to prohibit the carrying on of the business or any particular transactions, especially the disposal of securities, the repayment of obligations or commercial communications;

d) to order the deposit or the transfer of the securities of the controlled credit establishment;

e) to

-2-

e) to withdraw from authorized persons the right to represent the credit establishments and to confer this right upon others.

Transactions which are dependent upon the consent of the Office of Bank Supervision (3 a), but which have been carried out without its consent are null and void.

5.

After the present order has come into effect credit establishments already existing can only be established upon the previous written authorization of the Office of Bank Supervision. (The word "not" before "already" was apparently omitted.)

6.

The expenses of the supervision are to be borne by credit establishments so supervised.

7.

The provisions of this Order do not apply to the Bank of France.

8.

Infractions of the terms of this Order or of the Orders issued in execution thereof are punishable by prison and a fine, or one of these penalties. Serious offenses are punishable by hard labor.

9.

The present Order comes into force on the day of its publication.

For the Commander in Chief of the Army,

The Chief of the Military Administration in France.

C O P Y

bj

TELEGRAM SENT

PLAIN

August 3, 1940

AMERICAN LEGATION

COPENHAGEN

RUSH.

203, third.

Your 447, August 2, 5 p. m.

Treasury advises it will grant license to Federal Reserve Bank of New York authorizing the transfer, upon instructions of Danmarks National Bank, to a special free dollar account of dollar funds of Danmarks National Bank up to additional \$10,000 requested, upon receipt from the American Legation at Copenhagen, through the Department of State, of certification that an equivalent amount of dollar funds has been furnished by the Danmarks National Bank for Danish kroner for transportation for returning American citizens and their families to United States on American Legion.

HULL

(GHB)

B40.51 FROZEN CREDITS/132

SD:GLB:LFS

EA

EU

DA

Copy of Bureau

TREASURY DEPARTMENT

275

INTER-OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Oil Refineries in Dutch East Indies

1. Standard Oil of New Jersey and the Dutch Shell each have a refinery in Dutch East Indies with a capacity of 1,000 barrels a day of aviation gasoline of 86 octane. Another refinery of same capacity (1,000 barrels a day) is under construction. Gasoline of 86 octane gas is high enough to operate planes with fair efficiency. With the addition of 3 c.c. of lead the quality of the gasoline can be stepped up to 100 octane. (The above information was supplied by Mr. Sadler of the Standard Oil of New Jersey via Captain Puleston. We have been able to find no published data on the Dutch East Indies capacity of high octane gas. The Bureau of Mines experts thought it very likely that the Dutch East Indies have facilities for production of high octane gas but were not certain.)

2. The Netherlands East Indies produces about 62 million barrels of crude petroleum a year, of which about 4 million barrels are refined into gasoline. In 1938 Japan imported about 2.5 million barrels of oil from Netherlands East Indies.

(Japan was supposed to have imported from all countries in 1938 over 36 million barrels of petroleum, including at least 22 million barrels of crude oil, and at least 2 million of gasoline, and 10 million of fuel oil.)

3. The experts in the Bureau of Mines estimated it would take at least 6 months to build additional plants in Japan or Dutch East Indies capable of turning out high octane gas.

copy A. Purvis 278
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 5, 1940.

TO Secretary Morgenthau

FROM Mr. White

Subject: Effectiveness of licensing control over aviation gasoline, aviation lubricating oil and tetraethyl lead.

What effect the recent addition of (a) aviation gasoline, (b) aviation lubricating oil and (c) tetraethyl lead to the list of commodities requiring an export license will have on Japan's military effectiveness seems to be unknown in Washington. If what some experts say is true, the prohibition has considerable effectiveness, but if what others say is true, it is almost completely ineffective. The numerous oil experts interviewed are not in agreement on important points and a more extended investigation into the subject is warranted before definite conclusions can be drawn with respect to the effectiveness or ineffectiveness of the new prohibition.

The substance of the situation appears to be as follows:

I. Aviation Gasoline

a. Japan has been importing less than 1 million barrels of aviation gas a year but she has been importing large quantities of tetraethyl lead with which she can make her own aviation gas out of crude oil and ordinary gasoline. In the Dutch East Indies the Standard Oil and Dutch Shell produce almost 1 million barrels of high-octane gas, but we do not know how much of it they will sell to Japan.

b. A plant to produce iso-octane (used to blend with ordinary gasoline to bring it up to 85-90 octane) has recently been completed near Tokyo. Another one is in process of construction. (More information could be obtained about this plant in Japan from the Tidewater Associates in the United States who own a half interest in the plant.)

According to Mr. Sessler of the Standard Oil of New Jersey, (via Puleston) Japan's contract for crude oil with the Dutch East Indies producers require that 20 percent of the crude oil delivered to Japan should be doped with enough tetraethyl lead so as to yield when distilled, gasoline with an octane of 87. According to Mr. Williams, Chief Chemist at the Bureau of Customs, crude oil doped with tetraethyl lead or iso-octane fluid can be distilled to obtain aviation gasoline.

Our own prohibition is so worded that crude oil for import to Japan is presumably not permitted to contain enough tetraethyl lead so as to yield a high-octane gas, but if Japan can get crude oil with adequate lead content from the Dutch East Indies her supply of high-octane gas will be substantially increased, even though Japan should not be able to produce tetraethyl lead herself.

c. It is reported (in a German source) that Japan and Manchukuo produce synthetic gasoline at the rate of over 7 million barrels a year. How much of it if any is of high enough octane quality, we do not know.

II. Tetraethyl Lead

The prohibition on tetraethyl lead may or may not be effective. The ingredients necessary for its manufacture can be obtained by Japan. According to one expert, the manufacture of tetraethyl lead is a highly complicated, dangerous, difficult and expensive process, but according to another expert, it is a relatively simple one. If the expert who claims that it can be simply made (Mr. Kraemer of the Oil Department of the Bureau of Mines) is correct, then the prohibition on tetraethyl lead would not be serious to Japan, and she could make all the aviation gas she needed out of crude oil and motor gasoline.

III. Aviation lubricating oil, with a higher viscosity index of 85-

Whether this prohibition proves to be effective or not depends upon the extent to which American exporters are willing to cooperate with the objective of the new regulation. The expert who wrote the regulation said that it is a very simple matter to mix the high grade oil in such a way that it could legally be exported and then with simple processing in Japan have the viscosity restored to higher than 85. Japan could, moreover, process high quality lubricating oil if she has the appropriate base crude petroleum, though it is supposed to be an expensive process.

IV. I spoke to the man who drafted some of the provisions and who helped in other provisions in the prohibition and he volunteered the information that the regulation had been drafted in its present form rather than in the form in which it was first given to the President because:

- a. It would be too difficult an administrative job to require a license for all exports of all petroleum products.
- b. The working assumption was that the measure was intended only to restrict the use of planes and not of ships or tanks or trucks.
- c. Though there were numerous ways of legally evading the prohibition of lubricating oil as the regulation is now written, they were so pressed for time they couldn't avoid the flaws in the formula.

Copy to A. L. Harris.

TREASURY DEPARTMENT

278

INTER-OFFICE COMMUNICATION

DATE August 3, 1940

TO Mr. White
FROM Mr. Ullmann

Subject: The Petroleum Situation in Japan

1. Japan can supply less than 10 percent of its petroleum requirements with oil originating in its own wells, and is therefore dependent on outside sources of supply.

Known Japanese imports in 1939 exceeded 30 million barrels, of which the United States supplied 28 million barrels (or 93 percent), the remainder being supplied by the Netherlands East Indies.

2. Of total Japanese 1939 imports, crude petroleum and fuel oil accounted for 93 percent (crude petroleum 53 percent, and fuel oils 40 percent).

3. United States exports of principal petroleum products to Japan in 1939 amounted to 28 million barrels (valued at \$45.4 million), divided as follows:

Crude petroleum	57%
Fuel oils	35
Aviation gasoline	2
Other gasoline	3
Lubricating oil	2
Kerosene	1

United States exports to Japan in 1939 were almost 12 percent below 1938 exports. In the first six months of this year, our exports to Japan were 23 percent lower than in the corresponding period of last year. However, June, 1940 exports are slightly higher than shipments in June, 1939 and represent a rise over exports of the preceding four months. Attached tables indicate United States exports to Japan.

4. The Netherlands East Indies, in 1939, exported 2.3 million barrels of petroleum products to Japan, 91 percent of which was fuel oil. Gasoline amounted to only 4 percent. No lubricating oil was exported to Japan (see table II).

Netherlands East Indies exports to Japan in 1939 were below 1938 exports by only 4 percent.

5. It is reported (in a German source) that Japan and Manchukuo produce synthetic gasoline at a rate exceeding 7 million barrels a year. There is no verification of this report, however, nor does the report indicate the quality of the product produced.

6. Japan's ability to refine imported products into aviation gasoline cannot be accurately determined. Her imports of aviation gasoline in 1939 amounted to less than 1 million barrels. Japan imported only 108 thousand barrels of gasoline (of all types) from the Netherland East Indies in 1939, and 500 thousand barrels of aviation gasoline from the United States. Her imports from the United States in the first half of 1940 were 20 percent below the corresponding period of 1939.

Japan is known to be refining some aviation gasoline. She has in the past operated some aviation gasoline plants, and has recently completed new ones (one of which is half-owned by a United States company, Tidewater Associates). Furthermore, according to Mr. Saddler of the Standard Oil Company, Japan's contract with the Netherland East Indies provides that one-fifth of the crude petroleum shipments are to be doped with enough tetraethyl lead to yield gasoline exceeding 87 octane.

Moreover, Japan's imports of anti-knock compounds from the United States rose in the first six months of 1940 (over the corresponding period of 1939) even though Japan's imports of all petroleum products declined.

7. Japan's ability to produce aviation lubricating oil cannot be determined. In 1939, Japan imported only a half million barrels of lubricating oil of all types, only a part of which was of the high quality usually referred to as aviation oil (i.e., oil that will stand up under the extreme heat and pressure of airplane motors).

However, most of the lubricating oil exported to Japan could either be used as received, or could be further processed into a higher quality. Moreover, Japan has facilities to produce lubricating oil from crude products.

The manufacture of aviation lubricating oil (as distinct from ordinary lubricating oil) depends on the technical skill of the manufacturers, rather than on special equipment. Therefore, if Japan has adequately skilled personnel, it can produce aviation lubricating oil from imported crude petroleum or from other oils.

8. It appears that Japan has been accumulating stocks of petroleum products. Her known imports and production in 1938 amounted to over 38 million barrels. Her consumption for that year, however, was estimated at 25 million barrels (Garfias estimate quoted in "Petroleum Facts and Figures," 1939), leaving an apparent surplus of 13 million barrels.

- 3 -

Division of Monetary
Research

Similarly, Japanese consumption in 1939 was estimated at 25.4 million barrels, in contrast to known imports and production of almost 33 million barrels (leaving a surplus of almost 8 million barrels).

It is possible, in view of these facts, that the decline in Japanese imports can be ascribed to a desire not to increase stocks, rather than to any decrease in consumption.

Table 1.

United States Exports of Petroleum and Products to Japan, 1936 to Date
(In millions of dollars)

	Total Petroleum and products	Crude Petroleum	Aviation Gasoline	Other Gasoline ^{2/}	Fuel Oils	Lubricating Oils	All Other Petroleum Products
1936	28.9	14.2	^{1/}	2.5	9.0	2.8	.4
1937	43.8	22.1	^{1/}	4.5	10.8	5.5	.9
1938	51.3	29.8	^{1/}	8.8	9.2	2.8	.6
1939	45.4	20.9	5.0	2.9	9.9	5.2	1.5
First six months 1939	21.8	10.0	3.0	.8	5.4	2.0	.6
Second six months 1939	23.6	10.9	2.0	2.1	4.5	3.2	.9
First six months 1940	18.2	7.6	1.6	1.0	3.6	3.2	1.2 ^{4/}
1939 January	3.2	1.3	.7	.3	.6	.2	.1
February	3.5	1.8	.8	.1	.5	.2	.1
March	3.5	1.5	.4	.2	1.0	.3	.1
April	3.5	1.7	.4	.1	.7	.5	.1
May	5.0	2.3	.4	.1	1.7	.4	.1
June	3.1	1.4	.3	^{3/}	.9	.4	.1
July	2.9	1.9	.1	.3	.3	.1	.2
August	1.9	.7	.1	^{3/}	.5	.4	.2
September	4.0	1.9	.1	.4	1.0	.5	.1
October	5.2	2.7	.7	.2	.8	.7	.1
November	4.9	2.0	.3	.8	1.0	.7	.1
December	4.7	1.7	.7	.4	.9	.8	.2
1940 January	5.1	1.6	.5	.5	.6	1.7	.2
February	2.4	1.0	.2	.3	.5	.4	^{3/}
March	2.3	1.1	.2	.1	.5	.4	^{3/}
April	2.3	1.1	^{3/}	.1	.5	.4	.2
May	2.9	1.4	.6	-	.7	.2	^{3/}
June	3.2	1.4	.1	-	.8	.1	.8 ^{4/}

Treasury Department, Division of Monetary Research.

^{1/} Included with Other Gasoline prior to 1939.^{2/} Includes Natural Gasoline and prior to 1937 Aviation Gasoline.

August 5, 1940.

Regraded Unclassified

Table II. Exports of Principal Petroleum Products from the
United States and the Netherland East Indies to Japan, 1939

(Millions of barrels)

	: From the : :United States:	: From the :Netherland East Indies
Crude petroleum	16.1	-
Aviation gasoline	.6	<u>1</u> /
Other gasoline	.8	.1
Kerosene	.1	.1
Gas oil and fuel oil	9.9	2.1
Lubricating oil	<u>.5</u>	<u>-</u>
Total	28.0	2.3

Treasury Department, Division
of Monetary Research.

August 5, 1940

Copy to H. L. Davis 283
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 5, 1940.

TO Secretary Morgenthau

FROM Mr. White

Subject: Reducing the Supply of Oil Available to Aggressive Countries.

1. Germany, Italy and Japan together produce in areas under their control less than one-fourth their minimum needs. They can get adequate supplies of oil from only four sources: (1) Roumania, (2) United States, (3) Dutch East Indies, and (4) Latin America. Oil from the Near East is not available to them, and oil from Russia will be available only in small amounts and only if Roumanian oil continues to flow to Germany.

The British, Dutch and American oil interests among them control virtually all the oil -- except Russian, Roumanian and Mexican oil -- produced in these areas. Moreover, a large portion of the Dutch companies are owned by British stockholders. Inasmuch as the "legitimate" Dutch Government is in England and since they presumably are still allies of England, it is possible without military measures to eliminate the sales of petroleum products to aggressive countries from areas outside of Russia and Roumania. Possibly our control over Dutch funds could be a factor in promoting cooperation of the Dutch Shell. (Netherlands has assets of almost \$1-1/2 billion blocked in the United States -- almost \$400 million of which belong to the government and Central Bank.)

2. Your proposal was that the United States consider adopting the following course of action:

- (a) Let the Latin American countries supply England and Canada with all their needs;
- (b) Absorb the remaining exportable surplus of Latin American countries;
- (c) Control exports of all petroleum products from the United States to all countries on the grounds that we need to conserve our own oil, and license exports to those areas and on those items in accord with the objectives of the program and so far as should prove to be politically feasible.

The adoption of such a program would involve an expenditure of from \$250 to \$400 million a year, depending upon the amount of exports that could be licensed while still adhering to the proclaimed objective of conserving needed supplies. An expenditure of that magnitude

during the coming year would be adequate to reimburse the oil producers for any loss they might suffer through curtailed foreign markets. This would include the refineries and processors as well as the crude oil producers. The necessary corollary to such proposal would be arrangements with the American, British and Dutch oil interests not to expand their production in Latin America beyond current output.

In pursuance of such a program, in some cases it would be feasible to curtail output of American wells by closing some of them, but in other cases the oil will have to be stored in additional built tanks inasmuch as some wells cannot be stopped from producing without serious deterioration. In either case, the producer would have to be reimbursed to some extent. (An argument that can be used to encourage oil producers to cooperate is that world consumption of oil under present conditions is less than would be consumption after war ceases. Hence, the increased supply resulting from a "AAA oil program" will not be as bearish on oil prices in the future as might at first appear.)

There are ways in which the cost could be reduced -- by subsidizing consumption, by the anticipated expansion of domestic market resulting from our defense program, etc., but no matter what was done the cost would remain over \$1/4 billion during the next year.

Conclusion:

Your proposal may be stated in the following brief terms:

1. If the United States -- alone or together with Great Britain -- is willing to spend \$25 to \$35 million a month on an oil conservation program, and
2. If the Dutch and the British will either destroy their wells in Dutch East Indies, or embargo oil exports except to British areas, and
3. If Russia could be induced to take over the Roumanian wells, and
4. If England would concentrate and extend her bombing attacks on German oil producing centers;

Then:

1. Japan will have to sue for peace with the Chiang-Kai-Shek Government in the very near future inasmuch as without oil reserves her military operations would be gravely hampered.

- 3 -

Division of Monetary
Research

2. The Japanese navy will be in no position to undertake any new venture, and hence her attitude toward the United States would undergo an abrupt change for the better.
3. Germany would be in a desperate plight to continue fighting. She might elect to utilize her remaining supplies in one desperate effort to break through the blockade. Should such a venture fail she would perforce be compelled to seek peace; should it succeed, it would be because she would succeed in any case.

Altogether, a risk of \$25 - \$35 million a month on the part of the United States seems like a trifling price to pay for a gamble where the stakes are so high and the chance of winning so good.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent handed to me yesterday evening the attached memorandum, he asked that I bring it personally to the attention of the Secretary with the hope that the latter may see fit to grant some relief to the British Government under our Customs regulations. Mr. Pinsent explained that the Commercial Secretary of the British Embassy had discussed the subject matter of the memorandum with Mr. Johnson, our Customs Commissioner, and that he would also inform Assistant Secretary of State Grady of the submission of this question to the Treasury.



(Handed by Mr. Pinnent of the British Embassy to
Mr. Coghlan in the Treasury at 6 p.m. on August 2, 1940)

As the U.S. Government will be aware, H. M. Government have submitted to Parliament proposals for the imposition of a tax in respect to purchases of goods from wholesalers. The effect of the proposals will be that the tax will fall upon purchases of goods (other than those specifically exempted) by retailers from manufacturers or wholesalers. Sales for export, whether by manufacturers or wholesalers, will be free from tax.

In framing the proposals H.M. Government have naturally paid regard to provision of United States law relating to valuation of goods for assessment of ad valorem duties but they are not satisfied that as United States law stands at present there may not be cases in which it may be claimed that the amount of the proposed purchase tax should form part of the value upon which duties will be assessed. Even if such claims were not upheld by the Courts the intervening period of uncertainty would cause impediments to trade. To H. M. Government it appears inequitable that a tax such as the tax in question which does not enter into the cost of production of goods in the United Kingdom should attract import duty. Moreover such a result would be very serious at a time when it is essential to promote exports to the utmost in order to provide means for paying for munitions and other essential requirements. Should the U.S. Government feel that the fears of H. M. Government are well founded, they trust that the U.S. Government will consider with sympathy whether the existing law could be amended so as to remove the inequity to which attention is directed above.

842P

2nd August, 1940

MT

TREASURY

17975

PLAIN

London

288

Dated August 3, 1940

Rec'd 5:55 p.m.

Secretary of State,
Washington.

2537, August 3.

Monthly Economic.

British economic mobilization in all sections of industry trade, finance and labor continued actively during July. Compulsory powers available to Government in this field have however been invoked sparingly, reliance being placed in voluntary cooperation far as possible. Problems rising national expenditure at least partially met by increased taxation in interim emergency budget, third since beginning war, and by additional measures including vigorous savings campaign to restrict civilian consumption and private expenditure. Generally, production essential supplies continues expand but output ordinary consumer goods tending progressively downward in line with various measures to restrict civilian consumption. Establishment Industrial Capacity Committee under chairmanship Parliamentary Secretary to Ministry Supply announced at end of month. Area boards in each civil defence region composed of representatives employers labor and government supply departments will function.

under

-2- 2537, August 3 from London.

under central committee to assist in most effective control and utilization industrial capacity, placing of government contracts, advice on questions of priority, and on other problems arising from changeover of industry to war basis. Railway operations showed some overall improvement during first half year due mainly larger volume freight traffic, partly higher freight passenger rates. Revenue passenger traffic reported below normal. Daily average postal receipts June 13% higher than preceding June but allowing for increased rates volume of postal traffic about one third lower. Decline of about 7% compared May attributed partly to reduction in circulars result paper economy campaign. Wholesale textile trade index June including domestic export trades shows progressive substantial decline to 97 June (1937-100) from 152 March reflecting loss normal export markets and restriction supplies for domestic consumption. Board Trade announces continuation after September 30 of current orders limiting supplies of cotton rayon and linen piece goods and made up goods for civilian home trade. Supplies during period October 1 to March 31 will be restricted to following percentages of corresponding quantities supplied in same period 1939-40: cotton thirty seven and half, rayon sixty six and two thirds, linen twenty five. Few formal changes

-3- 2537, August 3, from London.

changes in import restrictions but in practice general trend was toward stricter control all imports other than those considered directly essential to war effort. New export restrictions during month related mainly to trade with continental and North African areas chiefly France and French territories which for purposes commercial relations generally now treated by British authorities as enemy territory. Prohibition of jewelry exports intended prevent evasion exchange control, original purchase tax bill withdrawn as anticipated although revised tax proposals incorporated in new finance bill published and month follow in general lines of original bill. New tax which is expected become effective within month or two is intended restrict civilian consumption as well as provide additional revenue and will apply wide range consumer goods at rate of one third on luxuries and one sixth on other goods, on wholesale prices representing approximately 24 and 12% respectively on retail prices but with exemption for food, fuel, public utility services, children's clothing and goods already highly taxed, new machinery and plant control order adds various classifications to existing list of machinery and plant supplying or acquiring of which is prohibited except under Board Trade license. Clearances from bond of unmanufactured tobacco are made
subject

subject to license under Board Trade order effective August 1. While it is officially explained that at present licenses will be issued for quantities roughly equivalent to current rate of clearance and that order merely provides machinery for restriction if and when required, separate announcement made that leading tobacco manufacturers in conjunction with Board Trade have decided to restrict tobacco sales during August September by 10% of sales a year ago. Prices staple consumer goods and services especially foods and official cost living index continue to show comparatively small increases after nearly year war conditions due vigorous government action including centralized purchasing (for example, announcement just made of agreement to purchase during current cereal year additional hundred million bushels Canadian wheat stated to be largest purchase EVER recorded) official price controls and some government subsidies. Wholesale price indexes have risen more rapidly and retail prices of semi-staples and some goods normally considered essential such as imported fresh fruits have risen more sharply indicating probability progressive and possibly more rapid increase cost of living generally. In some cases prices have been maintained but supplies much reduced, for example, eggs increasingly scarce and some imported canned goods practically off market. Rising costs for persons in marginal income classes being partially offset.

partially offset by special measures such as provision free milk for young children. Indicative of rising trading costs is additional increase effective August 1 of 5% on rates and charges by port of London authority. Following several earlier increase, unemployment continues decrease and special examining panels set up in further effort absorb unemployed. Minister Labor announced August 1 formation international labor branch that Ministry to mobilize for industrial employment allied and friendly foreigners in United Kingdom. Loss continental trade and trade affected by continental changes reflected in value decline 13% imports 22% exports reexports June compared May. Largest import decrease was in raw materials, mainly oils oilseeds nonferrous ore scrap and textile materials other than raw cotton which showed little change on month and sharp increase over June preceding two years. In foodstuffs group, substantial further declines imports dairy produce fresh fruits vegetables beverages unspecified food products. Latter changes and smaller imports hardware electrical equipment and textile leather and miscellaneous manufactures also show progressive effect import restrictions. Export decreases distributed all classes manufactured goods with shipments beverages coal also lower. Export drive for remaining markets intensified during July by means increased allocation

-6- 2537, August 3, from London.

allocation raw materials to export industries, further restriction domestic civilian consumption, extension number and activity commodity export groups and extension active government support illustrated by formation special cotton textile export company under official auspices and by special publicity campaign in factories stressing importance of export trade. Six months excess merchandise imports over exports £343,430,000 against £183,368,000 and £203,616,000 same periods 1939 and 1938 respectively. This growing disparity more apparent than real however to extent that import figures include transportation insurance costs which are now far higher than in preceding years and which accrue chiefly to British interests.

: INFORM COMMERCE.

KENNEDY

NK

TELEGRAM SENT

ATP

PLAIN

August 3, 1940

AMEMBASSY,

VICHY

219 Third

Your 202, July 30.

Treasury has looked into the matter and the Irving Trust Company has no information with regard to the transaction in question.

HULL

EA:FL:EHS

EU

TELEGRAM SENT

AS

PLAIN

August 3, 1940

AMEMBASSY,
MEXICO.

248

Your 286, July 30.

Treasury advises as follows: QUOTE The French American Banking Corporation of New York has filed a number of applications covering specific transactions on behalf of Cia Minera Del Boleo of Santa Rosalia, Lower California. Such applications have been handled promptly and have been approved.

On July 13 a license was granted to the Chase National Bank of New York freeing one of the accounts of Jean Hermanos of Mexico City. Subsequently another application was filed with respect to another account of Jean Hermanos. Authorization is being sent to the Federal Reserve Bank to free this account also. UNQUOTE

HULL
(BL)

EA:FL:SHS

RA

TELEGRAM SENT

AS

PLAIN

August 3, 1940

AMEMBASSY,

MEXICO.

248

Your 286, July 30.

Treasury advises as follows: QUOTE The French American Banking Corporation of New York has filed a number of applications covering specific transactions on behalf of Cia Minera Del Boleo of Santa Rosalia, Lower California. Such applications have been handled promptly and have been approved.

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HULL
(EL)

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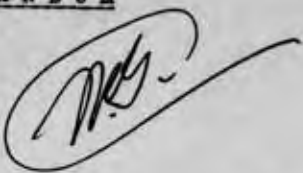
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hd

August 3, 1940

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



I called the Division of Controls of the State Department after talking to you on the phone on Saturday. Mr. Allen of that Division, Assistant to Mr. Green, told me there had been no general cancellation of licenses subsequent to July 5th and that thousands are still outstanding. He said the new control of strategic materials did not affect at all the validity of licenses under the Neutrality Act. A good many licenses that were outstanding July 5th had been cancelled but these were individual cases and special circumstances. As an instance, he said that of course licenses granted for export to France had been cancelled. These had been sent in for cancellation either by the exporters or by the Collectors. There are other cases in which exporters had voluntarily surrendered licenses.

Mrs. Klotz:

298

This is the copy of the speech Mr. Gaston made Sunday. The Secretary told Mr. Gaston this morning he would be interested in seeing a copy.

Address of Herbert E. Gaston, Assistant Secretary of the Treasury, at the New York World's Fair on Coast Guard Day, Sunday, August 4, 1940.

As we meet to celebrate the one hundred and fiftieth anniversary of the creation of the oldest maritime arm of our government, the United States Coast Guard, we celebrate other events and other matters of greater moment and deeper significance.

Bound up in the history of the Coast Guard is the story of the growth of a Nation and the development of an ideal of government. It is the story of the struggle to justify the belief that men may rule their affairs successfully on the basis of the doctrine that only by the consent and through the will of the people do governments derive their just powers. The lifeline of the Coast Guard is a thread that is woven into a grander pattern, the pattern of the evolution and the growth of a government dedicated to liberty.

And so, Mr. Chairman, while I speak for the Secretary of the Treasury and the whole organization of the Coast Guard in expressing our gratitude that the New York World's Fair has chosen to honor by a special day in this great parade of the progress of mankind this organization which is devoted to the service of our people and the service of humanity, we recognize a special fitness in this action.

The history of the Coast Guard is in miniature a history of our Nation.

One hundred and fifty years is a short period in the whole history of mankind but in the march of humanity it marks a great distance and great accomplishment.

When the Revenue Marine first came into being in 1790 as a little fleet of sailing sloops, independence had been achieved by the colonies and settlements from which our Nation sprang, but the struggle to create a "more perfect union" under the name of the United States of America had only begun.

Those few little vessels of 1790 and the near succeeding years had a modest but an indispensable role to perform. Here in the waters about Long Island and on the Jersey shore, in Massachusetts Bay, in the Delaware and elsewhere on this eastern coast they made possible the collection of the revenues from imports and from shipping which were for many years the chief financial sustenance of the Nation.

As the Nation has grown that role has become of less relative importance. No longer is the whole revenue of the Nation dependent upon the vigilance of the guardians of the gates to the sea. But because those guardians performed their tasks well they have succeeded to a host of other duties. Their function has extended beyond the protection of the revenue--though they still perform that duty and perform it well. It has extended to the protection of life and property at sea and to care for the safety of voyagers by air over the seas and to the performance of a

- 3 -

multitude of other services to make the lives and the interest of our people more secure.

Today the ships and aircraft of the Coast Guard are patrolling the seacoasts of the United States and its possessions. They are on guard to protect life and property and to enforce order and the will and interests of the people of the United States in the waters of our most distant possessions. They are cruising in the Bering Sea and elsewhere on the coasts of Alaska, in the waters around Hawaii and the Pacific islands of the United States. They are on the shores of Puerto Rico. Other units of the fleet are on a mission of aid and protection to Greenland; and far out in the Atlantic on the course from LaGuardia field by way of Bermuda and the Azores to Lisbon in Portugal there are cutters stationed to observe the weather and to make safe the passage by air as well as by water to the continent of Europe.

All along our coasts hardy surfmen of the Coast Guard shore units patrol the sands and stand ready to go to the rescue of seamen and voyagers in distress. The lights and radio beacons of the service from Maine to Florida, around the great curve of the Gulf and from Lower California to the Bering Sea flash their messages to navigators, guiding them safely to harbor or setting them truly on their courses for distant ports.

It is a long step from the handful of men who manned the little sailboats of the seventeen-nineties, daring and competent as these men were, to the fleet of armed seagoing cutters and

- 4 -

patrol-boats, the patrol and rescue seaplanes, the lighthouses, radio beacons and surf stations of today, manned by men trained in the intricacies of a score of specialized crafts--seamen still, some 17,000 of them, but seamen who know how to command the use of all the devices of science to aid their seamanship, seamen who are marine engineers, experts in ship construction and ship safety, in meteorology, in radio communication, in all forms of signalling devices, in the study of ocean currents, in maritime and customs law.

These are phases of the growth of the Coast Guard that parallel the growth of the Nation. Ours has been a people ambitious and diligent in building, eager for knowledge and ingenious in its application. Has our superior progress in these lines been due to the fact that the people who came to these shores, early or late, were gifted with innate constructive and mechanical and scientific capacities, innate gifts for organization and direction of affairs? On the face of it, that is incredible. These material conquests have been wrought in a democracy, where people were free to think and free to act.

There are other phases of the life of the Coast Guard that parallel the life of the Nation. The Coast Guard's primary function is the service of our people and the service of humanity. It is to contribute to their safety and security in the pursuit of progress and the ways of peace, and by that means to enlarge their liberties and their happiness. It menaces no people and no man who pursues

the ways of peace and the ways of order. In that respect it represents the ideals of the people whom it serves. Its battles have been in the main battles with the elements in carrying out its mission of protection. But it has been equipped with force and has had the courage to apply force to restrain the lawbreaker.

It has contributed also to the defense of the Nation in wars for human liberty. The Coast Guard has been a part of the armed forces of the United States in every war in which the Nation has participated since the service was created and it has performed its warlike duty as valiantly and as courageously as it has performed its humanitarian duties in times of peace.

The Coast Guard has a motto, "Semper Paratus," which can be translated freely as "Always Ready," but "paratus" means something more than that. It is ready not simply in the sense of being willing to act on the instant, but prepared in the sense of looking forward and making provision for the performance of the duty that it may be called upon to perform. In the Coast Guard broad interpretation has been given to that motto. It prepares not only in equipment but in the training of its men. Its officers are educated for their duties in an institution especially created for them, the Coast Guard Academy, where four years of the highest quality of technical training are superimposed upon a liberal education. The service has schools, too, for enlisted men, where seamanship and the special crafts of Coast Guard seamanship are

taught. It is engaged also in the training for the Maritime Commission of merchant seamen and merchant ship officers and the qualities of Coast Guard officers as instructors in seamanship have met nothing but the highest praise.

There would be no point to telling of these things as a boast on behalf of the Coast Guard out of pride in an admirable service. They have a much deeper significance. In its evolution from a handful of willing sailors pursuing smugglers to a highly trained and technically trained body of career servants of the public, the Coast Guard is a good example of the capacity of a democratic and free people to develop the techniques of government--not the techniques for oppression; not the techniques for conquest, but the techniques for service to humanity, the techniques for expanding opportunity and freedom, the techniques of liberty.

It is not a solitary example. Not by any means. It is typical of our progress in government and it is only useful to cite because it is typical.

We need a new faith in democracy. We are listening today to a clamor throughout the world that democracies are decadent, that democracies can't serve their people as efficiently as tyrannies. It is a monstrous falsehood, disproved by the record, but we are in danger of letting the hypocritical clamor deceive us. We need a new faith in America.

Where in the world has government served its people as a democratic government has served its people in America? Where in

the world is physical progress or intellectual progress or moral progress equal to the progress of America? Where in the world does government now and has government over the last hundred and fifty years dealt more humanely and more fairly with its people than in America? Where else have human liberty and human opportunity advanced save in this country and in others that have adopted and held fast to the democratic way of life? Where in the world have there been social progress and enlargement of opportunity equal to ours in these last few years?

Is it because we are decadent that the treasure of the world is heaped upon us for safekeeping? Is it because we are decadent that people of worth and energy and ambition seek to enter here and have for many years sought to enter here in numbers more than we could admit? Is it because we are decadent that people in every country of the world stretch out their hands to us in appeals for help?

Just a few miles from here, across this island and the waters of New York harbor, stands a structure that should have a greater significance to mankind than any other edifice anywhere. It is the Statue of Liberty, holding aloft her torch to enlighten the world. It was the gift of the people of France to the people of America. It was a message, an eternal message, from a people whose country had just been ravaged by war and is again ravaged by war, a people who loved liberty and still love it, bidding us to preserve liberty, to hold aloft the torch of freedom and to defend it valiantly, whatever might befall elsewhere in the world.

For more than fifty years that statue has been silently speaking its message, not alone to America but to all the world. Today it speaks to Americans with a special insistence that ought to reach all our ears. It tells us that the way of liberty is the way of progress and the way of hope. It tells us that we must be vigilant and we must be valiant. It tells us that democracy is worth fighting for and we must be prepared to defend it. It echoes in solemn tones the words of a great American who said that "Eternal vigilance is the price of liberty" and of another who prayed for a new birth of freedom.

Freedom was never more greatly menaced. It is a time to forget petty things and to see America whole. We have an obligation we can not escape. It is to hold firmly aloft the torch of liberty.

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

August 4th, 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. R. Austin

The Honourable

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

Telegram despatched from London
on the evening of August 3rd.

1. Naval. Reference to summary
375 page two, first paragraph. Fourteen
U-boats located at Kiel August 1st.

Submarine "Gerald" presumed lost
following Italian claim of sinking and report
that fifty-two of the crew including the
Captain rescued.

Reinforcement of fighter aircraft has
safely arrived at Malta.

U-boat attacked yesterday afternoon
off northern Ireland by British aircraft which
claims to have caused damage by near misses.

2. Royal Air Force. Heavy bombers
carried out very effective work night of
August 1st/2nd. Fires were started in four oil
plants at Krupps, at Essen and on marshalling
yards, one aerodrome also attacked. Particu-
larly successful results at Essen oil plant,
three successive aircraft caused explosions,
one being particularly violent, target appeared
completely destroyed.

Yesterday owing to weather condi-
tions no day bombers reached Germany; very
successful attacks delivered by twenty-four
on their aerodromes in Belgium and Holland,
one aircraft missing.

Last night fifty heavy bombers sent to attack oil plants, railway target and electric power station at Bremen, twelve aircraft mine-laying in Lubeck area and northeast Danish waters, two machines not returned.

3. German Air Forces. British merchant vessel believed "Highlander" twice attacked by enemy aircraft early yesterday. One Heinkel shot down in flames by Lewis gun during first attack; during second by air torpedoes enemy aircraft hit ship and crashed on deck. Ship has arrived in Scottish port with enemy aircraft on board.

Enemy activity yesterday slight. Confined to coastal reconnaissance and some light attacks on shipping.

Last night activity chiefly by single aircraft. Some bombs dropped in South Wales, Thames, Medway areas and also on convoy off Scotland.

4. Summary of air casualties:

Day of 2nd: enemy two bombers, British one medium bomber, confirmed.

Night of 2nd-3rd: British two bombers; total: enemy two, British three, all confirmed.

Shipping casualties:

By U-boat.

Three British tankers reported sunk in yesterday's summary, paragraph 5, are making for port under own steam with naval and air escort.

By air. Early this morning British Law 6800 tons in convoy off North Scotland set on fire/

-8-

fire and reported sinking. Tugs sent to assistance.

Yesterday British ship 8000 tons, aground Thames Estuary previous day was bombed and severely damaged.

B. Middle-East. Confirm principal munitions dump at Bardia destroyed by our air attack on August 1st. The same day successful attacks carried out on two aerodromes in Abyssinia and heavy explosion caused to oil refinery near Massawa.

On July 31st five and a half tons of bombs dropped on enemy aerodrome near Diredawa where 27 enemy aircraft located; one of our aeroplanes forced land in enemy territory.

Italian aircraft attacking Port Sudan August 1st reported using English type camouflage and British marking.

Regular night air-mail service not in operation between Libya and Italian East Africa.

LEGATION OF THE
UNITED STATES OF AMERICA

No. 343.

Tallinn, August 4, 1940.

Subject: Foreign Exchange Restrictions in the
New Estonian Soviet Socialist Republic.

The Honorable

The Secretary of State,
Washington.

Sir:

1/ I have the honor to forward herewith the text, translated into English, of regulations enacted yesterday pertaining to restrictions and to the procedure of handling foreign exchange in the Estonian Soviet Socialist Republic.

It is indicated that a local bank moratorium had been put into effect to stop run on banks. Until July 19th last the banks were permitted to deal in foreign exchange under certain restrictions, but the new decree greatly restricts the purchase of foreign exchange either in the form of currency, checks or other negotiable papers.

Respectfully yours,

Walter A. Leonard
Charge d'Affaires a.i.

Enclosure:

1/ English translation of decree.

File No. 851.5
WAL/jj

In quintuplicate.

Enclosure to despatch No. 343 of August 4, 1940, from the Legation at Tallinn.

SOURCE: RIIGI TEATAJA (Official Gazette)
No. 92 of August 3, 1940. Tallinn.

FULL TRANSLATION

Article 914. REGULATIONS CONCERNING MOVEMENTS OF FOREIGN EXCHANGE

Issued by the Government of the Republic on August 3, 1940.

Basis: Paragraph 2 of law concerning regulation of movements of foreign exchange media and precious metals (RIIGI TEATAJA No. 95 of 1931, article 695.)

For the purpose of introducing fixed procedure as regards expenditure of foreign exchange, the Government of the Estonian Soviet Socialist Republic has decided to enact the following stipulations:

Par. 1. The sale of foreign exchange, in the form of cash as well as checks and letters of credit, shall be suspended.

Par. 2. Payments of foreign exchange from foreign exchange accounts of foreign diplomatic representatives may be granted in no larger amounts than 50 United States dollars in terms of exchange in which the account is opened, provided a foreign passport is produced bearing a stamp of the exit visa. The Eesti Pank may issue payment orders and checks made out to the name of foreign banks abroad, exceeding the aforementioned fixed sum, upon demand of foreign diplomatic representatives from their accounts.

Par. 3. Payments of foreign exchange, in cash, from current accounts kept in foreign exchange, to firms and citizens of foreign States may be granted according to the same procedure and in the same extent as prescribed for foreign diplomatic representatives, but no transfers abroad exceeding such amounts shall be permissible.

Par. 4. When granting payments of foreign exchange, in cash, the Eesti Pank shall charge a 2 percent commission.

Par. 5. Transfers of foreign exchange abroad for commodities shall be temporarily suspended.

Par. 6. The balances of accounts of correspondents of foreign banks at the Eesti Pank shall be temporarily blocked, and no writings-off from these accounts shall be permissible.

Par. 7. Exceptions from the restrictions of the foreign paragraphs may be granted with the permission from the Ministry of Economic Affairs in each individual case.

These regulations shall enter into effect upon publication.

(Signed): H. Krums, Alternate Prime Minister.
J. Narva, Minister of Economic Affairs.
K. Terras, State Secretary.