

DIARY

Book 293

August 14, 1940

- A -

Allison Engineering Company
See War Conditions: Airplanes (Engines)

Book Page

- B -

Brasil
See Latin America

- C -

Continental Mining Corporation		
Federal Bureau of Investigation report.....	293	208
Curtiss-Wright Corporation		
See War Conditions: Airplanes		
Customs Agency Service		
Report by Richards (Karl M.) concerning bombing of Calais, and a trip through the German lines in France, Belgium, etc. - 8/14/40.....		272

- E -

Estonia
See War Conditions: U.S.S.R.

- F -

Federal Bureau of Investigation		
"Suggestions for Protection of Industrial Facilities": Booklet issued by Federal Bureau of Investigation...		222
Foreign Funds Control		
See War Conditions		
France		
See War Conditions		

- G -

Germany
See War Conditions
Gold
See War Conditions
Great Britain
See War Conditions: Military Planning; United Kingdom

- I -

Industrial Facilities, Suggestions for Protection of Federal Bureau of Investigation booklet.....		222
International Hydrographic Bureau		
See War Conditions		

- L -

	Book	Page
Latin America		
Brazil: Exchange crisis - measures to prevent and also to facilitate inter-American trade: American Embassy, Rio de Janeiro, report - 8/14/40..	293	259
Latvia		
See War Conditions: U.S.S.R.		
Lithuania		
See War Conditions: Shipping		

- M -

Mexico		
Newsprint industry in: Federal Bureau of Investigation report.....		208
Hochschild transmits report (readjustment of petroleum industry) - 8/14/40.....		258
Military Planning		
See War Conditions		

- P -

Poland		
See War Conditions: Gold; Poland		
Protection of Industrial Facilities, Suggestions for Federal Bureau of Investigation booklet.....		222

- R -

Richards, Karl M. (Customs Agency Service)		
Report concerning bombing of Calais, and a trip through the German lines in France, Belgium, etc. - 8/14/40..		272

- S -

Ship Movements		
See War Conditions		
Shipping		
See War Conditions		
Suggestions for Protection of Industrial Facilities		
Federal Bureau of Investigation booklet.....		222
Switzerland		
See War Conditions		
Syria		
See War Conditions: Foreign Funds Control		

- U -

U.S.S.R.		
See War Conditions: Shipping		
United Kingdom		
See War Conditions: Military Planning; United Kingdom		

- W - (Continued)

	Book	Page
War Conditions		
Airplanes:		
Shipments of planes and parts awaiting clearance in New York - 8/14/40.....	293	144
a) New York Central point of view on engines contracted for by French authorities.....		155
Curtiss-Wright Corporation: Report of trip by Haas and Commander Kossler - 8/14/40.....		153
British defeat - possibility of must be taken into consideration when making contracts: HMAJr and Stimson discuss - 8/14/40.....		156
Engines: Allison Engineering Company: Report of trip by Haas and Commander Kossler - 8/14/40.....		146
Exchange market resumed - 8/14/40.....		172
Foreign Funds Control: Syria: American Consul is informed no part of dollar credits in America, if freed, will be used for settling outstanding obligations but will be used for buying kerosene, gasoline, etc., in United States - 8/14/40.....		96
France: Calais bombing, and trip through German lines in France, Belgium, etc.: Report by Customs Agent Richards (Karl M.) - 8/14/40.....		272
Germany:		
"The German White Paper" published by Howell, Soskin, and Company, Inc., New York: Federal Bureau of Investigation report.....		208
New clearing agreement with Switzerland - 8/14/40....		239
Letter from William Allen White (editor and owner of "The Emporia Gazette") transmitted by Federal Bureau of Investigation.....		231,233,234
Gold: Poland: Gold reserve situation discussed by Financial Counselor, Polish Embassy, with Cochran - 8/14/40.....		118
International Hydrographic Bureau: Accounts opened with Chase Bank and Barclay's Branch Bank, New York - 8/14/40.....		174
Military Planning: Report from London transmitted by Lothian - 8/14/40.....		65
Poland: Tax of 15% imposed on incomes of all Poles in German Reich - 8/14/40.....		227
Ship Movements: SS WESER: Federal Bureau of Investigation report.....		208
Shipping: Estonian Government (and possibly Latvian and Lithuanian Governments), at dictation of U.S.S.R., has ordered all ships home avoiding United States and British ports; British Embassy asks United States assistance to prevent - 8/14/40.....		98
United Kingdom: Exports to United States and Latin America as discussed by Sir Frederick Phillips, FDR, and HMAJr now to be discussed with State Department - 8/14/40.....		104
WESER, Steamship		
Federal Bureau of Investigation report.....		208
White, William Allen (Editor and Owner of "The Emporia Gazette") Letter transmitted by Federal Bureau of Investigation.....		231,233,234

Secretary Morgenthau

MUG 14 1940

E. H. Foley, Jr.

There is herewith transmitted a memorandum dealing with the applicability of the securities transfer taxes to the acquisition of securities by the British Government, and their subsequent sale by that Government.

The memorandum concludes that, as a matter of international law, one sovereign may not levy a tax on the transaction of governmental functions by a foreign sovereign government in such a manner that the tax, or its direct burden, will fall upon that government.

The memorandum further concludes that where there is a transfer of securities to the Government of Great Britain, the transferor may be compelled to pay the tax since the burden cannot be shifted to the British Government, because the price which it will pay for those securities has been established by law. Where a transfer of the shares is made on the books of the corporation, it is concluded, the tax may be imposed on the corporation where that would not result in the direct burden being cast on the British Government. Part II of the memorandum concludes that the transfers to the British Government are not transfers "by operation of law", as that term is used in Article 35(r) of Regulations 71 and that, therefore, such transfers are not exempted from the tax by that provision.

The memorandum also concludes that where the British Government sells those securities in the United States, the tax may not be imposed on the transferee, since to do so would, under the decided cases, be considered as casting the direct burden of the tax on the British Government. The decided cases, however, are ones upon which much doubt has been cast, and which the Federal Government may decide not to follow.

The position taken by the memorandum is contrary to that expressed in a letter dated February 1, 1940, from the Acting Secretary of the Treasury to the Secretary of State, where it was ruled that there was nothing in the rules of international law which would exempt the Government of Great Britain from the imposition of those taxes.

(Initialed) E. H. F., Jr.

General Counsel.

HP1/njb/np 5/8/40

Secretary Morgenthau

AUG 14 1940

H. H. Foley, Jr.

Re: Applicability of Securities
Transfer Taxes to a Foreign
Sovereign Government.

By a letter dated February 1, 1940, from the Acting Secretary of the Treasury to the Secretary of State, the Department of the Treasury ruled that the Government of Great Britain was amenable to the tax on the transfer of shares or certificates of stock levied by secs. 1800 and 1802(b) of the Internal Revenue Code, as amended, and to the tax on the transfer of bonds levied by secs. 3480 and 3481(a) of the Internal Revenue Code, as amended; whenever any transfers occur, to which that Government is a party, which would be within the purview of those sections, it was ruled that liability for those taxes is incurred.*

The question has arisen whether that position may be taken by the United States Government without there being a violation of any of its obligations to the Government of Great Britain under the law of nations. In this memorandum, an attempt will be made to determine whether customary international law restricts in any manner the right of the United States to tax those transactions when a foreign sovereign government, in the performance of its governmental functions, is a party to the transactions.

* - The relevant statutes are collected in the attached appendix.

Conclusion

The imposition by the United States of a tax on a transaction of a governmental nature by a foreign sovereign government would be in violation of the international obligations of the United States when that tax is imposed upon, or its burden falls directly on, that government. Where the burden of the tax would not fall on that government directly, the tax may be levied on one of the other parties to the transaction.

Discussion

It appears that the British Government has determined that a successful prosecution of the present war in Europe necessitates the conservation of all foreign credits and their concentration in the hands of the Government. To this end, by several Orders in Council, termed Defence (Finance) Regulations,^{1/} the British Treasury has been empowered to require that the resident owners of foreign securities transfer them to the Treasury and that registration be in the name of the Treasury or such person as the Treasury may direct.

By the Acquisition of Securities Order, dated February 17, 1940, the Treasury, in pursuance to the Defence (Finance) Regulations, 1939, transferred to itself certain named securities, at a specified price for each security.^{2/}

^{1/}Defence (Finance) Regulations, dated August 25, 1939, and Amendments, dated September 2, 1939, November 25, 1939, December 20, 1939, and March 7, 1940.

^{2/}Paragraph 2 of the Defence (Finance) Regulations, 1939, as amended, provides that the Treasury may transfer the securities to itself at a price which is not less than the market price on the day of the acquisition order.

Some of the securities so held are deposited in the United States, and delivery will be made in the United States to the British Treasury, or its agents. Other securities are held outside the United States, and delivery of these securities will take place there. In the case of registered securities, it is contemplated that registration on the books of the company will be in the name of the agent or broker of the British Treasury. Unregistered securities will probably not be transferred on the books of the company, the transfer being effected by endorsement by the owner. It is anticipated that, at some future time, a portion of the securities acquired by the British Treasury will be sold to buyers in the United States.

The letter to the Secretary of State, already referred to, has stated that secs. 1202(b) and 2481(a) of the Internal Revenue Code, as amended, impose a tax on all transfers of securities, unless otherwise exempted, occurring in the United States, regardless of the location or nationality of the owner. Hence, the sale of securities to or by the British Treasury, or its agents, in the United States falls within the scope of these sections. With respect to sales made outside the United States, these sections are operative only when, and in the event that, a transfer of the record title is made on the books of the issuing company.

- 4 -

Since, the letter concluded, there is no recognized exemption from the tax afforded by international law, except in the case of transactions by an accredited diplomat, and no express exemptions are provided for by the sections themselves which would apply to the present situation, these transactions which are within the scope of the sections are subject to the taxes imposed.

At the outset, it should be stated that the problem appears to have been presented directly for adjudication in but two appellate courts in this country. An exhaustive and extended search into the authorities who have written in the field of international law has revealed but little direct treatment of the problem under consideration. In view of that, and in view of the absence of any direct evidence of the accepted and customary practices of nations, the existence or nonexistence of such an immunity or exemption must be determined from, in addition to that authority which does exist, the basis on which similar immunities are founded and the recognized treatment of analogous situations.

The immunity of a foreign sovereign government, engaged in performing its governmental functions, from local taxation, was established by the Court of Appeals of Kentucky in French Republic v. Board of Sur's of Jefferson County et al., (Ky. 1928) 283 S.W. 134. The French Republic, it appears, enjoys a monopoly over the sale of tobacco within its jurisdiction, and the revenues of that

government is derived, in part, from the proceeds of its sale. The French Government had purchased, with governmental funds, certain tobacco in this country to export to France, where it was to be sold under the governmental monopoly. Pending shipment, certain of the tobacco was in storage in Kentucky, where the county Board of Supervisors assessed the tobacco for taxation in the name of the French Republic.

The constitution of the Commonwealth of Kentucky provided that all property, except that exempted by the constitution, should be taxable; the only exemption provided was for "public property used for public purposes". The court, at the outset, conceded that that exemption applied only to property owned by the Commonwealth or one of its municipal subdivisions. The question to be decided, the court said, was, "Did those who framed the Constitution intend to tax the personal property of a foreign sovereignty in the circumstances here presented?" In determining that the framers of the State constitution did not intend to tax the property of a foreign sovereignty, the court found no intention to depart from the principles of international law. The court stated (at page 136):

" * * we are constrained to hold that the framers of our Constitution did not intend to inaugurate a policy so opposed to international usage, so incompatible with the dignity of independent nations, and so likely to result in the loss of the good will of those whose friendship we have always prized. As the property was not taxable, it should not have been assessed."

In determining the state of international law in the matter of the taxation of a foreign sovereign, the court stated (at pages 125-126):

"* * * So far as we are aware, no state and no nation, at the time of the adoption of our Constitution, had ever assumed the right to tax the personal property of a foreign power that happened to be temporarily within its jurisdiction."

The court also stated (at page 125):

"* * * taxes are imposed on the theory that the taxpayer should pay a portion of the expense incurred in the protection of his person or property, and as applied to ordinary persons and corporations this principle seems eminently fair and just; but as applied to independent nations it is clearly opposed to the spirit of international unity, which should prompt every nation to guard and protect the personal property of all other nations that happens to be temporarily within its jurisdiction, without levying a tribute for that purpose."

"Another consideration not to be overlooked is that the absolute sovereignty of every nation within its own territory does not always extend to foreign nations, but is subject to certain limitations sanctioned by the law of nations and imposed by its own consent. * * * [Quoting from Johnson v. M'Intosh, discussed, infra]

"Hence, if one nation enters the territory of another with its consent, for the purpose of mutual intercourse, it does so with the implied understanding that it does not intend to degrade its dignity by placing itself or its sovereign rights within the jurisdiction of the other, and we know of nothing more calculated to degrade

the denial of an independent action then for another to attempt to surmount over it the national right of taxation. (Underlining supplied)

If the following analysis of this unwarranted be valid, it follows that the French Republic case reached a sound solution by applying accepted principles of international law. It should be emphasized that the basis of the decision in the case was that the imposition of the tax would be in contravention of the principles of international law, and that, therefore, it could not have been the intention of the framers of the constitution to impose such a tax.

Contrasted with that case is that of Republic of France Sh. et. v. City of New York, (unpublished, Supreme Court, King's County, decided December, 1925)(noted (1926) 74 U. of Pa. L. Rev. 514). There the French Republic, through the instrumentality of a New York corporation, had acquired certain real estate in New York City for the storage of war materials. The major portion of the property was never used for war purposes, and, after the completion of the war, it was rented out to private persons. Taxes were assessed against the land from the date of its purchase; suit was brought to remove the tax claims as a cloud on the title.^y

^yThe fact situation is from the note in (1926) 74 U. of Pa. L. Rev. 514.

The court held that the tax was properly levied; the reasoning of the decision was based on the fact that, although many exemptions were listed in minutest detail, none was specifically afforded by the taxing statute for the property of foreign sovereignties. The cases dealing with the immunities of a foreign sovereignty and its property from judicial jurisdiction and the immunities of diplomatic representatives from tax liability were said not to be applicable. The case of French Republic v. Board of Supervisors of Jefferson County, Ky., was distinguished in the following manner:^{4/}

" * * the question there was as to the taxation of personal property, and not as to the taxation of real property."

The attempt to distinguish the French Republic v. Board of Supervisors case is so palpably weak and unconvincing as to require no discussion. The general weakness of the reasoning of the opinion in the treatment of the international law problem and the further fact that the opinion is that of one of the lower courts of New York do not make the decision a persuasive one. The authority of French Republic v. Board of Supervisors, a decision of the highest appellate court in that jurisdiction, is more compelling.

The ruling of the Court of Appeals of Kentucky in French Republic v. Board of Supervisors has been stated to be the rule of

^{4/} The opinion of the court is set forth in C.C.N. 12919, dated March 5, 1934.

- 9 -

international law in the Draft Convention, "The Legal Position and Functions of Consuls", Research in International Law, Harvard Law School, 26 Am. J. Int. Law (Supp. 1933) 103. The Comment to Article 19 of that Convention states, in part, as follows (at page 235):

" * * It would seem that provisions for exemption of public consular property are relatively infrequent, but this is no doubt due to the fact that such exemption is based on an established principle of international law which exempts the property of a foreign sovereign from the jurisdiction of the state in as far as it is used for public purposes. (*Yarns v. Yarns* (1870), 9 Chancery Division 581; *Hazen v. Inter-Colonial Railway of Canada* (1900), 177 Massachusetts 349.) This has been applied even to exempt from taxation property of another state, the use of which could hardly be regarded as public. (*French Republic v. Board of Supervisors of Jefferson County* (1923), 200 Kentucky 18." (Underlining supplied.)

It would seem clear that the existence of a rule forbidding the taxation of a foreign sovereignty when it acts in a governmental capacity must logically follow from the rules dealing with the immunities of diplomatic agents. It is a well-recognized rule of international law that diplomatic representatives enjoy certain immunities in the state to which they are accredited. One of these immunities is freedom from personal taxation imposed by the receiving state. 1 Hyde, International

- 10 -

Law, sec. 440; Ogden, *Juridical Bases of Diplomatic Immunity* (Nash, 1936) 185-187; Fensholt, *International Law* (2d ed. 1934) 578; 1 Oppenheim, *International Law* (Lauterpacht ed. 1977) sec. 594. That principle has been recognized, for example, by its embodiment in sec. 116(h)(1) of the Internal Revenue Code. See Regulations 101, Revenue Act of 1926, art. 116-1.^{5/}

An examination into the principles underlying the granting of immunity from taxation to a diplomatic representative must lead to the conclusion that the denial of a similar immunity to the government which he represents would involve a fundamental contradiction. The very reasons which give rise to the granting of an immunity from taxation to the diplomat are strongly persuasive that a similar immunity must exist in favor of the government for which he acts.

Professor Mottell Ogden, in his monograph, *Juridical Bases of Diplomatic Immunity*, analyzes the several different theories which have been used to explain the existence of diplomatic immunities. Under one of these theories, which, as will be pointed out, appears generally to be the theory prevalent in the United States and accepted by its courts, the minister's immunity

^{5/} Sec. 116(b) of the Internal Revenue Code exempts from taxation the income of a foreign government earned in the United States. It is believed that that section, too, is merely declaratory of international law.

- 11 -

flows to him from the sovereign who has sent him because he stands in a capacity representative of that sovereign. Several different versions of this theory are discernible. One of the versions places its emphasis on the majesty of the state or its ruler. The respect and honors accorded the minister are considered, not rendered to him alone, but to the sovereign himself; to insult or commit indignities against the minister is to affront the sovereign himself. *Opinion, XXXIX, pp. 106-106.*

"* * * When jurisdiction came to have a definitely territorial aspect, jurists continued to state the basis of diplomatic immunity in terms of the respect due the sovereign sending the minister.

* * *

"Inasmuch as the minister was the representative of the dignity and independence of his principal, the sovereign in sending his agent abroad did not intend to submit or subject him to the authority of a foreign power." *Opinion, XXXIX, pp. 106-107.*

Another version of that theory proceeds on the basis that the ambassador represents a state which is completely sovereign. Since a sovereign state's independence must be observed and since a sovereign state can owe obedience to no other laws than its own, the minister who represents that state cannot be subjected to the jurisdiction of the receiving state. *Opinion, XXXIX, pp. 107-108.*

- 12 -

Still another version is that a state, on the basis of, and because of, its independence, is entitled to full immunity of its diplomatic agents; from this comes the so-called "right of embassy". For the receiving state to interfere with that "right of embassy" by an exercise of its jurisdiction is to deny one of the rights of a free and independent state. Ogden, supra, pp. 109-111.

A fourth version of this theory explains the granting of diplomatic immunity upon the desire to preserve peace by not offending the sensitiveness of the sovereign whom the diplomatic agent represents.

"Because the sovereigns of Europe, upon their rise to power, did not intend to submit or subject their ambassadors to the authority of a foreign power; since the exercise of jurisdiction over an ambassador was deemed to be offensive to the sending sovereign, and since there was danger of disturbing the peace by offending a sovereign, the facts were sufficient to warrant the conclusion that due regard to the preservation of public peace and the maintenance of friendly intercourse between nations called for the inviolability and immunity of ambassadors." Ogden, supra, pp. 111-112.

It will appear, from an examination of the authorities in the United States which have dealt with the problems of diplomatic immunity and other aspects of international law, that there has been accepted the theory that a diplomatic officer

- 13 -

enjoys those privileges and immunities because of the representative capacity in which he stands to the sovereignty which has sent him.

The Bureau of Internal Revenue has recognized the representative theory as the basis upon which persons of a diplomatic status are entitled to immunity from taxation. Thus, in Solicitor's Law Opinion No. 922, (1920) Cum. Bull. of Sales Tax Rulings, p. 116, it was stated:

"In Law Opinion 760, holding ambassadors, ministers, and properly accredited diplomatic representatives of any foreign Government to the United States exempt from the payment of taxes on amounts paid for transportation or transmission services rendered them within the United States under section 500 of the Revenue Act of 1917, it was said:

"Ambassadors of foreign Governments accredited to this country are considered to personify the sovereign or sovereignty they represent. They are granted immunities and privileges which set them apart from other persons. As a matter of international comity, taxes will not be asserted as to amounts paid by ambassadors or their entourage for transportation or transmission services rendered them within the United States."

"The reason stated forms the basis of the exemption granted to ambassadors, ministers, and properly accredited diplomatic representatives of foreign Governments to the United States from the stamp tax imposed upon certain message tickets."
(Underlining supplied.)

- 14 -

In Schooner Exchange v. M'Faddon and others, (U.S. 1812)

7 Cranch 116, the question was presented whether a public ship of a foreign sovereignty, which had come into one of our ports, was amenable to a libel proceeding instituted by certain American citizens in order to assert their claim of title to the ship. The Court, through Mr. Chief Justice Marshall, held that the public ships of a foreign sovereignty were immune from jurisdiction while in the ports of a friendly power. Because the language in Marshall's opinion reflects quite clearly that his conception of diplomatic immunity was founded on the theory of the representative capacity of the minister, the opinion will be quoted extensively. The opinion states (at page 136):

"The world being composed of distinct sovereignties, possessing equal rights and equal independence, whose mutual benefit is promoted by intercourse with each other, and by an interchange of those good offices which humanity dictates and its wants require, all sovereigns have consented to a relaxation in practice, in cases under certain peculiar circumstances, of that absolute and complete jurisdiction within their respective territories which sovereignty confers.

. . .

"A nation would justly be considered as violating its faith, although that faith might not be expressly plighted, which should suddenly and without previous notice, exercise its territorial powers in a manner not consistent to the usages and received obligations of the civilized world.

"This full and absolute territorial jurisdiction being alike the attribute of every sovereign, and being incapable of conferring extra-territorial power, would not seem to contemplate foreign sovereigns nor their sovereign rights as its objects. One sovereign being in no respect amenable to another; and being bound by obligations of the highest character not to degrade the dignity of his nation, by placing himself or its sovereign rights within the jurisdiction of another, can be supposed to enter a foreign territory only under an express license, or in the confidence that the immunities belonging to his independent sovereign station, though not expressly stipulated, are reserved by implication, and will be extended to him.

"This perfect equality and absolute independence of sovereigns, and this common interest impelling them to mutual intercourse, and an interchange of good offices with each other, have given rise to a class of cases in which every sovereign is understood to waive the exercise of a part of that complete exclusive territorial jurisdiction, which has been stated to be the attribute of every nation."

In speaking of the immunity granted ambassadors, Marshall stated (at page 135):

"The assent of the sovereign to the very important and extensive exceptions from territorial jurisdiction which are admitted to attach to foreign ministers, is implied from the considerations that, without such exception, every sovereign would hazard his own dignity by employing a public minister abroad. His minister would owe temporary and local allegiance to a foreign prince, and would be less competent to the objects of his mission. A sovereign committing the interests of his nation with a foreign power, to the care of a person whom he has selected for that purpose, cannot intend to subject his minister in any

- 16 -

degree to that power; and, therefore, a consent to receive him, implies a consent that he shall possess those privileges which his principal intended he should retain--privileges which are essential to the dignity of his sovereign, and to the duties he is bound to perform."

After pointing out that private individuals who bring themselves, or their property, into another jurisdiction are subject to the laws of that jurisdiction, Marshall continued, as follows (at pages 144, 145-146):

"But in all respects different is the situation of a public armed ship. She constitutes a part of the military force of her nation; acts under the immediate and direct command of the sovereign; is employed by him in national objects. He has many and powerful motives for preventing those objects from being defeated by the interference of a foreign state. Such interference cannot take place without affecting his power and his dignity. The implied license therefore under which such vessel enters a friendly port, may reasonably be construed, and it seems to the Court, ought to be construed, as containing an exemption from the jurisdiction of the sovereign, within whose territory she claims the rights of hospitality.

* * *

"It seems then to the Court, to be a principle of public law, that national ships of war, entering the port of a friendly power open for their reception, are to be considered as exempted by the consent of that power from its jurisdiction.

"Without doubt, the sovereign of the place is capable of destroying this implication. He may claim and exercise jurisdiction

either by employing force, or by subjecting such vessels to the ordinary tribunals. But until such power be exerted in a manner not to be misunderstood, the sovereign cannot be considered as having imparted to the ordinary tribunals a jurisdiction, which it would be a breach of faith to exercise. Those general statutory provisions therefore which are descriptive of the ordinary jurisdiction of the judicial tribunals, which give an individual whose property has been wrested from him, a right to claim that property in the courts of the country, in which it is found, ought not, in the opinion of this Court, to be so construed as to give them jurisdiction in a case, in which the sovereign power has impliedly consented to waive [sic] its jurisdiction."

In Helbrook v. Enderman, (1839) 6 N.Y. Super. 619, that court, likewise, accepted the representative theory. Paraphrasing Vattel, it was stated (at page 629):

"* * * the minister representing the sovereign by whom he is deputed, the respect rendered to the minister is not personal, merely, but is, in truth, the respect due from one sovereign to another; and to withhold it is, therefore, an insult which may justly be resented, and thus the peace of nations may be endangered.

"* * * It is further laid down that inasmuch as the minister is the representative of the dignity and independence of the sovereign, it is impossible to conceive that such sovereign in sending an ambassador intends to submit or subject him to the authority or jurisdiction of a foreign power.

"* * * To insult him would be injuring his master, and the whole nation; to arrest him and offer violence to him, would be hurting the right of embassy which belongs to all sovereigns. * * *

- 18 -

"This view of Vattel recommends itself very strongly to my judgment. It is founded in good sense and sound reason."

Philip C. Jessup, Reporter, in the introduction to the Convention on "Competence of Courts in regard to Foreign States", Research in International Law, Harvard Law School, 35 Am. J. Int. L. (Supp. 1932) 473, states:

" * * It is perhaps significant that many of the earlier discussions derive the immunity of the Prince from the well-known immunity of the ambassador; whereas, in more recent times, courts and commentators frequently reveal a disposition to establish the immunity of the ambassador as derived from that of his sovereign."

If the immunities granted to the ambassador are derived from those of his sovereign, and if these immunities are granted because the diplomat stands in a capacity representative of his sovereign, it is difficult to see how a particular immunity may be granted the minister and, with reason, be withheld from the sovereign he represents. To admit the stream and ignore the fountainhead is to deny the basis of the flow of diplomatic immunity.

That the immunities to be granted the diplomat are the same as those granted his sovereign seems fortified by the fact that the immunities (which could be enjoyed by both) that are granted to a foreign sovereignty are also the immunities granted to its diplomatic envoys. Thus, without its consent, a foreign sovereignty cannot be sued in the courts of another jurisdiction. Barisal Press Co. v. U. S. S. Farnham, (1926) 271 U.S. 563; Oliver American Trading Co. v. Government

of the United States of Mexico, (C.C.A. 2d, 1934) 5 F.(2d) 439,
cert. den. (1935) 267 U.S. 894; Mason v. Intercolonial Ry. of Canada,
 (Mass. 1908) 83 N.E. 876; 1 Hyde, supra, sec. 253. Of. Dexter &
Carpenter, Inc. v. Emilio Jaramacostyrolan et al., (C.C.A. 2d, 1930)
 43 F.(2d) 706, 707, cert. den. (1931) 282 U.S. 896. Likewise, a
 diplomatic agent cannot be sued, unless consent has been granted, in
 the jurisdiction to which he is accredited. Mediana Steam Navigation
Co. v. Martin, (1889) 28 L.J.Q.B. 310; In re Republic of Bolivia
Exploration Syndicate, Limited, [1914] 1 Ch. 139; 1 Hyde, supra, sec.
 435; 1 Oppenheim, supra, sec. 391; Fenwick, International Law (2d ed.
 1934) 371-372; section 4063 of Rev. Stat. of 1873 (U.S.C. title 22,
 sec. 262); Article 19 of the Habana Convention of 1928; Id.
Holbrook v. Henderson, (1939) 6 N.Y. Super. 619; In re Dillon, (N.D.
 Cal. 1934) 7 Fed. Cas. 710, Fed. Cas. No. 3,914; Wilson v. Blanton,
 (Super. Ct. 1939) 4 N.Y.S. 714.

It is important to note, with regard to the ambassador's
 immunity from suit, that Hyde, sec. 435, points out that an American
 diplomat may not waive this immunity without the consent of his
 government, since the privilege is considered as belonging to the
 sovereign. See IV Moore's Int. Law Digest, p. 631. Of. In re Republic

Id. The Habana Convention has been ratified by Brazil, Chile, Columbia,
 Costa Rica, Cuba, Dominican Republic, Ecuador, Mexico, Nicaragua,
 Panama, Uruguay, and Venezuela. Represented at the conference were the
 following states which have not yet ratified the Convention: Argentina,
 Bolivia, Guatemala, Haiti, Honduras, Paraguay, Peru, Salvador, and the
 United States.

- 20 -

of Bolivia Exploration Syndicate, Limited, [1914] 1 Ch. 139; United States v. Hammer, (E.D. Pa. 1830) 24 Fed. Cas. 1084, 1087, Fed. Cas. No. 14,568; Valerino v. Thompson, (1853) 7 N.Y. 576, 579.^{5/}

Likewise, the property of a sovereign nation is exempt from libel, attachment, or execution. Dexter & Carpenter, Inc. v. Kunglig Jarnvagsstyrelsen et al., (U.S.A. 2d, 1930) 43 F.(2d) 705, cert. den. (1931) 282 U.S. 596, was a proceeding supplementary to execution. In a previous action, by way of counterclaim, a judgment had been awarded against the Kunglig Jarnvagsstyrelsen, also known as the Royal Administration of the Swedish State Railroad; the claim of sovereign immunity, not having been properly presented, was not allowed as a defense. The judgment creditor, after the issuance of execution on the judgment, obtained an order of attachment against the property of the judgment debtor; this the judgment debtor sought to have vacated on the ground of the sovereign immunity of its property. The court, in holding that the judgment debtor was entitled to the vacation of the order, stated that, even though there had been a submission to the jurisdiction of the court, and even though the levying of the execution was merely part of the same proceeding in which the judgment was recovered,

^{5/} Where, however, an ambassador invokes the jurisdiction of a court, it may properly award a set-off or counterclaim in favor of the defendant; it does not appear that the consent of the government is necessary. 1 Oppenheim, supra, sec. 391; 1 Hyde, sec. 434.

- 2/ -

a claim of immunity would prevent the court from exercising jurisdiction over the property.^{1/} The court stated (at page 708):

"But consenting to be sued does not give consent to a seizure or attachment of the property of a sovereign government. The clear weight of authority in this country, as well as that of England and Continental Europe, is against all seizures, even though a valid judgment has been entered. To so hold is not depriving our own courts of any attribute of jurisdiction. It is but recognizing the general international understanding, recognized by civilized nations, that a sovereign's person and property ought to be held free from seizure or molestation at all peaceful times and under all circumstances. Nor is this in derogation of the dignity owed to our courts. (Underlining supplied)

In Oliver American Trading Co. v. Government of the United States of Mexico, (C.C.A. 2d, 1924) 5 F.(2d) 659, cert. den. (1925) 267 U.S. 596, the plaintiff, by attaching certain tangible property and credits belonging to the defendant, commenced an action for damages arising out of an alleged breach of contract. The court held that the defendant and its property were immune from its jurisdiction.

^{1/} The Dexter & Carpenter case should be compared with Swann v. Swann, [1917] 2 Ch. 131, cited by the court in the principal case, at page 709. In the Swann case, the defendant, the Bolivian Minister to England, had been appointed administrator of an estate in England. He had waived his official immunity when sued by one of the beneficiaries and judgment was recovered against him. When execution on the judgment was sought, he asserted his immunity. The court held that his submission to the jurisdiction of the court did not prevent his assertion of that immunity against execution. The court cited the statute of 7 Anne, c. 12. Cf. secs. 4063 and 4064 of Rev. Stat. of 1873 (U.S.C. title 22, secs. 253-254) which are derived from the statute of Anne, and which, it is said, are merely declaratory of the law of nations. In re Paig, (1890) 135 U.S. 403, 420.

It is important to note that the court pointed out that the immunity of the sovereign was the same as that of its ambassador. The court said (at pages 666-667):

"The District Court, in our opinion, was without jurisdiction, as the property involved was that of the government of Mexico, and was used by it in the performance of what it considers a governmental function. The property sought to be reached in this country is the public property of Mexico, and is movable property, which that government holds for public purposes, and, being such, it is entitled to the same immunity as a sovereign, or an ambassador, or a ship of war, and for the same reason. The exercise of such jurisdiction by the courts of this country is inconsistent with the independence and sovereignty of Mexico." (Underlining supplied)

Accord: Amor v. Costa et al., (D. Mass. 1938) 23 F. Supp. 22.

In Yanase v. Erman, [1878] 9 Ch. Div. 351, it appeared that certain shells had been manufactured in Germany for the Government of Japan, and were then transported to England where it was intended that they would be put on board certain war ships which were being built there for the Japanese Government. An injunction was obtained by the plaintiff, on the ground that infringement of his patent rights had occurred in their manufacture, prohibiting the defendants from delivering the shells to the Government of Japan. Thereafter, upon application, the Mikado of Japan was allowed to intervene as a defendant, and a dissolution of the injunction

- 23 -

was obtained. The Court of Appeal affirmed the action of the Master of the Rolls. James, L. J., stated (at pages 354-355):

" * * * These shells were bought by the Mikado for the purpose of his government. He brought them into this country on the way to Japan, and he asks to be allowed to remove them from this country, that is to say, he asks that he shall not, by reason of something which was done between the Plaintiff and some other persons, be interfered with in his removal of them to his own country. It seems to me that to refuse him that leave would be a very dangerous proceeding. If a tribunal of any foreign country were to deal with the ammunition of a British man of war under those circumstances, or refuse to permit the captain of a British man of war to remove his ammunition and shells, or anything else, I think that our country would consider it a very serious matter, and possibly demand reparation."

Cotton, L. J., stated (at page 360):

" * * * This Court has no jurisdiction, and, in my opinion, none of the Courts in this country have any jurisdiction, to interfere with the property of a foreign sovereign, more especially with what we call the public property of the state of which he is sovereign as distinguished from that which may be his own private property. The Courts have no jurisdiction to do so, not only because there is no jurisdiction as against the individual, but because there is no jurisdiction as against the foreign country whose property they are, although that foreign country is represented, as all foreign countries having a sovereign are represented, by the individual who is the sovereign."

The public ships of a sovereign state are immune from any exercise of jurisdiction by the courts of the country into whose ports they have come. Schooner Exchange v. McFadden and others, (U.S. 1812) 7 Cranch 116; The Paquete, (S.D. N.Y. 1917) 245 Fed. 137; 1 Hyde, supra, secs. 251-253. The rule includes not only ships of war and transport vessels, but also ships which are owned by the government, even though used for commercial purposes. Comentia Humicola v. The Hammer et al., (1936) 303 U.S. 66, 74; Barrett Bros. Co. v. E.R. Pearce, (1926) 271 U.S. 962; The Maine, (S.D. N.Y. 1918) 252 Fed. 627. A fortiori, such a vessel, when employed for governmental purposes other than military functions, is immune. The Parliament Belag, (1880) L.R. 5 Prob. Div. 197; The Maine, (S.D. N.Y. 1919) 259 Fed. 367, 368; The Ecuador, (D.C.J. 1916) 254 Fed. 154. In the last-cited case, the court stated (at page 161):

" * * The immunity of the sovereign's instrumentalities devoted to public service from the process of its own courts, as I understand the previous cases, is not based upon the idea that it may be 'safely accorded,' but on account of its dignity and independence, and because it is necessary, for the well-being of the nation that it serves, that it shall not be hampered or interfered with in the use of such instrumentalities.

"In the case of the courts of one sovereignty waiving jurisdiction over another sovereignty's instrumentalities, the thought

- 25 -

of safety to private litigants, to my mind, is at least equally irrelevant. The immunity in such cases, as already noted, is based upon the idea that sovereigns are of equal dignity and independence, and that out of regard for such rights, and to maintain and further amicable relations among them, it is, by tacit agreement, recognized as needful, in certain particulars, that one sovereign should decline to exercise some of its prerogatives when to exercise them would necessarily place another sovereign in a subordinate position."

Similar to the immunity granted the property of a foreign sovereignty from local jurisdiction in another state, are those immunities granted the property of an ambassador in the receiving state. Hyde, supra, sec. 437; Oppenheim, supra, sec. 391; (1849) 5 Op. Atty. Gen. 69; section 4063 of Rev. Stat. of 1875 (U.S.C. title 22, sec. 252).

Recognition of the similarity to be given in the treatment of the property of both the sovereign state and its ambassador was recognized, by way of dictum, in City of New Orleans v. Lake Brick & Lumber Co., (La. 1914) 66 So. 237. There, certain real and personal property in the city of New Orleans was devised to the cities of Baltimore and New Orleans, for the purpose of abating the poar of those cities. In speaking of the liability of the city of Baltimore for taxes assessed against the land, the court said (at page 243):

"If the means and instrumentalities employed by a general government and of this state to carry into operation the powers granted to them are, necessarily, and for the sake of self-preservation, exempt from

- 26 -

taxation and the law of prescription, then are also the instrumentalities of government of a sister state exempt from taxation, seizure, alienation, and prescription in this state. The unimpaired existence of those instrumentalities in the one state is as essential as in the other. The exemption of a sister state, under the circumstances indicated, rests upon necessary implication, and is upheld by the great law of self-preservation. If the means employed by a government in conducting its operations are subject to the control of another and distinct government, then the first government can exist only at the mercy of the latter.

"The public property of a sister state located in this state might be likened to the diplomatic departments of foreign governments, where the diplomats, their families, suites and effects are immune from the laws of the state to which they are accredited, or through which they may be passing. And ambassadors, ministers, troops passing through, ships of war, all municipal institutions, are immune from the laws which apply to the inhabitants of the states through which they pass. And, surely, our sister states, and the property belonging to them, in our territory, are entitled to the same protection as is accorded to the property of this state by the laws thereof."
(Underlining supplied)

That language, however, was pure dictum, since, on rehearing, 66 S.W. 244, it was held that the only relevant issue was that of prescription, and on that issue, the opinion was reversed on rehearing. However, it is believed that the language of the court on the subject of taxation is indicative of a trend of thought.

- 27 -

It should be pointed out, in comparing the immunities of the sovereign state and those of its ambassador, that, while the vessels of the sovereign are immune even though they are not used for a strictly governmental purpose, some of the writers suggest that the property of a diplomat which is used for purposes other than the functions of his mission is not immune. 1 Hyde, supra, sec. 437; 1 Oppenheim, supra, sec. 391; 1 Satow, Diplomatic Practices, (1917 ed.) sec. 289; Draft Convention on Diplomatic Privileges and Immunities, 'Research in International Law,' Harvard Law School, Comment on Article 26, 26 Am. J. Int. Law (1932 Supp.) pp. 129-130.

With this seeming identity between the immunities enjoyed by both the diplomatic representative and the country he represents, it would seem quite clear that if a diplomatic agent were to be free from the obligation of paying the federal taxes on the transfer of securities, the government which he represents should likewise be free from their onus. That the minister would be immune from the imposition of these taxes clearly follows from the settled rules of international law. 1 Hyde, supra, sec. 440; Fenwick, supra, p. 375; 1 Oppenheim, supra, sec. 394; Harvard Draft Convention, supra, Article 22; Havana Convention of 1928, Article 18; MacArthur v. Gault, (1890) 24 Q.B.D. 386; (1933) XII-1 Can. Bull. 428. While the authorities may be in some disagreement whether the

diplomatic envoy would be immune from the tax if the transaction were a private one, divorced from the official functions of his mission, there can be no disagreement regarding his immunity where the transfer occurs in the course of his official duties, while he is acting on behalf of his government. That being so, it must be that when a sovereign state, in performing its governmental functions, engages in such transactions, those transactions are not taxable.

In view of the foregoing, it becomes necessary to reexamine the position taken by the Bureau of Internal Revenue with regard to the liability of a foreign sovereignty to the taxes imposed by the Federal Government. It appears that, prior to March 5, 1934, the Bureau had taken the position that a foreign government and its agencies, while performing functions of that government, were not amenable to taxation by the United States. In G.C.M. 12919, dated March 5, 1934, the Bureau undertook to reexamine its position. The question was presented whether the Chinese Government Agency was liable for the taxes imposed by the Revenue Act of 1932 on messages, checks, sales, and similar transactions. That agency had been established by the Chinese Government as its representative and purchasing agency in order to handle properly shipments to China of wheat and cotton purchased with credits obtained from the Reconstruction Finance Corporation. The Bureau ruled, in contradistinction to its prior position, that there was no recognized rule of international law which exempted that agency from liability to taxation.

The soundness of that ruling must now be examined. The ruling observed that, while international law recognizes the immunity of diplomatic representatives, no similar privileges are accorded any other representative agency of a foreign country, such as consular employees. It was reasoned, therefore, that an agency, such as the one involved, which was not even of a consular status, was not entitled to any tax exemption in the absence of any specific provisions made by statute or treaty. It would appear that the Bureau, in making the ruling, had fallen into the error of confusing a personal tax paid by a business representative of a foreign government, such as a consular employee, and one which was payable by an agent of a foreign government but levied on the transactions of the government itself. For example, it would be clear that a diplomatic officer might be entitled to an exemption from the tax on checks, without regard to whether these checks were written for his own personal purposes or for carrying out the business of his government. On the other hand, it would likewise be clear that a consular officer, in the absence of a statute or treaty providing otherwise, would be liable for that tax when issuing his own personal checks; such a tax would not amount to a tax on his government. But where that consular officer, or any other agent or agency of a foreign government, writes checks to disburse his government's funds, for the purpose of carrying on a recognized governmental activity, it is submitted that the tax

imposed would be a tax on the government itself and that exemption therefrom should be allowed. In a letter from Mr. Frelinghuysen, Secretary of State, to the Russian Minister, dated April 21, 1884, it was stated:

"The general principle is that a foreign consular officer is subject to no charge in the country of residence, by reason of his official capacity or acts; but that if such officer contracts private interests there, such as engaging in business, acquiring taxable property, and the like, he is subject to the same rules as a private individual. I know of no [United States] internal-revenue tax which could affect the official character, functions, or emoluments of a foreign consul." (Underlining supplied.) V Moore's Digest of Int. Law, p. 87. See also 1 Hyde, supra, sec. 472; Wilson on International Law (1939) sec. 72.

See, Article 19 of the Harvard Draft Convention, "The Legal Position and Functions of Consuls", supra.

The ruling proceeded by quoting from the opinion in Republic of France v. City of New York, already discussed in this memorandum, and a ruling of the Solicitor General of New Zealand that the United States Shipping Board was liable for income taxes under the New Zealand law. The Solicitor's ruling, it is clear, did not deal with the liability of a foreign government, or one of its agencies, to taxation when engaged in governmental activities, but rather with the liability for taxes on business profits earned while engaged in carrying on trading operations. It should be noted that the Bureau ruling did not refer to the case of French Republic v. Board of Reg's, which has also been discussed above.

Following G.O.M. 12912, the Bureau has consistently taken the position that, with the exception of where there are provisions to the contrary made by statute or treaty, only accredited diplomatic officers, their families and staffs, are entitled to exemption from taxation as a matter of international law.

In G.O.M. 12048, dated April 9, 1934, it was ruled that the Argentine Government was liable for the tax imposed on checks issued by that government in favor of its embassy and staff. In connection therewith, there appears a letter from Robert H. Jackson to Mr. Bartholow, in which there was answered an objection, which had been raised by Mr. Bartholow, that to exempt a diplomatic representative and not his government, involved a fundamental inconsistency. It may be stated that the letter from Mr. Jackson does not make entirely clear the reasons why he considered that course as not being inconsistent.

In G.O.M. 12371, dated July 1, 1935, there was involved the liability of the Spanish Government for the payment of the tax on certain passenger tickets which it had purchased for the use of some of its citizens who were being repatriated. In refusing to allow any exemption, the Department ruled that since there was no principle of international law recognizing such an exemption, in the absence of statutory provisions to the contrary, none could be allowed. In the discussion of the applicable principles of international law, the case of French Republic v. David of San'ti was

referred to. That case was distinguished on the ground that the court had arrived at its conclusion by considering the intention of the framers of the State constitution, rather than by considering its sovereign power to tax under principles of international law. It would seem that the grounds given in the attempt to distinguish that case are entirely fallacious. It is true, of course, that the court was concerned with the intention of the framers of the constitution. However, there being no true expression of that intention, the Kentucky Court of Appeals did what the United States Supreme Court does when it construes a statute, that is, it examined that intention in the light of accepted principles of international law. Hammond v. United States, (1913) 239 U.S. 416, 434; Murray v. The Charming Betsy, (U.S. 1804) 2 Cranch 64, 116. It is clear, from the previous discussion of that case in this memorandum, that the court found that intention by applying the principles of international law, and that the Court of Appeals of Kentucky found that the rules of international law forbade one sovereign from taxing another. It would appear, therefore, that the ruling was in error when it stated, "It will be noted that the court does not undertake to say that there is any recognized principle of international law which denies the right of one nation to impose a tax upon another one". That statement should be compared with the following statement of the court (at page 136):

" * * * Therefore we are constrained to hold that the framers of our Constitution did not

intend to inaugurate a policy as opposed to
international usage, so incompatible with the
dignity of independent nations * * *." (Under-
scoring supplied.)

Similar rulings of the Bureau may be mentioned. G.C.R.
15447, August 12, 1935, ruled that a domestic corporation wholly
owned by the Government of Nicaragua was subject to the tax on the
transfer of silver; G.C.R. 17015, August 4, 1936, ruled that the
French Government, in acquiring real property in this country for
other than diplomatic purposes, would be subject to the stamp tax
on deeds.

In the light of the analysis made in this memorandum, it
must be concluded that, to avoid a fundamental inconsistency of posi-
tion, and to follow a policy consistent with principles of international
law, it must be held that no tax may be so imposed by the Government
of the United States that it is levied upon, or its burden falls
directly upon, a foreign sovereign government where it is carrying on
governmental or public functions.

This memorandum is not concerned with the liability of a
foreign country to taxation where it is engaged in commercial activity
or activity which does not fall within recognized governmental func-
tions, and, accordingly, no opinion is expressed on that problem.

It has been assumed, and it seems so clear as to require no
discussion, that the activity of the Government of Great Britain in-
volved here, which it considers necessary in the conduct of the present
war, is essentially one of a governmental nature.

It must be concluded, therefore, that transfers of securities
to or from the British Government, which would normally fall within the

- 54 -

purview of the taxes imposed on such transfers, cannot be taxed in such a manner that the tax is imposed upon the Government of Great Britain or that the burden of the tax would fall directly upon that Government if international obligations are to be complied with.

If these principles are applied to the situation presented here, it would seem that, where there is a sale of securities to the British Government, and the transaction is one which takes place in the United States, while the British Government cannot be held amenable to the tax or its direct burdens, the transferor can, and should be, held liable for the tax on the transaction. It has already been pointed out that the British Treasury, pursuant to the authority granted it, has established the price, in sterling, which will be paid for those securities which must be transferred to it. That being so, it cannot be seen how the burden of the tax imposed on the transferor could possibly be shifted to the British Government. The cost of the securities to the British Government will remain the same regardless of whether the United States imposes a transfer tax which is payable by the transferor.

The test of burden has been the one used by the Bureau of Internal Revenue when dealing with the tax immunities of diplomatic agents. Thus, in G.C.M. 15292, dated June 11, 1934, it was ruled as follows:

"Where the tax is required to be paid by one of the parties to the transaction other than the one entitled to exemption and it may not be assumed that the ascertainment of the tax would cast the burden thereof on the party so entitled, * * * the transaction is subject to the tax. This rule covers the tax imposed by Title IV on electrical energy (Section 416, Revenue Act of 1933, as amended by section 6, Act of June 16, 1933) and the taxes imposed by Title V on telegraph, telephone, radio and cable facilities and on checks, where the facilities are paid for, or the checks are drawn, as the case may be, by the party not entitled to exemption."

In G.C.M. 12045, dated April 9, 1934, it was ruled that the tax on checks could be assessed against the drawer of the instrument, even though the drawer was entitled to diplomatic immunity, since the burden of the tax could not be assumed to fall on the payee. Accord: G.C.M. 12552, dated February 13, 1934.

Where the delivery of the securities to the British Treasury, or its agents, takes place outside the United States, but a transfer of the registered owner occurs on the books of the corporation, a taxable transfer is made, and the corporation will be liable for the tax (unless the transfer is exempted as one by "operation of law" which possibility is discussed in Part II of this memorandum).^{1/} (1928) XIII-1 Com. Bull. 433; United States v. Bethlehem-Thomas Holding Corporation, (C.C.A. 5th, 1933) 94

^{1/} It should be noted that the letter to the Secretary of State assumes that where the transfer or delivery takes place outside the United States no liability is incurred by the transferee. Since the Defense (Finance) Regulations (1939) appear to be applicable to British "residents", there is a likelihood that some transfers will be made abroad by American citizens who are residing in Great Britain. In an unofficial commentary of January 15, 1940, the British Treasury stated that if a person stays in the United Kingdom permanently or even for twelve months he is to be regarded as a resident. G.C.M. War Law Service, ¶ 70,119. No opinion is expressed regarding the liability of such persons to the taxes on the transfers of such securities.

- 25 -

P. (24) 222. CF. Earboston-Boston Co. v. United States, (1908)

296 U.S. 60, where the court stated (at page 61):

" * * Section 800 imposes liability for the tax upon the transferor, the transferee and the corporation whose stock is transferred."

In this situation, also, the burden of the tax would not fall on the British Government, and, therefore, the tax may properly be assessed against the corporation on whose books the transfer is made. If, however, it can be shown in any specific situation that the imposition of the tax on the corporation would result in the burden being cast directly on the British Government, the corporation cannot be held liable for the tax.

Turning to a consideration of the problems attendant upon the subsequent sale of these securities by the British Government, it may be stated that, again, where the transfer occurs on the books of a corporation in the United States, the tax may be imposed on the corporation unless, in a specific case, the direct burden would be shifted to the British Government. However, it is not believed that, in consonance with the principles set forth herein, the tax could properly be imposed on the transferee since the direct burden of the tax would, in all likelihood, be borne by the transferor, the Government of Great Britain.

In S.O.M. 11618, dated February 2, 1935, it was ruled that the tax on the transfer of securities was not applicable where

- 37 -

a diplomatic representative was one of the parties to the transaction, since to tax the non-exempt party to the transaction would be to place the burden of the tax upon the party exempted by law. That ruling was based on the cases of Panhandle Oil Co. v. Kane, (1929) 377 U.S. 310 and Indian Motorists Co. v. United States, (1951) 283 U.S. 570.^{2/}

In the Panhandle Oil Co. case the state of Mississippi had levied an excise tax on the privilege of engaging in the business of selling gasoline, the tax being measured by the number of gallons sold. The court ruled that the tax could not be collected for gasoline sold to the United States for governmental purposes, since the tax amounted to a tax on the sale itself, and the result would be to interfere with and burden the carrying out of its functions by the Federal Government. A dissenting opinion was written by Justice Holmes, joined by Justices Brandeis and Stone, in which it was stated that any increase in price which might be due to the imposition of the tax could not be an undue burden on the government, since it stood in no worse position than any other purchaser. A separate dissenting opinion, also concurred in by Justice Stone, was written by Justice McReynolds.

^{2/} But see (1964) XIII-1 Gen. Bull. 428, and (1966) XV-2 Gen. Bull. 284, ruling that where a federal agency is a party to a transfer of securities, the tax may be assessed against the other party to the transaction who is not exempt. It is believed that the rulings may be based on the fact that this is not an instance of one sovereignty taxing another, but, rather, of one sovereignty taxing itself.

In the Indian Motorcycle case, it was held that a federal tax could not be imposed on the plaintiff on the sale of motorcycles to a municipal government for governmental purposes. Justice Stone wrote a dissenting opinion, concurred in by Justice Brandeis, in which he pointed out that it was assumed in the Endorsable Oil Co. case that the burden of the tax was necessarily shifted to the owner. That assumption, it was stated, does not find support in the theories of economists, who state that there are many complex factors which operate to determine whether any particular tax will be shifted.^{10/}

Without regard to the soundness of the ruling in those two cases, and whatever the Supreme Court of the United States, which appears to be in the process of reexamining the entire field of Federal-State immunity from taxation, may ultimately decide in

^{10/} It should be noted that in both the Endorsable Oil Co. and the Indian Motorcycle Co. cases the vendor was exempted from the tax in order that the burden might not be cast upon the vendee, the party entitled to the exemption. The Dureau, in S. Ct. 11518, applied those rulings to the converse situation also, so that, where the party entitled to the exemption is the vendor, the vendor will not be taxed in order that the burden might not be cast on the vendee. In view of the fact that in James T. Dureau Contracting Co. (1897) 202 U.S. 124, 131, it was stated that those cases must be limited to their particular facts, the validity of the application of the burden theory to the converse situation may be open to question. However, until the Supreme Court of the United States has had an opportunity to reexamine more fully its view of the burden theory or until the burden theory is discarded by the Federal Government, it is not believed that the Dureau's application of that theory should be overruled.

the matter,^{11/} the holdings in the Panhandle Oil Co. case and the Indian Natamula case have not been overruled. However, it is understood that during the past year there has been considerable controversy between branches of the Federal Government on whether these cases should be followed. It is understood that at the time of this writing, it is contemplated to secure an opinion of the Attorney General on whether in certain circumstances the cases

^{11/} The following cases may be mentioned as indicative of the trend of the Court toward reexamining and placing on a more realistic basis, both from an economic as well as a political viewpoint, the decisions in the field of Federal-State tax immunity: James v. State Contracting Co., (1907) 303 U.S. 154, held that a state may validly tax the gross income of an independent contractor who derives that income for performing services for the United States. The Court stated that the ruling in the Panhandle Oil Co. case and the Indian Natamula case must be limited to their particular facts.

Salvador v. Mountain Producers Corp., (1938) 308 U.S. 376, held that the United States can tax the income of a lessee derived from the sale of oil taken from land leased by a state. The cases of Dunbar v. Grinnell Oil & Gas Co., (1932) 285 U.S. 383, and Gillemore v. Oklahoma, (1932) 287 U.S. 831, were expressly overruled.

Salvador v. Gauthier, (1938) 304 U.S. 405, held that the income of an employee performing public functions for the states of New York and New Jersey was taxable by the United States. Although such taxation might result in increased costs to the state governments entitled to immunity themselves, it was stated that such a burden was not an invalid one. The reasoning of the Indian Natamula case, it was stated, was not controlling in this case.

Shaw v. New York ex rel. O'Keefe, (1939) 306 U.S. 466, ruled that the salary of an employee of a federal instrumentality could be taxed by a state without imposing an unconstitutional burden on the Federal Government. New York ex rel. Rogers v. Shaw, (1937) 290 U.S. 401, and Collector v. Day, (U.S. 1870) 11 Wall. 115, were expressly overruled so far as they were in conflict with the ruling in the principal case.

- 40 -

should be followed. That opinion may determine whether the burden theory in these cases is still to be considered good law so far as the Federal Government is concerned. If the burden theory is considered invalid, it is clear that, so far as international law is concerned, the tax here under consideration can be collected from the transferor to the British Government, the transferee from the British Government, or from the corporation which transfers the securities on its books, regardless of the burden that may be cast on the British Government.

Part II

Part I of this memorandum has been concerned with the validity under international law of the position taken by the Department of the Treasury as set forth in the letter of the Acting Secretary of the Treasury to the Secretary of State dated February 1, 1940. Subsequently to the writing of that letter, the Bank of Montreal at New York, in a letter dated February 23, 1940, suggested, among other things, that the transfers to the British Treasury were transfers "by operation of law" and, therefore, not subject to the taxes imposed by sections 1800, 1802(b), as amended, 3450, and 3451(a), as amended, of the Internal Revenue Code (U.S.C., Sup. V, title 26, secs. 1800, 1802(b), 3450, and 3451(a)). Part II of this memorandum will be concerned with that problem.

Article 35 of Regulations 71, promulgated by the Bureau of Internal Revenue, provides, in part:

"The following are examples of transactions not subject to the tax:

* * * *

"(r) Transfers of shares or certificates of stock which result wholly by operation of law are not subject to the tax. Transfers of this character are those which the law itself will effect without any voluntary act of the parties, such as transfers of stock from decedent to executor."

1/ Article 120 of Regulations 71 makes this regulation applicable to transfers of bonds.

That provision of the Regulations is not derived from, or supported by, any similar language appearing in the statute. It first appeared in regulatory form in Article 33(q) of T.D. 3592, approved July 13, 1926, by the Secretary of the Treasury. However, since the statutes upon which the rule of the Regulations is based have been reenacted from time to time, the provision now has the force of law under the principle enunciated in Halvering v. Reynolds Co., (1939) 306 U.S. 110, 114, 115, and related cases. The reasons which prompted the promulgation of that provision are not entirely clear (the earliest written discussion of the application of the operation of law exception that has been found is in O.G.M. 647, dated June 4, 1930), and it appears to have caused the Bureau considerable difficulty. It is understood that the Bureau has decided to construe that provision as strictly as possible. It is also understood that the Bureau, at the present time, is preparing certain amendments to the statutes which will tax all transfers by operation of law except those transfers which will be specifically enumerated. While one of these exceptions, if adopted, will relate to certain transfers by operation of Federal or state law, there will be no specific exception for any transfers by operation of the law of a foreign country.

The first problem to be considered is whether the transfer of these securities, which were physically located in the United

States at the time of issuance of the British Treasury's Acquisition Order of 1940, and which have been or will be transferred to the agents of the British Treasury in the United States, falls within the exemption provided for transfers "by operation of law". It should be noted that the language of the Defence (Finance) Regulations (1939) and the Acquisition Order of 1940 purports to vest title in the British Treasury immediately on, and by reason of, the issuance of the Acquisition Order. It would seem, however, that, so far as the securities which are physically located in the United States are concerned, the British Order and Regulation can have no extraterritorial effect which the courts of this country are bound to follow. It is elementary that one state cannot enact legislation which will of its own force affect title to property outside its territorial jurisdiction. Thus, in Restatement, Conflict of Laws (1934) sec. 1(1), it is said:

"No state can make a law which by its own force is operative in another state; the only law in force in the sovereign state is its own law, but by the law of each state rights or other interests in that state may, in certain cases, depend upon the law in force in some other state or states." (Underlining supplied.)

In E. V. Sotomayor & Co., Inc. v. Commission Nacional Del Mercado De Valores, (La. 1931) 90 So. 322, the Republic of Mexico had undertaken to seize all the property of the defendant company, a corporation domiciled in Mexico, for a certain debt

- 4 -

ced to the Republic of Mexico by the defendant company. The Republic of Mexico had, by the levy of an "embargo" in Mexico, undertaken to seize all the property of the defendant corporation, and in fact did take possession of such of its property as was located in Mexico. The plaintiff, having brought suit in the State of Louisiana, by writ of attachment had caused to be seized as the property of the defendant corporation a certain ship belonging to that corporation which was then in the port at New Orleans. The Republic of Mexico filed a petition of intervention averring that the ship had been "embargoed" by the Mexican Government and that the ship was in its possession when seized by the sheriff under the writ of attachment, although as a matter of fact the ship had never been in the physical possession of the Mexican Government or within its jurisdiction at or after the issuing of the "embargo". The court held that while the Mexican "embargo" was valid with reference to the property of the defendant located in Mexico and was similar to methods used by the United States to collect certain dues, that "embargo" could not, and did not, have any effect with regard to property not within the territorial jurisdiction of that Government which the Louisiana courts were bound to follow.

In Saker v. Bennett and Illies, (U.S. 1900) 11 Nov. 38, 44, the Court had occasion to discuss the effect of a conveyance by statute on property in another jurisdiction. It was said:

- 8 -

"A statuteable conveyance of property cannot strictly operate beyond the local jurisdiction. Any effect which may be given to it beyond this does not depend upon international law, but the principle of comity; and national comity does not require any government to give effect to such assignment, when it shall impair the remedies or lessen the securities of its own citizens. And this is the prevailing doctrine in this country. A proceeding in rem against the property of a foreign bankrupt, under our local laws, may be maintained by creditors, notwithstanding the foreign assignment."

It would seem then that if our courts should give effect to the British Acquisition Order, they would do so not because that order had any force to transfer title to property located in the United States, but rather because of comity or courtesy. In such circumstances, it would be strange indeed if the "operation of law" exemption were to be considered applicable to transfers purportedly effected by the Acquisition Order. Why this country should extend courtesy to the extent of giving the transferor an exemption from a tax is difficult to see.

There is a recent case which seems to go so far as to say that a foreign decree purporting to transfer movables located outside the territorial jurisdiction of the state making the decree can have no effect outside such territory. That case does not apply or discuss the comity principle. The case is Government of the Republic of Spain v. National Bank of Scotland Limited [1909] 20 L.T. 517. The Spanish Loyalist Government brought an action on a

"need of action" for the failure of the owners of the vessel "El Condado" to turn over that vessel to the representatives of the Spanish Loyalist Government pursuant to a decree of regulation which had been issued by that government at Valencia, Spain. At the time of the decree and at the time of giving the bond, the "El Condado" was in Glasgow, Scotland. The case turned on the question whether the Spanish decree of regulation operated to give the Spanish Government a right to possession of the vessel. All the judges of the court were agreed that the Valencia regulation decree had no force and effect to give the Spanish Loyalist Government right to possession of a vessel located in Scotland, although that decree purported to do so. The Lord Justice-Clerk said in his opinion (at page 224):

" * * * Supposing the Spanish Consul, instead of taking possession of the 'El Condado' herself, had sent the owners in the Gambia for the delivery of the ship, could the action have succeeded? I am satisfied it could not. It could no more have succeeded than an action for recovery of money belonging to the Spanish owners in a bank in this country and regulated for the temporary use of the Spanish Government to finance the war. The conclusive answer would be that it was movable property that was within the territory and jurisdiction of the foreign sovereign State, and, having been so at the date of the decree, it was not capable of being affected by the regulation. " * * *

B It is noted that there is some disagreement among the cases on the point whether a vessel flying the flag of the country is ever outside the jurisdiction of that country so as to make the extraterritorial principle applicable. The Scotch case ruled, in connection with that principle, that a vessel in a foreign port was outside the jurisdiction of the country. [1900] 50, L.J. 220. However, in *The Byzantium*, (Q.C., 2d, 1900) 105 F.(2d) 444, 448-449, the court ruled that a vessel in a foreign port was still within the jurisdiction of the country whose flag she flew. The court did recognize that the extraterritorial principle was applicable to ordinary navigation.

- 7 -

See also The Juniter (No. 5) [1907] P. 123 and 220; In re Russian Bank for Foreign Trade [1905] Ch. 745, 707; First Russian Insurance Company v. London and Lancashire Insurance Company, Limited [1906] Ch. 932, 935; Radcliffe Collins and Company v. Russia Insurance Company of Petrograd [1906] 1 K.B. 1, 15; Legationnaire v. Bay [1910] A.C. 262, 265.

While the cases often refer to the comity principle, the word "comity" has fallen into disrepute among the authorities on the conflict of laws. Thus, in Goodrich, Conflict of Laws (1907) 8, it is said:

"It is not meant to intimate that 'comity' is a term which had dropped out of use in connection with discussions in this field of the law. Courts use it, often loosely, and in cases correctly decided despite looseness of terms. It is clear, from the large body of sound doctrine that is in the process of building up in this field, that, in spite of the frequent use of the slippery term 'comity,' recognition of foreign rights is dependent upon something more than a mere courtesy which a court may grant or withhold at will."

It would be reasonable to say, therefore, that where, under the rules of conflict of laws, title is determined by the law of the place of the property, such a rule is to be applied without reference to the concept of comity or, to say the same thing in another way, the doctrine of comity is not applicable to these rules of conflict.

- 8 -

Title to certificates of stock is determined by the law of the state where the certificates are physically located. In Restatement, Conflict of Laws (1934) sec. 88(2), it is said:

"(2) The share certificate is subject to the jurisdiction of the state within whose territory it is."

In comment b following section 88, it is said:

"b. The title to or disposition of the certificate is subject to the jurisdiction of the state where the certificate is at the time of the transaction in question."

In 2 Beale, Treatise on the Conflict of Laws (1935) sec. 192.5, it is said:

"The question of who are shareholders in a corporation is clearly a question of the internal management of the corporation and is therefore not to be determined by a foreign state. But the share is evidenced by a certificate issued by the corporation to certify that the person therein named is a stockholder on the books of the corporation. By business practice this certificate is treated as the tangible representative of the stock and the owner of the certificate is entitled to be registered on the books of the corporation. If this certificate happens to be in the foreign state and is there transferred, the law of that state must determine the title to the certificate though it cannot determine the title to the share. The foreign state having determined the title to the certificate, the title to the share follows as a matter of course. * * *

- 9 -

In Restatement, Conflict of Laws (1924) sec. 349, it is said:

"The validity and effect of a transfer of a negotiable instrument are determined by the law of the place where the instrument is at the time of its transfer."

In comment c following that section, it is said:

"The rule stated in this Section is applicable to any instrument made negotiable by common law or by statute, whether a bond, note, bill of exchange, share certificate or warehouse receipt."

The following illustration is given under section 349:

"1. A negotiable bill of exchange, drawn in state X, is delivered over to a bona fide holder with a forged endorsement in state Y. By the law of X, a forged endorsement does not transfer the instrument; by the law of Y a bona fide holder gets title. The holder takes a good title to the bill."

In Direction Der Deutsche-Seelektro-United States Steel Corporation, (1928) 207 U.S. 22, certain shares of the United States Steel Corporation which were being held in England by a German corporation had been taken over by the Public Trustee of England during the war, that having been regular and lawful under the laws of England during the process of the World War I. A suit was brought in the United States which raised the question

- 10 -

of the validity of the seizure in England. The Court, speaking through Mr. Justice Holmes, held that it would give effect to the English law. However, the Court said (at pages 28-29):

"* * * But the question who is the owner of the paper depends upon the law of the place where the paper is. It does not depend upon the holder's having given value or taking without notice of outstanding claims but upon the things done being sufficient by the law of the place to transfer the title. An execution locally valid is as effectual as an ordinary purchase. Texas & Mississippi Valley R. R. Co. v. Clarkdale, 297 U.S. 10. The things done in England transferred the title to the Public Trustee by English law."

Attention is directed to the following principle given in the Restatement, Conflict of Laws (1934) sec. 616, where it is said:

"No action can be maintained on a right created by the law of a foreign state as a method of furthering its own governmental interests."

Finally, it seems appropriate to quote from two of the most recent works on the subject of law and money. In Reschman, Money in the Law (1939) sec. 494, it is said:

"Recognition of foreign exchange control over securities and other property situated within the jurisdiction of the forum is, of course, out of the question. Even where the owner is a national of the state that yields the control, orders emanating from the control authorities and addressed to the owner will not be enforced or otherwise considered by the forum. The latter is bound to decide all questions

- // -

regarding the use of ownership independently of these orders. Leaving aside the general reasons in favor of the public policy rule, the contrary point of view would encroach upon the exclusive jurisdiction of the forum. In fact, acts by foreign governments should be interpreted as conforming to those basic principles of international law.*

In Mann, *The Legal Aspect of Money* (1938) 257-258, it

is said:

“ * * * It is a well-recognized rule of law that any extraterritorial effect must be denied to legislation of a confiscatory character in so far as it extends to movables or debts situated outside the territory of the confiscating power. Foreign currency regulations frequently restrain the subject from disposing of such property without the authorities' consent, and they give the authorities power to demand that such property be assigned to them, or that any foreign exchange accruing through the realization of such property (including the repayment of debts) be surrendered to them. The question whether such a position can be described as confiscation must be answered irrespective of whether any compensation is paid or payable in the domestic currency of the confiscating power; for the lack of compensation is not a prerequisite of the conception of confiscation. Moreover, it does not matter that the appropriation by the foreign government does not comprise the substance of the right itself, but merely affects the power of disposal; this is a distinction which relates to the degree, but not to the principle. It is necessary to have regard to the essence of the restrictions placed upon the subject: the foreign State is pursuing its own interests by enlarging the amount of exchange available for the benefit of the nation regarded as a whole, not of the individual owner. This amounts to confiscation, and in the result it is therefore submitted that whenever foreign currency restrictions result in a

- 12 -

disability to dispose of property situate outside the territory of the State which has enacted them, such extraterritorial effect cannot be recognized here."

Since it seems clear that under the principles of conflict of laws, the courts of this country are not bound to recognize the Acquisition Order as vesting title by itself in the British Treasury, it would seem to follow that the "operation of law" exemption in Article 25 of Regulations 71 should not be treated as including transfers purportedly affected by the Acquisition Order.

With regard to those securities which are physically within the jurisdiction of the English Government, but which will require a change in registration on the books of a corporation located in the United States, the question whether the transfer on the books of the corporation is one which is taxable is not entirely free from doubt. While it may be conceded that the transfer of ownership of the stock occurs by reason of the British Acquisition Order, it by no means necessarily follows that that is a transfer by "operation of law" within the meaning of Regulations 71. It has already been pointed out that the Bureau has been strictly construing that phrase and is contemplating an amendment to the Act which, if it becomes law, would clearly make the transaction in question a taxable one. It would be a plausible interpretation of the phrase "operation of law" to reach the conclusion that a

- 15 -

transfer which occurs by reason of the law of a foreign country is not a transfer "by operation of law" within the meaning of Regulations VI. See opinion by Judge Roney in Salish v. Korthoff, (C.C.A. 9th, 1930) 64 F.(2d) 293.

On the other hand, a search of the Bureau files has revealed a ruling which might, if its principle be extended, necessitate a contrary conclusion. In C.C.N. 6467, dated June 4, 1928, certain stock of an American corporation had been transferred in England from a British guardian who was residing in that country to a ward who was also residing there. It was ruled by the Bureau that if, under the English law, that transfer was by reason of law and not by the action of the parties, the transfer would not be subject to the tax, since it would result from "operation of law". From that ruling it might be argued that, since the transfers here in question occur by operation of the English law, they occur "by operation of law" within the meaning of the Regulations. The force of that ruling is somewhat weakened since, we have been informed, the Bureau, although such transfers are taxable under the law, by reason of policy does not tax such transfers, regardless of whether in the particular jurisdiction they are by operation of law. Moreover, the situation that is presented in C.C.N. 6467 is not squarely in point, and a strict construction of the regulation would not necessitate its extension to the instant situation.

- 14 -

It is concluded that the "operation of law" exemption in Article 28, Regulations VI, is not applicable in the instant case where securities affected by the British Acquisition Order are physically in the United States. It follows that transfers of such securities are taxable. Where the securities are physically in the United Kingdom but must be transferred on the books of a corporation in the United States, it is believed that the stronger argument can be made for the non-applicability of the "operation of law" exemption, but it is recognized that a contrary argument can well be made.

(Signed) W. H. Foley, Jr.

General Counsel.

HP1/PJV/HR7/cvp
Typed: 5/7/40.

APPENDIX

Section 1800 of the Internal Revenue Code provides:

"There shall be levied, collected, and paid, for and in respect of the several bonds, debentures, or certificates of stock and of indebtedness, and other documents, instruments, matters, and things mentioned and described in sections 1801 to 1807, inclusive, or for or in respect of the vellum, parchment, or paper upon which such instruments, matters, or things, or any of them, are written or printed, the several taxes specified in such sections."

Section 1802(b) of the Internal Revenue Code, as amended (U.S.C., Supp. V. title 26, sec 1802(b)), provides, as it appears in the Code:

"On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the shares or certificates mentioned or described in subsection (a), or to rights to subscribe for or to receive such shares or certificates, whether made upon or shown by the books of the corporation or other organization, or by any assignment in blank, or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such share, certificate, interest, or rights, or not), on each \$100 of par or face value or fraction thereof of the certificates of such corporation or other organization (or of the shares where no certificates were issued) 4 cents until July 1, 1941, and 2 cents thereafter, and where such shares or certificates are without par or face value, the tax shall be 4 cents until July 1, 1941, and 2 cents thereafter, on the transfer or sale or agreement to sell on each share (corporate share, or investment trust or other organization share, as the case may be): Provided, That in case the selling price, if any, is \$20 or more per share the above rate shall be 5 cents instead of 4 cents until July 1, 1941; Provided further, That it is not intended by this chapter to impose a tax upon an agreement evidencing a deposit of certificates

- 2 -

as collateral security for money loaned thereon, which certificates are not actually sold, nor upon the delivery or transfer for such purpose of certificates so deposited nor upon the return of stock loaned; Provided further, That the tax shall not be imposed upon deliveries or transfers to a broker or his registered nominee for sale, nor upon deliveries or transfers by a broker or his registered nominee to a customer for whom and upon whose order the broker has purchased same, nor upon deliveries or transfers by a purchasing broker to his registered nominee if the shares or certificates so delivered or transferred are to be held by such nominee for the same purpose as if held by the broker, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts; Provided further, That the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such shares or certificates continue to be held by such nominee for the same purpose for which they would be held if retained by such fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts; Provided further, That in case of sale where the evidence of transfer is shown only by the books of the corporation or other organization the stamp shall be placed upon such books; and where the change of ownership is by transfer of the certificate the stamp shall be placed upon the certificate; and in cases of an agreement to sell or where the transfer is by delivery of the certificate assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers; Provided further, That as used in this section the term "registered nominee" shall mean any person registered with the collector in accordance with such rules and regulations as the Commissioner

- 3 -

with the approval of the Secretary shall prescribe. The tax shall not be imposed upon deliveries or transfers of shares or certificates --

"(1) From the owner to a custodian if under a written agreement between the parties the shares or certificates are to be held or disposed of by such custodian for, and subject at all times to the instructions of, the owner; or from such custodian to such owner;

"(2) From such custodian to a registered nominee of such custodian, or from one such nominee to another such nominee, if in either case the shares or certificates continue to be held by such nominee for the same purpose for which they would be held if retained by such custodian; or from such nominee to such custodian. No exemption shall be granted under this paragraph unless the deliveries or transfers are accompanied by a certificate setting forth such facts as the Commissioner, with the approval of the Secretary, may by regulation prescribe as necessary for the evidencing of the right to such exemption. No delivery or transfer to a nominee shall be exempt under this paragraph unless such nominee, in accordance with regulations prescribed by the Commissioner, with the approval of the Secretary, is registered with the Commissioner.

"The tax imposed by this subsection shall not be imposed upon any delivery or transfer by an executor or administrator to a legatee, heir, or distributee of shares or certificates of stock if it is shown to the satisfaction of the Commissioner that the value of such shares or certificates is not greater than the amount of the tax that would otherwise be imposed on such delivery or transfer."

Section 3450 of the Internal Revenue Code provides:

"There shall be levied, collected, and paid, for and in respect of the several bonds and other documents, instruments, matters, and things mentioned and described in sections 3451 and 3452, or for or in respect of the vellum, parchment, or paper

- 4 -

upon which such instruments, matters, or things, or any of them, are written or printed, the several taxes specified in such sections."

Section 3451(a) of the Internal Revenue Code, as amended (U.S.C., Supp. V, title 26, sec. 3451(a)), provides, as it appears in the Code:

"On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the instruments mentioned or described in section 1801 and of a kind the issue of which is taxable thereunder, whether made by any assignment in blank or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such instrument or not), on each \$100 of face value or fraction thereof, 4 cents: Provided, That it is not intended by this chapter to impose a tax upon an agreement evidencing a deposit of instruments as collateral security for money loaned thereon, which instruments are not actually sold, nor upon the delivery or transfer for such purpose of instruments so deposited: Provided further, That the tax shall not be imposed on deliveries or transfers of bonds in connection with a reorganization (as defined in section 112 of the Revenue Act of 1932, 47 Stat. 196) if any of the gain or loss from the exchange or distribution involved in the delivery or transfer is not recognized under the income tax law applicable to the year in which the delivery or transfer is made: Provided further, That the tax shall not be imposed upon deliveries or transfers to a broker for sale, nor upon deliveries or transfers by a broker to a customer for whom and upon whose order he has purchased same, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: Provided further, That the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such instruments continue to be held by such nominee for the same purpose for which they would be held if retained by such

- 5 -

fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: Provided further, That where the change of ownership is by transfer of the instrument the stamp shall be placed upon the instrument; and in cases of an agreement to sell or where the transfer is by delivery of the instrument assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers. Any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale, or who in pursuance of any such sale delivers any certificate or evidence of the sale of any such instrument, or bill or memorandum thereof, as herein required, without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000, or be imprisoned not more than six months, or both.

"The tax shall not be imposed upon deliveries or transfers made after June 30, 1938, of instruments --

"(1) From the owner to a custodian if under a written agreement between the parties the instruments are to be held or disposed of by such custodian for, and subject at all times to the instructions of, the owner; or from such custodian to such owner;

"(2) From such custodian to a registered nominee of such custodian, or from one such nominee to another such nominee, if in either case the instruments continue to be held by such nominee for the same purpose for which they would be held if retained by such custodian; or from such nominee to such custodian.

- 6 -

No exemption shall be granted under this paragraph unless the deliveries or transfers are accompanied by a certificate setting forth such facts as the Commissioner, with the approval of the Secretary, may by regulation prescribe as necessary for the evidencing of the right to such exemption. No delivery or transfer to a nominee shall be exempt under this paragraph unless such nominee, in accordance with regulations prescribed by the Commissioner, with the approval of the Secretary, is registered with the Commissioner.

"Any person who, with intent to evade the tax provided in this subdivision, falsely makes a certificate accompanying any delivery or transfer shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be fined not more than \$1,000, or imprisoned not more than six months, or both."

SPZ:lwb 5/2/40

August 14, 1940.

Secretary Morgenthau

Mr. White

Subject: Scrap Iron and Steel

1. With present capacity, we can produce from 90 to 100 million tons of iron and steel annually. If the defense program is going forward, we will closely approach capacity for the next two years.

2. To produce that amount of iron and steel at least 50 million tons of scrap is necessary. (This figure already assumes the maximum production of pig iron with present capacity, i.e., 45 million tons.)

3. With maximum production of iron and steel there will be produced 27 million tons a year of "home scrap". That leaves at least 25 million tons of "purchased scrap" needed for domestic consumption (assuming 2 million for wastage.)

4. The maximum amount of "purchased" scrap marketed in any previous year was 22 million tons in 1937. Of this 4 million was exported, leaving 18 million for domestic use.

5. No. 1 scrap is now under export control but even if it were embargoed, exports would not be greatly reduced, since No. 2 scrap is the important export. Japan last year took over 2 million tons of scrap and is reportedly placing large orders at present.

6. Therefore, even with "purchased" scrap coming forward at the high prices and in the high volume of 1937, we can expect that we would be 5 million tons short of what is needed to run our iron and steel industries at full capacity for the first full year of the defense program.

25	million tons needed for domestic consumption
2	million tons needed for exports (at least)
27	million tons
22	million tons required for marketing in high year 1937
5	million tons deficit

Although higher prices could attract more scrap in the first year there would be a greater shortage in subsequent periods, and this initial large supply would be achieved at the expense of price disturbances in the steel industry.

- 2 -

Division of Monetary
Research

Stocks of purchasable scrap readily available are now about 5 million tons, equivalent to 2 or 3 months' supply at maximum production. Present export regulations make possible the control of exports of No. 1 scrap only. No. 1 constitutes only 15 - 25 percent of total scrap. The regulations can be circumvented by mixing No. 1 with No. 2 and calling the mixture No. 2 or by converting No. 1 into No. 2 scrap at small expense.

HDW:dlm
8/14/40.

CONFIDENTIAL

84

AG 452 (8-10-40)M-F

ACT/ehb

August 14, 1940.

CONFIDENTIAL

SUBJECT: Export Sale of Aircraft Ignition Cable.

TO: War Department Representative,
Liaison Committee designated by the President,
Memo., Dec. 6, 1939, as amended.

1. Reference is made to a letter of July 23, 1940 from the President's Liaison Committee, forwarding a request from the Finnish Legation concerning the export of ignition wire for aircraft engines.

2. It is desired that the Finnish Legation be informed that there is no objection by the War and Navy Departments to the export sale of ignition cable manufactured in this country, but there is objection to release of Army and Navy specifications, classified as restricted, which describe this cable. Such release of specifications might enable a foreign manufacturer to manufacture it abroad and thus nullify the policy of the Government to keep the manufacture of United States design material in this country as a matter of importance to the national defense.

3. The General Cable Corporation will be advised by the State Department that there is no objection to the export of finished ignition cable but that the specifications must not be divulged.

By order of the Secretary of War:

Wm. W. Dick
Adjutant General.

COPIES TO: Asst. Sec. of War;
Aeronautical Board;
A.C. of S., G-2;
✓ Secretary of the Treasury;
Mr. Wm. S. Knudsen, National Defense Council;
Clearance Com., A. & N. Mun. Bd.

RECEIVED

AUG 15 1940

RECEIVED
OFFICE OF THE SECRETARY OF WAR
WASHINGTON, D. C.

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

August 14th, 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,

A. L. Murray

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of August 13th

1. Naval. Yesterday three overseas convoys totalling 71 ships including four tankers and seven cargoes of iron ore arrived at United Kingdom war ports.

Two mine-sweeping trawlers bombed and sunk in Thames Estuary.

2. Royal Air Force. Four oil targets, two power stations, a blast furnace and railway targets successfully attacked by our night bombers on August 11th/12th. In every instance fires and explosions caused. Several large fires started among oil tanks and on aerodrome at Cherbourg.

Last night fifty-one heavy bombers despatched against aircraft factories, aluminium works and oil refinery at Dortmund, Rhine Canal and other military targets. Twelve aircraft sent mine-laying and four to distribute leaflets over unoccupied France. Four of our aircraft missing.

Five medium bombers sent to attack aerodromes in Northern France. One of our aircraft missing. Eighteen aircraft of coastal command sent to attack docks and shipping in Northern Holland.

3. German Air Force. During the night of August 11th/12th a Heinkel bomber was shot down by our fighters in Dorsetshire.

From eight a.m. yesterday throughout the day large-scale activity along South coast, in Southeast England and Thames Estuary. About noon enemy aircraft reported approaching Isle of Wight, fifty of which attacked Portsmouth and Gosport. Some damage caused at dockyard, Royal Navy barracks and naval training establishment. Other raiders attacked Manston aerodrome, which is reported temporarily unserviceable owing to craters, but no damage to hangars or aircraft. Lympne aerodrome attacked. Two Royal Air Force W/T stations on Sussex coast bombed, of which one destroyed.

These raids were on a considerably larger scale than any previously attempted; total casualties reported: 39 killed, 166 injured. Raids were intercepted by our fighters and enemy casualties were heavy. In the afternoon enemy attacks continued on Southeast districts and two Royal Air Force aerodromes. Our fighters again intercepted and many enemy aircraft were destroyed. Apart from aerodromes no key points are reported damaged.

Enemy lost yesterday 19 bombers and 36 fighters destroyed by our fighters, also 7 by anti-aircraft fire. In addition 36 aircraft

probably destroyed and 20 damaged by our fighters. Total: enemy 62, British 13 (4 Spitfires and 9 Hurricanes).

Considerable enemy air activity last night; bombs dropped in Southwest Scotland, Northeast England, South Wales and Plymouth; particulars not yet received.

Mine-laying suspected off East coast, in Thames Estuary and Bristol Channel.

Reported that German reconnaissance machine on August 11th made circuit: Bordeaux, West Coast of Ireland, North Scotland to North Denmark.

4. Shipping casualties. Yesterday British tanker of 8500 tons outward bound in ballast met in convoy torpedoed and sunk in Atlantic.

5. Albania. Belgrade report announces clashes between rebels and Italian forces near Yugoslav frontier also that Italian aircraft have been removed from aerodrome at Tirana to dispersed positions.

6. Middle East. Somaliland. Our positions attacked by blackshirt battalion on August 11th, by dusk they had failed to penetrate defences. We suffered 5 casualties.

Our aircraft from Aden are actively engaged attacking enemy batteries and positions

with/

-4-

with considerable effect.

Libya. Ten Blenheims escorted by Gladiators successfully attacked enemy camp on August 10th.

Italian East Africa. To effect further dispersal of aircraft preparation of new landing-grounds north of Eritrea being hastened. August 10th five of our heavy bombers made successful low level attack on Italian aerodrome at Eritrea.

RE CONTROL OF SCRAP IRON EXPORTS

August 14, 1940
3:00 p.m.

Present: Captain Baldwin
Major Heiss
Mr. Yost
Mr. Veatch
Mr. Wilson
Mr. Janson
Mr. Stettinius
Mr. Batt
Mr. Harriman
Mr. Handerson
Mr. White

H.M.Jr: I got started with you (Mr. Stettinius) and then so many people are interested in this, the last time I was accused of doing this thing secretly, of interesting myself in scraps, so I asked the Army and Navy and Commerce and State whether they wouldn't come in and listen.

Stettinius: I am glad you didn't have to buy them all lunch.

H.M.Jr: I would be very glad to buy them lunch and supper. So that is the way the thing grew. I thought this time I would do it out in the open. I mean, within the Government, not for the columnists.

What I asked you originally was whether you would bring me up to date on this scrap situation. The reason I was a little bit disturbed about it was because that original memorandum you sent me - and then we get the figures on a weekly basis and there is quite a lot of scrap still leaving the country.

Stettinius: That is correct.

H.M.Jr: So if you would act as teacher, I for one would be very glad to sit at your feet.

- 2 -

Stettinius: Well, Mr. Secretary, these charts here - I am sorry I didn't bring more sets - really tell the entire story at the present moment of the situation as to the inventory of scrap and the various qualities and the location and the price movement and the exports of scrap to the various places. It so happens that Bill Batt has had a meeting with representatives of the - Mr. Towers, who had had a meeting with representatives of the industry and I believe some of you other gentlemen and is thoroughly acquainted with the situation. I think, Mr. Secretary, he would make a little bit better teacher than I would at this moment.

I am generally familiar, but I think that Mr. Batt could give the point of view of the industry, and quicker. My impressions are that the time has arrived that something should be done on a tighter control of scrap. I think there is too much scrap leaving the country. I think that with the forecast of production of the steel industry as it is, there is a likelihood that we might run into some very real shortages, particularly in some of the qualities other than number one melting, which is about 25% now in cast iron, and the bundles, number two, there is quite a volume leaving.

Before Mr. Batt picks up where I leave off, I would like to call attention to one very important aspect of this problem and that is the possible influence that a rising price in the scrap market would have ultimately on the price of steel, which in turn would have an affect on wages and other things.

H.M.Jr: That is why I asked Mr. Henderson to come over.

- 3 -

Stettinius: Yes. Leon and I had a little chat about this this morning. Now, I think this is a very, very timely - it is very timely to discuss it and with that introduction, I will ask Mr. - Mr. Harriman, I should also say, is very, very familiar with this entire matter. He has been watching this whole export matter of all materials for our group with Colonel Maxwell in the State Department, I think, and after Mr. Batt, Mr. Harriman might have something to say.

Batt: I think I will save the Secretary's time if I read a brief memorandum which I dictated on Friday for Mr. Stettinius.

"The steel industry contends in its opinion that the visible supply of scrap is below safe requirements, current and expected, of the defense program, and furthermore feels that the present application of the scrap export provision as a remedial measure is totally ineffective. Because of recent publicity on the above, through newspapers and otherwise, a meeting was held at my office, at which representatives of State, Tariff Commission, Price Control, Export Control, and the steel divisions of the Defense Commission were represented.

"In view of the reliance placed by both the State Department and the Tariff Commission in the ability of the unknown tonnage included in the backlog or reservoir of potential scrap around the country and not included in the visible supply to meet deficiencies in the scrap requirement of the defense program at a price --"

I ought to interject to make that a little bit clearer. There has been the feeling on the part of a good many of us that there

- 4 -

was a very large reservoir of scrap iron which would be drawn out as needed, dependent upon the price levels existing at the moment. That is, if you are willing to pay enough for scrap, you can put the Empire State building into the scrap pile and that that reservoir could be depended upon to supply scrap about as we needed it. Prices would go up and more scrap would be brought out. Prices go down, scrap stays in hiding.

"In view of the reliance placed on this question by these departments, it was decided immediately to consider the feasibility of making a study or sampling survey to determine all available data on the above backlog or reservoir and that study is now under way."

I don't say that we can promise anything too constructive out of it, but it is our hope that we can get some light in an area which seems significant and about which there has been nothing but guesswork in the past.

"The possible effect of higher prices for scrap in the event of scarcity was also discussed. It appeared to be the general feeling that higher scrap prices would necessitate higher steel prices, and that any such higher price action in the steel industry would be a signal for similar price action in other industries, resulting in the general disruption in our price and wage structure. An opinion was expressed at this meeting and seemed to be substantially concurred in that the present licensing program is inadequate as a safeguarding measure and might advisedly be extended to cover all grades of iron and steel scrap. It should be understood, however, that even

- 5 -

at the present time licensing does not affect exports of even number one heavy melting scrap as it is being exported as freely as ever, the only difference being that a record is now being made of such exports."

And I might add, parenthetically, we believe that the purchase of number one melting scrap is probably accentuated because of this provision, the fear being set up in many quarters that they had better buy scrap while they can, that scrap buying particularly in number one grade might be in excess of normal requirements.

"A memorandum of August 7 from the steel division was read at the meeting. It was understood that no further comments would be made by the steel division until the Bureau of Mines' tonnage figures on visible scrap supply as of June 30, 1940, becomes available for study. That is promised for the first of the week. We understand that a certain test sampling of that shows that there is a slight fall off in the visible scrap supplies but not to any considerable degree. It was decided to arrange with the Bureau of Mines for the preparation of tonnage figures on all visible scrap supplies on a monthly basis instead of quarterly in order that the official current scrap situation may be more promptly known. The State Department defined its position by stating if it could be convinced that the unrestricted export of scrap would adversely affect the best interests of the defense program, it would offer no objections to any measures necessary to safeguard our needed scrap requirements."

I hope I put that correctly, Mr. Veatch.

- 6 -

"A meeting of the above group will again be called when the study referred to has been obtained. No change in the present export scrap situation can be recommended at this time."

I think that represented our point of view, Mr. Secretary. When those figures as to the visible scrap iron are available, we shall know a little bit more than we know today. If, for instance, the visible scrap supply had declined sharply in the last three months, it would be one thing, but if it hadn't declined sharply, that would perhaps be another. We recognize the fact that substantial parts of the scrap export are going to Great Britain, or at least we believe that to be a fact, and that the other principal purchaser of scrap, of course, is Japan. The figures are available here from a number of men whom I see here who are more expert on the exact tonnages than I am, but we didn't recommend to Mr. Stettinius that any change ought to be made in the situation at the present time and until we got more data.

H.M.Jr: Well, we, with very limited information, made an estimate that there would be a shortage of about five million tons of scrap this year and that sort of bothered me, plus the figures that we have as of the week-end of August 10th on the export of the scrap. It shows that there was 33,000 tons went to Japan and 15,000 tons went to Great Britain just that week. We are running it on a weekly basis.

Veatch: Mr. Secretary, did you have an estimate as to how much scrap will probably leave the country this year? I mean, if the present movement continues.

- 7 -

White: Somewhere between two and three million tons.

Veatch: It would take an awful lot in the last few months to do that, wouldn't it?

White: Well, in the next twelve months period, you mean.

Veatch: No, I meant --

White: I take it that is the criterion, because the defense program will presumably go forward. It won't stop at the end of the calendar year.

Batt: In 1939, we shipped out $3\frac{1}{2}$ million tons, according to these figures I have, long tons.

White: '37, I think, was four million. That was a rather high year. That estimate of five million tons the Secretary referred to, I think, presupposes a continued progress in the defense program, presupposes the approach of maximum production in iron and steel.

Batt: Of course, it also, I should think, must rest upon some other conclusion with respect to this reservoir that we speak of.

White: We used the figure of - that we saw available. I don't know how good a figure it is. I think Mr. Stettinius used, too, something like five million tons of purchase of steel scrap.

Batt: Those figures had to do with visible scrap.

White: That is right.

Batt: The thing we don't know about and the thing

- 8 -

that will probably be very determining is this invisible scrap pile.

White: 1937 was a high year, wasn't it, with attractive prices and a great demand, and I think there were something like 22 million tons that year, that high year.

Veatch: No, it was 37 or something like that.

Stettinius: Well, Bill, wouldn't our group be unanimous in recommending that all classifications of scrap be put on the list?

Batt: Yes, I think if we hadn't discussed the subject with the State Department and were left solely to ourselves, we would put all scrap on the licensing list.

Stettinius: Correct. Now, from our analysis here, we have to show a forecast of consumption of scrap for '40, greatly in excess of '39 and for '41, greatly in excess of 1940. We also see on this chart a substantial rise in the forecast of the scrap price. Now, I don't want to speak out of turn or out of school, Mr. Secretary --

H.M.Jr: You can't, as far as I am concerned.

Stettinius: But it seemed to me, sir, that a pretty good way to tackle this problem would be the way the gasoline problem was tackled, put steel scrap in all its classifications on the list and then the State Department in its own way, and Colonel Maxwell, do what they wish in the movement of scrap to wherever they wish to have it moved.

Yost: Of course, there is a certain political effect just from putting it on the list. The countries

- 9 -

who might be affected if it were embargoed begin to get very nervous once it is put on the list and we wondered if it was - unless it was intended to actually restrict the export in the near future, if it was necessary to put it on the list at all, that is, if you are just seeking statistical information about exports, I think those are already being obtained through the Treasury Department and Commerce quite adequately, so would it be necessary to agitate our friends across the water by putting it on the list unless you actually want to restrict it in the very near future?

Stettinius: Of course, you are talking about a subject out of our realm entirely. That is getting into international matters, in which territory we don't belong. I would certainly think purely from the domestic defense angle that we at this time, Bill, would be perfectly justified in recommending that all classes of steel scrap, as I have said before, be put on the list.

Now, if that is going to get into the other territory that you speak about, of embarrassment, that is a separate subject.

I would be terribly anxious to hear what Leon says on this matter of the rising price of scrap, but I know something about this business and we are dealing with these scrap - these scrap dealers are a pretty tough crowd of eggs and you are going to have the steel industry operating at practically 100% operations probably before long. The statistics probably will show 94%, but it would be possible for them to operate at 94½% and there is going to be a great demand and I should think that it

- 10 -

is just common sense for us to conserve all the scrap we possibly can, looking to the future, not knowing what the future was going to bring forth.

Batt: I don't think we would know nearly enough about scrap and I hope that some of the experts here - I know Mr. Janssen from the Department of Commerce is an expert.

I am impressed with the fact that there are so many peculiarities in this scrap movement. One of the larger steel mills with a plant in middle Ohio requires - and another plant in Kentucky - requires 50% larger scrap pile in its Kentucky plant. They are only 125 miles apart. 50% larger scrap pile because that area doesn't pull scrap in so readily as the more populated industrial area 125 miles north. I ought to say, Mr. Secretary, that I didn't know any more about scrap than perhaps you did --

H.M.Jr: I know nothing.

Batt: Two months ago when I came down here, and I don't like to presume to be speaking as an expert in the Defense Commission, but I have two or three authorities and if I had known we had quite this kind of meeting, I should have brought them. I want to know a good deal more about why scrap moves where than I know now. I have the impression that scrap may go out of certain parts of the country and do no damage whatsoever to other parts of the country, but that is an impression that may or may not be borne out by the facts.

H.M.Jr: I wondered if the Army and Navy care to say anything.

- 11 -

Baldwin: There was a bill introduced in Congress last winter with hearings before the House Military Affairs Committee when this matter was discussed very freely and the Institute of Iron and Steel Scrap Dealers was very much opposed to the bill. The bill would have put a license on the sale of scrap. The small steel manufacturers were actively supporting the bill.

Stettinius: Sure.

Baldwin: There were very extensive hearings on that bill, of which I have a copy here if you care to go into it.

H.M.Jr: I imagine the Navy is a little bit more interested than the Army, aren't they?

Baldwin: We stopped all sales last September. We are only selling scrap that is in excess of our storage requirements. Our sales were normally about 40,000 tons a year and we consume about 17,000. The latest figures we have show that we have approximately about a year's supply of scrap on hand in the yards.

Stettinius: For your own requirements?

Baldwin: Yes, sir.

Heiss: Speaking for the War Department, Mr. Secretary, I may say that we worked very closely with the Advisory Commission.

Stettinius: Correct.

Heiss: In its scrap research activities, and have attended or had representatives at all of the conferences, and I can only second what Mr. Batt stated, that we feel there should

- 12 -

be a further investigation of what this backlog really is before we would be in a position to make a definite recommendation to stop the export of scrap.

H.M.Jr: When did you say, Mr. Batt, that the Department of Interior figure would be ready?

Batt: The 15th or the 16th. They should be here today. If they are not ready, I suppose we will have them either tomorrow or Friday at the latest, I should hope. Those come from the Bureau of Mines.

H.M.Jr: Then you should know better?

Batt: Yes, I think we shall know better than we do today. I shall be about as puzzled as I am if they don't go down. They ought to have gone down.

Stettinius: I don't think he will know any more next week than he knows today about visible supply. Again in his own words, the Empire State Building can go in the scrap heap at a price. If the price gets high enough, they will tear the Empire State Building down. It all, really, in my opinion, is guided by this whole question of - and the synthetic scrap item comes into the discussion, where scrap gets up to about \$20.00 a ton. Many of the mills will make their own scrap and cease buying scrap. Well then, that is going to be a tremendous reserve of scrap that is available and not needed. If scrap stays down around \$14 or \$15, around where it ought to be for heavy number one melting, I am sure that scrap at that price is going to be required by the industry.

H.M.Jr: Well, am I correct - just a classification, number one, heavy melting, scrap, that it

- 13 -

is very easy to circumvent that? I mean, is it easy to make - I mean, that isn't a catch-all?

Batt: It isn't being used as a catch-all now, Mr. Secretary. It is flowing freely. Number one is being allowed to flow.

H.M.Jr: Out of the country?

Batt: Yes.

Anderson: That number one, that is your best scrap, isn't it?

Stettinius: Sure.

Anderson: As I understand it, there are about 77 categories of scrap. Number one heavy melting is your best grade. Of course, you can make number two or some inferior grade by throwing a lot of other junk in with it, can't you?

Stettinius: That is correct, you can. You might be interested in these figures. At the present time, the composition of scrap exports are as follows: There is about 25% that is heavy number one melting. 40% is heavy number two. 15%, these bundles that are pressed, of wire and things, and cast iron, 10%; miscellaneous, about 10%. That is the export at the present time. Now, this heavy number one is the cream that is so important for the steel mills to have as large a stock pile of as possible for the defense effort which we see ahead.

Harriman: Your railroad iron is important, too.

Stettinius: Sure.

- 14 -

Heiss: May I inject a question here, Mr. Stettinius?

Batt: Well, I look at these figures here to the end of May, there are six hundred and some-odd thousand tons ships to the United Kingdom and Italy, three hundred and some-odd thousand to Japan. Those shipments to the United Kingdom and Italy very largely went out of North Atlantic ports and if damage is being done to the steel industry, it is my guess, as one who didn't know anything about it until two months ago, that that is a substantial contributor to that damage, because they are drawing from pretty much the same area. We have discussed with a great many people here, both in the industry and otherwise, the damage done by export to Japan and there is some difference of opinion on that, but most of it goes out of the West Coast or out of the Gulf Coast and the effect of that scrap movement on available steel scrap for the industry around Ohio and western Pennsylvania is probably not very serious. The movement of scrap to England and Italy, I should think, has been quite serious if scrap itself has had an effect at all, which I expect it has.

Anderson: It depends a whole lot where you pick that scrap up, though, you said. If you take scrap right in New England on the Coast, it costs quite a lot to get that back to Pittsburgh or to Chicago, while the scrap that is right in that immediate vicinity, it wouldn't pay to send that to the Seaboard to export.

Batt: There is another extraordinary thing we ran across this week, Averill, that is probably old to you, and that is that the

- 15 -

Japanese went into Wyoming and bought 1500 tons of scrap and paid a considerably higher price for it than the West Coast scrap dealers could pay because they had a big preferential on freight. That is, that being a part of a movement - land and water movement, they got a differential on freight of about two or three dollars. It was a substantial figure and they actually underbid domestic scrap dealers by that amount.

Harriman: I think the answer is that I don't believe there is a movement of scrap from Wyoming normally to the Coast.

Batt: There was in this particular case.

Harriman: No, I mean for domestic consumption. For export, yes, but not for domestic consumption.

H.M.Jr: I like Mr. Stettinius' suggestion of this classification. I don't know who you refer to as "our friends," but if it makes anybody nervous, I would say all to the good.

Veatch: Mr. Secretary, Mr. Yost is a ranking official in the department and I am not so I can speak with candor and simply say that --

H.M.Jr: Where does that leave Yost?

Veatch: I mean, I don't have to speak for myself. I was instructed to say that if there is any likelihood or any desire to take further action on this matter, that Secretary Hull should be called in a conference on it because he considers it of considerable importance. In other words, any action that is taken, whether it is one that is simply to add to the list of grades that

- 16 -

are licensed or whether you actually intend to cut off the shipment, would create problems for us in the international field and the Secretary would like to be in on the discussion before a decision is made. Of course, he is away on vacation now but I think he would even come back, or at least he would want to talk on the phone about it.

H.M.Jr: That is why I asked Mr. Hull's office to send somebody over here, for that purpose.

Veatch: Our feeling is, I think, quite general through the department that it is undesirable to take this action from the standpoint of policy at the present time.

H.M.Jr: Does Dr. Hornbeck feel that way?

Veatch: Certainly not.

H.M.Jr: I didn't think so.

Veatch: But I think Dr. Hornbeck hasn't, perhaps, conferred with the Secretary yet. At any rate --

H.M.Jr: Does Mr. Berle feel that way?

Veatch: I can't speak for individuals now. I am only passing on what is reported to be the opinion in the department.

H.M.Jr: I see.

Veatch: I think this makes it quite evident, however, that there are the two aspects involved. One is, should the action be taken as a national defense measure, the other is, should it be taken as a policy matter and if it is strictly on the basis of national defense, I think Mr. Batt was correct, that we would

- 17 -

like to see the evidence and if it is there, we won't raise any objection. National defense comes first. However, if it is not on that basis, the present opinion, Mr. Secretary, in the department is that it had better not be taken on the policy angle, on the policy basis. We would like to avoid it on that score.

H.M.Jr: Then for my purposes - I mean, I am purely informal and doing this entirely on my own - I could just ask Mr. Stettinius as a friend, see, whether he would give this matter careful consideration and if he could do it on national defense grounds, swell, and if he can't and will tell me so, I will call up Mr. Hull on the telephone and talk to him personally.

Stettinius: Good. Now, when can we promise the Secretary a memorandum on the defense score, Mr. Batt?

Batt: Whenever you want it.

H.M.Jr: Not for me, do it for Mr. Hull. Send me a copy.

Heiss: I would like, Mr. Secretary, if I might, on this question of broadening classes of scrap, that we would place under the licensing system - is it the idea, then, that if we start curtailing the export of that scrap that we will curtail all types of scrap or select from the wide varieties of scrap just certain types of scrap to curtail? I don't think we should - and I am speaking now from the point of view of the administrator of export control and the State Department section that is working on that - require licenses on anything that we do not expect sooner or later to have to curtail, because there are a mass of

- 18 -

complications, reductions, resubmissions, and so forth, and I was thinking that perhaps if we took, say, heavy melting No. 1, which we feel perhaps we might eventually decide to curtail and perhaps No. 2, but do you expect to curtail this miscellaneous 10% up here or these bundles? As we have understood it --

Stettinius: There is only 5% of the scrap of the inventory at the present time that is bundles.

Heiss: But 15% of our exports have been bundles. Twenty percent has been cast iron. Ten percent, miscellaneous. Now we have been informed in the Army and Navy Munitions Board and I think perhaps the National Defense Commission has also the same information, that the steel companies and the American consumers are not particularly interested in anything except No. 1 and some of the No. 2.

Batt: Major Heiss, do you know what that category of unprepared, which is the largest one we have --

Heiss: Take unprepared, that is a little bit of everything. That is material that has flowed into the scrap yard and has not been segregated.

Stettinius: That is axles and rear ends and roller bearings and such bunk as that.

White: Mr. Secretary, I would like to pursue a point that Mr. Stettinius made, because I think it has a very important bearing on Treasury activities as well, and that is that it is not only a question of the available supply but it is a question at what price that available supply will come forth and what it will do to steel prices, and because of

- 19 -

the significance that steel has in our whole price structure and economy, what it might do to other prices. For that reason I too would like to know what Leon Henderson has to say.

Henderson: Most of the comments I have made pertain to, you might say, the memorandum we would prepare. The first thing that occurs to me is, we have never had a high use of steel capacity without having some pressure on the supply of scrap and also on the price of scrap. You saw what happened in '37 on that price.

Batt: And '29, too, Leon.

Henderson: I meant I saw what happened in '37, I will put it that way, but we know that the defense program is going to have a considerable requirement of the steel scrap and that is particularly true of the smaller steel companies. I think Ed will bear me out in this that they have a greater difficulty than some of the integrated companies. They also have difficulty in the matter of storage and things like that. They are more interested in a current flow of scrap than they are in building up huge reserves.

Stettinius: Correct.

Henderson: Now, their price situation, as well as their wage situation, always exerts a pressure on the price of steel. We have been what I consider quite fortunate in the last few years, and even now, with the upsurge in steel, that there hasn't been more interest in the raising of prices. Somewhere along the line there is certainly more of what is called business statesmanship, at least, and there hasn't been any occasion for those

- 20 -

that have been laying in the background and waiting for a chance to capitalize on the defense program to start the agitation, either. It looks to me at the present time as if the wage situation were in fairly good condition.

Stettinius: Right.

Henderson: The scrap situation can, as far as our guess is concerned - and ours is a guess - get out of hand fairly quickly. I know the small steel companies are telling us that. I think we have got a problem of guessing whether or not anybody would add to his supplies other than the scrap dealers if he cut off the exports. That is what bothers me. We have got no provision for a scrap pile under any auspices, although we know we are going to need it and putting it into the general frame of reference, I know what Ed and I, our divisions are thinking of, wherever we see a situation where we are going to need a material, where there is an opportunity for acquiring at a reasonable price now and would avoid a price disturbance later. We would like to make that acquisition and for my part, what we would incorporate into a memorandum would tend to urge not only that we go on a licensing basis for all the important classes of scrap, but we seriously consider some kind of an arrangement, maybe less formal than rubber or tin, and something more in the nature of an inquiry among the steel producers as to what they could do to take off the market what is coming along. I would agree with Ed that the scrap fellows are pretty tough boys and they always say - I expect Janson will remember from NRA days - that any pressure usually means that you don't get the scrap, because nobody is buying it and the only time you hear about them is when there is

- 21 -

a tight situation. Now, I would like to couple the suggestion with some inquiry as to how we get a scrap pile, either an informal one through an increase in the inventory positions of the steel manufacturers, particularly the small ones, with an estimate of what the price situation is likely to be if we don't do something.

Batt: May I add this further, Mr. Stettinius. We have understood from the steel industry that they ought to have about 60 days supply of visible scrap. They ought to be able to see that. That has been a rule of the industry for a good many years.

Stettinius: As a minimum.

Batt: That would call for 5 to 5½ million tons. The reason I said the significance of these next figures would be that if that had gone down to 4 million or to 3½ million or if it showed some substantial reduction, we would have evidence that here was a dangerous area that was clearly developing but if the stocks as of the end of June are substantially unchanged from the end of March in the face of a substantially rising export, then we don't have that evidence and there is almost as much --

Henderson: What the estimates of the steel industry as to a normal visible supply are based upon - on the level of operations that they have had in the past. Nobody, looking at the defense program, even with what has been authorized now, can say that you are going to have that characteristic swing in which you only get maybe 55 to 60% of use of the steel capacity over a period of years. We are going to have a higher level of that and with the prospect in the offing - perhaps with the

- 22 -

Secretary of the Treasury here I shouldn't anticipate it - but if you want an uninformed guess, you will probably have a larger program appropriated by the next Congress and that means always the first thing that you think about is steel and it just looks silly to see an essential item which is critical, particularly for the small steel companies and highly important for the big ones and based on any supposed normalcy in the past and I think - I always like to think of what Baruch told the Tin Committee when I asked him about tin. He said, "I would buy a lot of tin and have it here." They said, "Well, you know the British have control of tin and we could always get tin." He said, "I would buy a lot of tin and have it here." And they said, "You don't suppose the condition would ever arise where we couldn't get tin from the British?" and Baruch says, "I would buy a lot of tin and have it here."

Janson: Mr. Henderson, I think we have another fact to consider in the matter of price, and that is largely a question of the tenor of the buyer. I am thinking of the experience in 1939 beginning with August and the upswing of business and the more definite upswing again in September, 1939. There was a temporary shortage, notwithstanding the fact that evidence of an increase in business activity began in May and there was a temporary shortage. The price of scrap rose to \$24.00. My analysis of the situation is that that price went about \$6.00 above what it should have been simply because one or two of the steel companies got overly ambitious and stepped out of character and became steel brokers or scrap brokers and bid up the price unnecessarily, and notwithstanding the fact that - or when it reached that peak in October, and the price having reached that

- 23 -

saturation point, then dropped, notwithstanding the fact that it wasn't until almost another month later before steel production got to about 94%, and the price has been on the decline ever since. The thing that disturbs me about the proposed survey of the invisible stock is that nobody knows how much scrap there is until there is a price that brings it out.

Stettinius: Correct.

Janson: The price has been declining now for some six weeks. The price throughout all consuming areas last week was unchanged with the exception of Pittsburgh and I think that was only a temporary rise of about 25¢ a ton. There doesn't seem to be a genuine mill buying interest at the moment, notwithstanding the fact that we are in the 9% bracket, which is somewhat interesting to understand.

(Discussion off the record.)

Janson: I have been watching this decline for some time, realizing that there would be a rise in the steel production. I have some information which I am not able to vouch for officially, but I have reason to believe that there was an attempt at a - what I might call a boycott for a time. It began during the first week in June and the price declined not because of that boycott, I don't believe - at least I can't believe that that was the reason - but it was during that interim that the Japs stepped in and bought. They bought about 200,000 tons during the period from the first week in June until about the 15th of July, and a report of the contemplated purchase came out in the press after the negotiations had been completed. The press indicated that it was to be in the nature of about 300,000

- 24 -

tons of No. 1 heavy melting, but the best information I had was that it was about 15% of No. 1 heavy melting and, I think, by the by, I might say that although many of the exports are reported in terms of American nomenclature, that much of the material would not be acceptable under that nomenclature by American steel consumers. In other words, say of 5 pounds is the minimum weight in No. 1, I question very much whether the steel consumers would take all of the 5 pound classification.

Stettinius: I think that is correct.

H.M.Jr: Well, Mr. Stettinius, I appreciate your kindness in coming over here, but why don't you take another look-see at the thing and if on national defense grounds you can do it --

Harriman: Could I just say one word to you briefly, Mr. Stettinius? I want to second what Captain Heiss said. I really urge that no action be taken on putting anything further on the list until you are ready to recommend embargoes. I realize the difficulties that the industry have and the State Department have and Colonel Maxwell has in dealing with it. It upsets the industry and does a great deal of harm to the orderly processes of marketing as well as making difficulty here in Washington and as we can move about as quickly on getting the additional items on scrap as we can on embargoing it, I would really urge that you defer action on the embargo - the licensing, putting it on the licensing list, until you are ready to embargo it.

Yost: We certainly feel strongly the same way.

- 25 -

Janson: I think the Department of Commerce would agree with that.

Henderson: As a footnote, Mr. Secretary, to what Janson has said, between the scrap dealers with their limited funds and their fast trading and the big buyers and the buyers of scrap who are usually pretty well financed, there is a constant warfare going on; and if you get a little sympathetic with the scrap dealer in times of shortage of use and I think that with the prospects, no kind of boycotts or threats or - of any false statements would interfere with them getting a decent price now. I am not scared of that. I do think, however, that the steel companies have got to make some arrangement if the defense program doesn't, for more than 60 days' supply, looking ahead to what the two to three year demand is upon steel, what it is likely to be.

Harriman: I saw some scrap melting yesterday in New Orleans and it looked to me like a lot of junk that had been picked up on farms, a good deal of it, and I doubt very much whether any of it would have moved anywhere if it hadn't been for the present purchasing.

Stettinius: That would have gone to Birmingham, that New Orleans scrap. They would have used that there eventually, probably.

Harriman: If they would use that quality.

Henderson: If they would use the quality.

Stettinius: Well, there is a big pig iron operation there, you see.

Well now, if we give you and Secretary Hull

- 26 -

a memorandum on this whole subject, say we had it next week, would that be satisfactory?

H.M.Jr: Fine.

Stettinius: Bill, can you keep that engagement?

Batt: Any date you ask for.

H.M.Jr: Mr. Harriman, have you got a minute?

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Beirut.

DATE: August 14, 1940, 1 p.m.

NO.: 76.

Consulate General's 74 of August 9.

I am informed by the Director of the Office de Changes that no part of the dollar credits which are now held in America (with the exception of the Socony-Vacuum account and certain other accounts covering recent shipments of commodities which are deemed to be indispensable) will, if they are freed, be used for settling outstanding obligations but will be used rather for buying kerosene, gasoline and other necessities in the United States. Further, should these credits be freed, no attempt will be made to transfer any portion of them outside the United States.

It is provided in a High Commission Arrete dated August 8th that Syrian currency equivalents of the value of merchandise for which authority had been given for importation and exchange certificate secured before July 31 may be deposited in a special account in the Banque de Syria at the official rate, but only in the case of perishable or indispensable merchandise and when especially authorized by the Economic Counselor
of

-2-

of the High Commissioner. His authorization is necessary likewise for the withdrawal of such deposits and may be granted if the buyer can prove that corresponding exchange was remitted or if the seller gives his express consent, but may not otherwise be granted.

It is understood that the objectives of this decree are the customs clearance of big stocks of goods which is urgently needed, for which there is now no foreign exchange available, and the creation of blocked credits for the account of sellers, which will be liquidated at such a future date as may be permitted by the exchange resources of Syria.

PALMER

EA:MSG

British Embassy,
Washington, D. C.

14th August 1940

Dear Merle,

Here is another note on
a shipping question which has just come
up. It links up with the questions
which I have already submitted with
regard to the French ships, and to the
German and Italian ships.

Yours ever,

Jerry Pincent

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

COPY

It is understood that at the dictation of the U.S.S.R. the Estonian Government (and possibly the Latvian and Lithuanian Governments) have ordered all of their ships which are in foreign waters to return home and to avoid United States or British ports.

It is important to the British Government that the mercantile fleet of Soviet Russia should not receive this increase to its numbers and carrying capacity for use on the trans-Pacific route.

Would the United States Government be prepared to refuse clearance to the ships of these three Baltic countries under the Order of June 27th, so far as they are now in United States ports or may call later at these ports?

G.H.S.F.

British Embassy,
14th August 1940.

COPI

lap

PARAPHRASE OF SECTIONS ONE AND TWO OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy (Paris) France.

DATE: August 14, 1940, 6 p.m.

NO. : 332

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Rueff and I lunched today at Chatel Guyon but I found out that Paris had given him no news. There is still no communication between the Bank of France in unoccupied territory and the capital with the one exception of a daily telephone call which is carefully restricted to minor matters and to matters of administration. However, Rueff got the impression from that that there is a greater tightening of the German banking control and that there is more discouragement than ever among the Governor and others in Paris. It is now expected that Fournier will be back on Saturday at Clermont-Ferrand. I inquired about the personal relationship between the German Commissioner and the Governor. He answered that Fournier and the German Commissioner never see each other and that in his opinion this total lack of personal contact was ridiculous. It appears that even though Schaeffer sits in Boisanger's office and Governor Fournier sits in his own office nearby, they communicate in written form only.

Rueff did not know whether this was due to the desires of the Germans or of the French or both. I suspect a great deal of it is due to the Governor's pride and his desire to pretend that even yet the Bank of France is ~~xxxx~~ free and independent.

No

-2-

No information was available to Rueff with regard to the amount of kredit kassenschein circulating in occupied zones because of this lack of communication but he estimated that by now there must be several billion francs worth. Rueff is still worrying (please refer to my telegram of July 30, 1940, 6 p.m., no. 213) for fear that, for reasons of policy, the Germans may try to bring about a disastrous inflation in France similar to the one that occurred after the last war in Germany.

JR

GRAY

(Paris)
Vichy

Dated August 14, 1940

Rec'd 1:15 a.m., 15th.

Secretary of State,
Washington.

332, August 14, 6 p.m. (SECTION THREE)

Pearce and some subordinate personnel of the National City Bank left this morning to open their establishment in Paris. Prior to this move they queried their clients as to whether they wanted their accounts taken back to occupied territory. The mass replied in the negative. The other American banks are similarly receiving numerous letters from their clients indicating for the most part a desire that the accounts be kept in the unoccupied zone.

The Guaranty Trust about a week ago received from the German Office of Bank Supervision a request for the list of their safe deposit box holders and are submitting the requested list. They are likewise answering the original German questionnaire as to gold, foreign exchange and securities holdings for their Havre branch only (practically all such holdings of that branch were transferred to New York some months ago).

Finance Minister Bouthillier has made a verbal request

at

-2- #332, August 14, 6 p.m. (SECTION THREE) from (Paris) Vichy
at one of the daily bankers' meetings (which are held at
the Bank of France at Vichy, Chatel Guyon and other points
in unoccupied territory since the armistice) that (a) no
securities of any sort be delivered to Jews resident in
Alsace and (b) that no foreign securities be delivered in
unoccupied France to persons domiciled in occupied territory.
(END MESSAGE)

MURPHY

TFV

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent handed to me the attached memorandum when he called at 3:15 this afternoon. I showed this memorandum to the Secretary later in the afternoon and then telephoned Mr. Pinsent. I let him know that we approved the idea of his Embassy taking the matter up through us with the State Department, and I told him that I was telephoning Assistant Secretary of State Grady, who is to receive Sir Owen Chalkley tomorrow morning at 10 o'clock, to the effect that this matter had been discussed at the time of the visit of Sir Frederick Phillips to the Treasury, and that we approve its now being taken up with the Department of State.

I was unable to reach Assistant Secretary Grady this evening, but shall telephone him tomorrow morning before 10 o'clock.



(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 3:15 p.m., August 14, 1940.)

MEMORANDUM

During the visit of Sir F. Phillips to Washington, certain suggestions were discussed by him with the President and with the Secretary of the Treasury regarding measures to promote British exports to the United States and to Latin American countries for the purpose of paying as far as possible in this way for the greatly increased purchases from those countries which the United Kingdom requires to make for the conduct of the war.

The President and Mr. Morgenthau advised Sir F. Phillips that the British Government should consider the forcing out of exports and moreover suggested that the United Kingdom and the United States ought to cooperate rather than compete as regards their respective exports to South America, for the purpose of minimizing unnecessary competition, especially seeing that such a large proportion of their respective exports is complementary rather than competitive.

Sir Frederick Phillips was advised, in response to his enquiry, that ways and means for carrying out these suggestions might in the first place be informally discussed by the Commercial Counsellor of the British Embassy with the State and Commerce Departments.

Copy of memorandum to be taken by
Sir Owen Chalkley to Mr. Grady, State
Department.

14th August 1940

(Initialed) G.H.S.P.

COPY
dm

DEPARTMENT OF STATE
Washington

August 14, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of despatch no. 11167 dated August 8, 1940, from the American Ambassador to Mexico, recommending favorable action with respect to release of funds of Alexandre Rueff & Cia.

Enclosure:

No. 11167 from Mexico,
D. F., August 8, 1940.

COPY

No. 11167

Mexico, D. F.
August 5, 1940.

Subject: French-owned company in Mexico, Alexandre Rueff & Cia., asks that its account with the Manufacturers Trust Company of New York be unfrozen.

ConfidentialVia Air Mail

The Honorable

The Secretary of State

Washington, D. C.

Sir:

I have the honor to record below a report made to me by the Commercial Attache on the above subject:

"Mr. Ives Hayeur du Tilly, an officer of Alexandre Rueff & Cia., came to my office today and displayed a letter which he had just received from the Manufacturers Trust Co. of New York City, in which it was stated that the United States Treasury had acted unfavorably on a request of the Company to free its account. During the day I made an investigation of the company and its activities and learned that it is a very substantial organization producing principally pharmaceutical products in Mexico City. It has a capitalization of 500,000.00 pesos of which 325,000.00 pesos is French and the remainder Mexican. The company is buying extensively in the United States and it desires to use its funds in the United States for the payment of American accounts and expenses etc., in Mexico. The officers of the company are fully aware of the danger of attempting to send funds to France and we have definite assurances that any funds which may be freed in their account in New York will be used exclusively in the United States and Mexico.

"I suggested to Alexander Rueff & Cia., that a new request for the freeing of their funds should be made through the Manufacturers Trust Company in view of the fact that a former request had been refused.

"Mr. Ives Hayeur du Tilly, an officer of the Alexander Rueff Company, also maintains a personal account in the Manufacturers Trust Company of New York City. He is likewise making a request through that bank for the freeing of his personal account. It is quite evident that Mr. du Tilly would be quite careful in seeing that no French funds fell into German hands.

- 2 -

"After full investigation it is my belief that the two above named accounts could be safely freed with the assurance that none of the funds would fall into the hands of Germany".

Respectfully yours,

Josephus Daniels.

File 851.7

FHL-jgl-EC-"A"

In quintuplicate to the Department of State
2 copies for the Embassy files.

(Prepared for the Ambassador by the Commercial Attache)

COPY

inc

DEPARTMENT OF STATE

WASHINGTON

reply refer to
840.51. Frozen
redits/452

August 14, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of despatch no. 2873 dated July 3, 1940, from the American Embassy at Berlin, regarding the interest of the Brazilian Ambassador at Berlin in obtaining release of certain funds held for the account of the Brazilian Government by a Dutch Bank with the Chase National Bank.

Enclosure:

No. 2873 from Berlin,
July 3, 1940.

Berlin, July 3, 1940.

No. 2873

Subject: Request of Brazilian Ambassador for the Release of Funds
Held for the Account of the Brazilian Government by a
Dutch Bank with the Chase National Bank.

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

I have the honor to enclose a copy of a memorandum dated July 2, 1940, left with me by the Brazilian Ambassador in Berlin requesting the release of the sum of \$40,745.92 which was paid by the Brazilian National Treasury to the Amsterdam branch of the Hollandsche Bank-Unie N.V. and which is held for the account of the Dutch bank by the Chase National Bank, New York.

As the Department will note, this sum which was paid by the Brazilian National Treasury to cover the salaries of Brazilian officials and army officers in Germany and Denmark has been blocked in accordance with Regulations of the Treasury Department dated April 10, 1940, Relating to Transactions in Foreign Exchange, Transfers of Credit, Payments, and the Export of Withdrawals of Coin, Bullion and Currency as amended on May 10, 1940. The Department is respectfully requested to transmit the Brazilian Ambassador's request to the Treasury Department in order that a license may be issued, if permissible under the regulations, which will allow the Chase National Bank to release this sum to the Amsterdam branch of the Hollandsche Bank-Unie N. V. so that the Brazilian officials and army officers in Germany and Denmark may in turn be reimbursed. The Department is respectfully requested to inform the Embassy of the action taken in this matter.

Respectfully yours,

Donald R. Heath,
Charge d'Affaires ad interim

CJW:EW

Enclosure:

Regraded Unclassified

MEMORANDUM

Le Tresor bresilien payait en dollars americains a la Hollandsche Bank-Unie N.V., Succursale d'Amsterdam, les appointements des fonctionnaires bresiliens en fonctions en Allemagne et au Danemark, ainsi que ceux des officiers de l'Armee, qui se trouvent actuellement dans ces deux pays.

2. Les dollars credits dans ces conditions s'elevent a \$ 40.745,92 (quarante mille sept cents quarante-cinq dollars et quatre-vingt-douze cents) et la Banque informe qu'ils etaient a sa disposition a la Chase National Bank, New York, mais se trouvent actuellement bloques par ordre du Gouvernement des Etats-Unis.

3. Le Gouvernement du Reich se preparant a autoriser la Hollandsche Bank-Unie N.V. a rembourser ses clients, il serait desirable que le Gouvernement des Etats-Unis autorise de sa part le deblocage du montant de \$ 40.745,92, ainsi permettant a la Chase National Bank de le payer a Amsterdam.

4. Monsieur de Freitas-Valle sera tres reconnaissant a Monsieur Heath pour tout qu'il pourra faire dans le sens indique.

5. Une relation du solde creditur de chaque fonctionnaire accompagne ce Memorandum.

Berlin, le 2 juillet 1940.

<u>Berlin</u>	<u>USA\$</u>	<u>£</u>	<u>Florins neerlandais</u>
C. de Freitas-Valle	2,707,80		
T. da Graca Aranha	97,63		
Fernando Nilo de Alvarenga	674,85		
Joao Emilio Ribeiro	689,27		
Joao Navarro da Costa	760,38		
Pindaro Tasso Jatahy	1,268,81		
Bureau de Propaganda (Guilherme Gaelzer-Netto)	1,943,53		
<u>Hambourg</u>			
Jm. A. de Souza Ribeiro	5,814,20		
J. Guimaraes Rosa	1,031,44		
C. da Rocha Lima	185,87		
Aracy de Carvalho	477,34		
Tinoco de Mattos	1,18		
<u>Francfort s/M.</u>			
Charles Meissner Junior	537,28		
<u>Bremen</u>			
Pedro Nunes de Sa	4,813,80	1. 9. 8	
Paulo Coelho Rodrigues			926,16
<u>Vienne</u>			
Mario da Costa Guimaraes	670,06		
<u>Cologne</u>			
P. M. de Barros Barbosa Lima	1,048,70		
Osires Carneiro Leao	2,058,89		
<u>Prague</u>			
Theodore Cabral	854,75		
Rudolf Svoboda	144,09		
<u>Essen</u>			
Gustavo Cordeiro de Farias	3,227,44	101.13.10	
Heitor Bianco de Almeida			
Pedroso	1,396,19		
Amaury Gentil de Araujo	1,390,38		
Herschell P. Borralho	179,35		
Moacyr Tavares Carmo	782,40	0. 3. 4	
Mario Guimaraes Carneiro	74,75		
Gellio de Araujo Lima	83,18		
Edgard Alvares Lopes	215,05		
Ulcinde C. Menezes	91,78	0.12. 5	
Jorge Barbosa do Nascimento	407,61		
Francisco C. Nielsen	705,96		
Cid M. Monteiro de Oliveira	474,85		
O. da Fonseca Rangel Sobrinho	1,310,33		
Manoel Parmenio da Silva	792,76	0. 3. 4	
Duilio Renato Storino	718,22		
Edg. de Abreu e Lima	710,12	0. 2. 0	
<u>Copenhagen /Denemark/</u>			
Gastao Paranhos do Rio-Branco	1,608,08		
Plinio Paes Barreto Cardoso	797,60		

In reply refer to
EA 840.51 Frozen
Credits/450

August 14, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of despatch no. 173 dated July 10, 1940, from the American Legation at Copenhagen, regarding the application of Follender & Bull of Copenhagen with respect to their blocked account.

Enclosure:

No. 173 from Copenhagen,
July 10, 1940.

Copenhagen, July 10, 1940.

No. 173

Subject: Application of Follender & Bull of Copenhagen in regard to their blocked account.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to enclose herewith a self-explanatory letter, dated July 3, 1940, addressed to the Commercial Attache of the Legation, from Messrs. Follender & Bull, a business firm in Copenhagen, in regard to their blocked account in the National City Bank of New York. It appears that this firm has a balance of about \$1,000 in the National City Bank of New York, Broadway Branch, and that the Copenhagen Handelsbank has agreed to reimburse Follender & Bull in kroner if this balance is simply transferred from the account of Follender & Bull in the National City Bank to the account of the Copenhagen Handelsbank in the National City Bank. As this transaction would not appear to affect in any way the amount of blocked Danish credits in the National City Bank of New York, it is respectfully suggested that this request might be submitted to the appropriate American authorities.

There is also enclosed herewith a letter dated July 3, 1940, addressed to the Commercial Attache of the Legation from the Copenhagen Handelsbank, in which the bank signifies its willingness to reimburse Follender & Bull, as stated above.

Respectfully yours,

Mahlon F. Perkins
Charge d'Affaires a.i.

Enclosures:

1. Letter from Messrs. Follender & Bull, July 3, 1940
 2. Letter from Copenhagen Handelsbank, July 3, 1940
- In triplicate to the Department

Enclosure No. 1 to Despatch No. 173 of July 10, 1940 from
the American Legation, Copenhagen.

(COPY)

FOLLENDER & BULL

Copenhagen K.
Frederiksgade 19

3rd July 1940.

The Commercial Attache
to the
American Legation,
Bornholmsgade 1,
COPENHAGEN, K.

Dear Sir,

We hereby take the liberty to ask you for your assistance in the
following matter.

For about 15 years we have represented several large shippers of
grain from the U.S. and the bulk of our import business to Denmark we
have always done with the U.S.

We have now a balance of about \$1000.--, representing commission on
sales from the U.S. to Denmark, to our credit with The National City Bank
of New York, New York (Broadway Branch) and in spite of several applications
from the named bank it has been impossible to arrange a transfer from our
account to the account of Messrs. Aktieselskabet Kjøbenhavns Handelsbank with
the National City Bank of New York, New York.

Messrs. Aktieselskabet Kjøbenhavns Handelsbank of this city according
to the enclosed letter would be willing to pay us Danish Kroner in order
to help us out if a transfer could be arranged. In this connection we
should like to point out that the Dollar amount in question remains in the
possession of the National City Bank of New York, New York and we are only
requesting a transfer from one barred account in New York to another.

We ask you kindly to do your utmost to arrange the matter for us as we
are being put to serious difficulties on account of our not being able to dis-
pose of our funds, which we are in urgent need of for daily expenses.

Thanking you in advance for the trouble you are having on our account,
we remain

Yours faithfully

FOLLENDER & BULL

Enclosure No. 2 to Despatch No. 173 of July 10, 1940 from
the American Legation, Copenhagen.

Aktieselskabet

KJØBENHAVNS HANDELSBANK

2 Holmens Kanal

Dept: Foreign Exchange
GH

København K
Denmark

3 July 1940

The Commercial Attache to the American Legation,
Amaliegade 12,
COPENHAGEN, K.

Dear Sir,

We hereby confirm that we were willing today to buy from Messrs.
Follender & Bull, Copenhagen, an amount of

\$1,000.--

against Danish Kroner, provided that we had received advice from The
National City Bank of New York, New York, to the effect that they had
credited our account with the amount in question received for our
account from Messrs. Follender & Bull.

Yours faithfully,

per pro.

Aktieselskabet
KJØBENSHAVNS HANDELSBANK

COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned me at 12 noon today, stating that Governor Towers of the Bank of Canada had again been in touch with him by telephone, and that they were endeavoring to expedite the new arrangements for the Bank of Canada accounts with the Federal. Knoke asked me if I had obtained a clearance on the point as to whether the Treasury approves the Federal accepting in its own name the gold deposits of the Canadian Government (as well as those of the Netherlands and British Governments) and act as fiscal agent of the Treasury only in handling the dollar accounts of these three governments. I told Knoke that this matter was awaiting study by Under Secretary Bell, who will be back on Monday. Knoke stated that Governor Harrison strongly recommended that the Treasury agree to this arrangement and hoped that we could give our approval before the directors' meeting of the Federal Reserve Bank at New York which takes place on tomorrow, Thursday. I told Knoke that I would mention this to the Secretary, but that I was not sure that the Treasury's viewpoint could be made known before Monday.

B. M. J.?

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Zoltowski, Financial Counselor of the Polish Embassy, called on me today. He has now received further information from his people in regard to the Polish gold mystery. Upon learning at the end of June that the ship carrying the Polish (and presumably the Belgian) gold reserve which had been left in France had proceeded to Dakar, the Polish Government communicated with the French Government under date of July 9 requesting that the gold at Dakar be turned over to the Poles. Under date of July 15 the French Government replied that this was not practicable, but that the French were willing to make a similar amount of gold available to Poland in Canada. The Poles have discussed this further with the French indicating their reluctance to accept gold in Canada since they had reason to believe that it would not be free for them to use as they might see fit. They have also discussed this question with their British allies who, in turn, have taken the matter up with Canada. At present there is no final decision.

It will be recalled that the approximately \$68,000,000 worth of gold under reference constitutes practically the entire gold reserve of the Bank of Poland, and the principal fund available to Polish officials outside of their old state. Zoltowski stated that their first preference would be to receive an equivalent amount of gold from France, free in New York. Their second choice would be to acquire such an amount free in Martinique. Third choice would be for the French to agree to deliver the original Polish gold on to such Polish vessel as might be sent to Dakar to receive it. Zoltowski said several Polish vessels were in British ports at present which might be utilized for this purpose, although the recently reported arrival of German Commissions in Dakar gave rise to some concern as to whether this latter alternative might be feasible. If the French agree to make available to the Poles a sum of gold out of the French holdings in New York, Zoltowski hopes that the Treasury will approve the transfer. I reminded him that a license would be required.

B. M. F.

August 14, 1940

To: The Secretary

From: Mr. Buckley

RE: The Relation of the Maritime
Commission to Export Control.

I discussed the policies followed by the Maritime Commission which bear upon export control with Mr. Lutz, Assistant General Counsel of the Commission. Commander Richmond of Mr. Gaston's staff and Mr. Cox of Mr. Foley's staff were present.

The Maritime Commission has two functions which enter more or less into the export control picture. These are (1) the power to pass on the chartering of American boats to aliens, and (2) the power to pass on the transfer of American-owned boats to foreign registry.

Under these powers over chartering and change of registry to an alien, the Maritime Commission acts as follows in connection with export control:

- (1) If the shipment of a cargo would violate the Neutrality Act of 1939 or the Embargo Act, the Maritime Commission would disapprove any charter or change of registry to an alien;
 - (2) In other cases the Commission treats each case "on its merits". Often the Commission's actions result effectively in preventing the export of certain materiel to certain foreign countries, as for example, in the proposed chartering of boats for cargo destined for Russia and Japan. The Maritime Commission does not, however, as a matter of regular practice, consult with the Administrator of Export Control, although it does have a representative on Colonel Maxwell's Advisory Committee.
- [Handwritten signature]*

Secretary Morgenthau

AUG 14 1940

E. H. Foley, Jr.

Subject: War Material on Order by Sweden.

Assistant Secretary of War Patterson called in General Brett of the Air Corps as soon as he returned to his office from your office. In Cox's presence he summarized the understanding reached with you at this morning's conference as follows:

- (1) All outstanding licenses for export of war material to Sweden be revoked except possibly the licenses for the Qm. ammunition already manufactured. Patterson set in motion the recommendation from the War Department to Lt. Colonel Maxwell, the Administrator of Export Control, that these licenses be revoked;
- (2) The Army would have the right to and would purchase the 211 airplane engines, propellers and other airplane parts except those which followed the Republic and Vultee planes as spare parts;
- (3) The Army have the option to refuse the spare parts for the commercial transport planes;
- (4) The Army is agreeable to Canada's purchasing the Republic and Vultee planes and the necessary spare parts from the manufacturers and would tell these manufacturers that it does not want these planes and has no objection to their sale to Canada.

General Brett said he thought the understanding was a good deal for the Army. He added, however, that he ought to and was going to report the situation to his immediate superior, General Arnold. Mr. Patterson said to General Brett that unless he heard to the contrary from him or General Arnold he would assume that it was satisfactory to execute the understanding.

- 2 -

At 12:25 p.m. Mr. Patterson telephoned Cox to return to Patterson's office. General Arnold, General Brett, Col. Sures and Captain Auckland were present with Mr. Patterson in his office when Cox arrived at 12:35 p.m. General Arnold said that the Air Corps wanted all of the Republic and Vultee planes for training purposes. Mr. Patterson asked Cox what were your views on the matter. Cox said that he was quite sure you thought all of the engines etc., should go to the Army but that the finished planes should go to Canada. General Arnold then said he would like to get all or any part of the planes for training purposes, but that if it were decided that all of the planes should go to Canada he would, of course, go along.

Mr. Patterson left the conference for a few minutes to go into Secretary Stinson's office. When he came out he said that the understanding arrived at in your office this morning would be carried out.

At 2:15 p.m. General Brett called Cox to make three points:

- (1) That the number of these finished planes purchased by Canada should be deducted from the allotment of 14,375 planes to the British made by agreement with Mr. Koudam.
- (2) Part or all of the planes were urgently needed in connection with the Army's training program.
- (3) If the planes were not to be shipped and used overseas the Army should certainly have them.

Cox told General Brett that those three points would be called to your attention.

Recommendations

In view of the two conferences and the understanding, I would recommend that:

- (1) Mr. Purvis be advised that he should immediately contact the manufacturers of the Republic and Vultee planes and spare parts to arrange for their purchase on behalf of Canada. Mr. Purvis or his designee may want to suggest the following to the manufacturers:

- 3 -

- (a) The Army has decided not to purchase the planes and has no objection to their purchase by Canada; and
 - (b) If necessary Canada will indemnify the manufacturers against damages recovered from them by Sweden;
- (2) Mr. Purvis be advised of the Army's views that the number of Republic and Vultee planes purchased by Canada be deducted from the allotment to the British by agreement with Mr. Knudsen;
- (3) I be authorized to send to Mr. Patterson the annexed memorandum which does not show it emanated in the Treasury.

(Initialed) E. H. F., Jr.

OSC:EHF:aja
8/14/40

Re: Swedish Export Licenses

The following is a complete analysis of undelivered balances of export licenses now in effect for shipment to Sweden:

Airplanes

22 Republic 2 PA pursuit ships are covered by license out of a total of 115 still to be delivered on an old order.

Engines

211 Pratt and Whitney aircraft engines suitable for pursuit ships are covered by existing export licenses.

Propellers

106 Hamilton Standard Hydromatic propellers
36 Hamilton Standard propeller blades
60 Hamilton propeller hub forgings
65 Hamilton propeller blade forgings

All the above are covered by existing export licenses.

Spare Airplane Parts

\$193,602.00 worth of spare parts for the Republic 2 PA pursuit ships are covered by an existing export license.

\$ 29,091.67 worth of spare parts for Douglas DC-3 commercial planes are covered by existing export licenses.

Cartridges

23,150,000 rounds of 9 mm. parabellum ammunition are covered by existing export licenses.

10,000 rounds of rifle bullets are covered by existing export licenses.

~~(initialed)~~ H.W., Jr.

(1)

All of the outstanding licenses, set forth in the annexed memorandum, for export of war materiel to Sweden be revoked except possibly the license for the 9 mm. ammunition which has already been manufactured. The War Department is to recommend to Lt. Colonel Maxwell, the Administrator of Export Control, that these licenses be revoked, and that the applications for licenses to export the Vultee planes and the balance of the Republic planes on order by Sweden be denied in writing.

(2)

The Army is to have the right to and will purchase the 211 airplane engines, propellers and other airplane parts except those which follow the Republic and Vultee planes as spare parts.

(3)

The Army is to have the option to refuse the spare parts for the commercial transport planes.

(4)

The Army is agreeable to Canada's purchasing the Republic and Vultee planes and the necessary spare parts from the manufacturers and would tell these manufacturers, if asked, that it has decided not to purchase these planes and has no objection to their sale to Canada.

(Initialed) H. M., Jr.

August 14, 1940.

Personal

Dear Basil:

I was very glad to have your letter of August 8th, which enclosed a copy of the report from the manager of your Chicago Office. I read it with interest, and appreciate your sending it to me.

With thanks and all good wishes,

Sincerely,

Henry

Mr. Basil Harris,
Vice President,
United States Lines Company,
One Broadway,
New York, New York.

GHF/dbs

August 14, 1940.

Personal

Dear Basil:

I was very glad to have your letter of August 8th, which enclosed a copy of the report from the manager of your Chicago Office. I read it with interest, and appreciate your sending it to me.

With thanks and all good wishes,

Sincerely,

Henry

Mr. Basil Harris,
Vice President,
United States Lines Company,
One Broadway,
New York, New York.

GXF/dbs

August 14, 1940.

Personal

Dear Basil:

I was very glad to have your letter of August 8th, which enclosed a copy of the report from the manager of your Chicago Office. I read it with interest, and appreciate your sending it to me.

With thanks and all good wishes,

sincerely,

Henry

Mr. Basil Harris,
Vice President,
United States Lines Company,
One Broadway,
New York, New York.

GXF/dbs

UNITED STATES LINES COMPANY

ONE BROADWAY
NEW YORK

OFFICE OF THE
VICE PRESIDENT

August 8, 1940

Personal

Dear Henry:

I thought you would be interested in the attached report from the manager of our Chicago Office, dealing with the freight situation to Great Britain.

I hope you are bearing up under the heat.

Sincerely,

Daniel Harris.

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

COPY

CHICAGO OFFICE

August 6, 1940

Mr. V.J. Freeze, G.F.T.M.,
NEW YORK.

Dear Sir:

INTERNATIONAL HARVESTER CO.

In conversation with Mr. Armel, he informed me that they had been advised by the British Ministry of Shipping that space for about 500 tons, each ship, could be offered to the International Harvester Company.

In the absence of any business to move for England except some material from their Hamilton, Ontario, plant which has been going forward via the Canadian route, the Harvester people cabled the other side to ascertain if any orders were unreported which would necessitate their booking steamer space as offered by the Ministry.

Up to the present time they are without any response and apparently the British Ministry has more ships in operation between Canada, the United States and the United Kingdom than are needed to move the available tonnage.

Very truly yours,

O. A. GREEN
Western Freight Traffic Manager

STANDARD OIL COMPANY

(INCORPORATED IN NEW-JERSEY)

30 ROCKEFELLER PLAZA

ROOM 2867

NEW YORK Aug. 14, 1940.

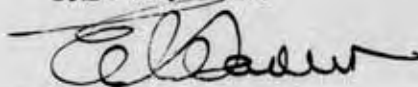
SADLER,
VICE PRESIDENT

The Hon. H. Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

My dear Mr. Secretary:-

Confirming telephone conversation of
this morning, the American representative of the Shell Union Oil
Corporation is Mr. H. Wilkinson. The address of the Shell Union
is 50 West 50th St., New York, and their telephone number is
Circle 6-2000.

Yours very truly,



EJS/LTD

August 14, 1940
8:36 a.m.

H.M.Jr: Hello.

Operator: Mr. Sadler.

E. J. Sadler: Hello. This is Mr. Sadler.

H.M.Jr: Good morning. Morgenthau speaking.

S: Good morning, Mr. Secretary. How are you, sir?

H.M.Jr: Oh, I'm pretty well. I want to thank you for your continued cooperation. Now, I have this letter from you of the 9th in regard to the Mitsui Company. Hello?

S: Yes, sir.

H.M.Jr: And I'm going to look into that through some of my English friends, you see?

S: I tell you, that's probably on that consummated ooke.

H.M.Jr: No, about Mitsui wanting to buy aviation gas.

S: Oh, yeah.

H.M.Jr: You sent me a copy of their letter to you, and also -- who is the American representative of Shell in this country?

S: The American representative of whom?

H.M.Jr: Shell.

S: Oh, Tim Wilkinson here in this building. Wilkinson -- the Shell Union.

H.M.Jr: Wilkinson.

S: Yeah.

- 2 -

H.M.Jr: Well, now does he consider himself an English company or Dutch?

S: Well, they tend to coax either side out that, as long as I've known them, suits their purpose.

H.M.Jr: What's that? I didn't get

S: I hear that in Central Europe they are taking over their properties and considering them British. I think the real fact is -- there is the Shell Transport & Trading and the Royal Dutch which have a combine and they always have insisted, I think they most consistently insisted, that the Dutch interest predominated.

H.M.Jr: Well, Wilkinson represents them here, doesn't he?

S: Yes, sir.

H.M.Jr: Well, I'm going to go on to find out just what the British Government's attitude is with regard to sale of aviation gas to Japan.

S: I tell you, Mr. Secretary, here's the thing that's going on today.

H.M.Jr: Yes.

S: That matter on the broad problem and the heat turned on out there in that direction that we were talking about, away off West, that heat's on pretty strong and Orville Hardin, one of our vice presidents and George Walden are down talking to Sumner Welles this morning, and if you will get in touch with Sumner Welles and find out when they are there then those people can bring you much further up to date.

H.M.Jr: They can.

S: Yes. They're telling Mr. Welles of the problems -- the plans that are going out on the -- away out there to the West.

H.M.Jr: You mean in Japan.

- 3 -

S: Yes, and the Dutch East.

H.M.Jr: I see.

S: There are some rather important developments out there and I think that those people had better bring you up to date. Now you can either get them to come and tell you the same story by communicating with the State Department or

H.M.Jr: I'd rather have you do it. Well, can't you reach them?

S: I'll see if I can do that.

H.M.Jr: I wonder if you couldn't reach them.

S: All right. Well, I'll send -- wait a minute. Here's George Walden just come in my office now, Mr. Secretary. I can find out when he's going to Washington. (Aside - when are you going to Washington? Pause.) He just got back. They went down finally yesterday afternoon and they're just back here, sir.

H.M.Jr: Well, what's his name?

S: George Walden. You met him

H.M.Jr: Oh, of course.

S: He the manager of that Far Eastern corporation.

H.M.Jr: Surely. Of course. And he's just back.

S: He's just back, yes.

H.M.Jr: I see.

S: One second and I'll let him speak to you.

H.M.Jr: Will you do that?

S: Yeah. (Talks aside).

George Walden: Hello.

- 4 -

H.M.Jr: Hello, Mr. Walden.

W: Oh, yes, sir. Good morning, Mr. Secretary.

H.M.Jr: Did you meet with any success when you saw Mr. Welles?

W: Well, Mr. Welles couldn't see us yesterday, sir, and we talked with Dr. Hornbeck.

H.M.Jr: Oh.

W: And we told him the whole story.

H.M.Jr: Well, do you mind taking a few minutes now and bringing me up to date? I have the time.

W: Be delighted to, sir.

H.M.Jr: Well, go ahead.

W: Well, the story is this, sir. The Japanese have wired in that they wanted to buy some crude oil wherever they could and particularly asked about shipments from Venezuela and Colombia.

H.M.Jr: Yeah.

W: So we told that to Mr. Appleton and Dr. Hornbeck and then they took us around to Mr. Yost and Mr. Yost said there would be -- licenses would be granted out of the United States for crude oil.

H.M.Jr: Out of United States.

W: Yes, sir. So consequently they felt that there would be no harm in our selling any crude oil from either Venezuela or Colombia. As regards the aviation gasoline, anywhere outside the United States, we have also had inquiries from Mitsui on that particular product, they discouraged that in every possible way.

H.M.Jr: Discouraged -- what was that?

- 5 -

W: Discouraged the shipment of aviation gasoline.

H.M.Jr: To

W: To Japan.

H.M.Jr: Well, you can't do it, can you?

W: No, I mean, outside of United States.

H.M.Jr: Oh, outside United States.

W: For instance, Curacao and Aruba, Netherlands Indies or anyplace, so we told them we would use our best efforts in that direction.

H.M.Jr: I see.

W: Now, then, another thing, Mr. Secretary. The Japanese are going down to Batavia on the 25th. There is a group of about twelve men and I believe that at that time considerable pressure probably will be put on the Netherlands Indies authorities.

H.M.Jr: I see.

W: We told them the Netherlands people -- Netherlands Indian authorities asked that we send somebody from New York to sit in those discussions, but the consensus of opinion of our people in New York as well as Dr. Hornbeck is that it would be very inadvisable to send anybody. We'd have our local man act, but he'd always have to come back to New York for final authority, rather than send somebody out there who had power to act. That way we'll be kept informed right along as to what was happening.

H.M.Jr: Uh-huh.

W: I think that's about all, Mr. Secretary.

H.M.Jr: All right.

- 6 -

W: If there is anything further, I'll come
down any time you wish me to do so.

H.M.Jr: Thank you.

W: All right. Do you wish to speak to Mr. Sadler
again.

H.M.Jr: No, thank you.

W: All right, sir.

H.M.Jr: Good-bye.

W: Good-bye.

August 14, 1940
8:49 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur
Purvis: Hello. Good morning, Henry.

H.M.Jr: Hello, Arthur.

P: Yes.

H.M.Jr: Good morning. I have something I'd like to give you in regard to oil. What time -- are you at the Embassy now?

P: I'm at the Embassy now and had an appointment to have a talk with and Lothian at 9:00.

H.M.Jr: Well, there's no hurry. What time would you be going

P: I'm coming down to a meeting with Buckley and the tank people at 10:00. Shall I just send in word then?

H.M.Jr: At 10:00.

P: Yes. I could be in the meeting and then when you found you had a free spot, I could just leave that meeting and come in.

H.M.Jr: Oh, you're going to be on the floor here.

P: Yes, we'll be in Buckley's office right where Young is.

H.M.Jr: Oh, perfect. Well, then between 10:00 and 11:00

P: I'll send in my word to McKay and then let him tell you so that you'll choose when it's ready and I won't leave until I've had a word with you.

- 2 -

H.M.Jr: Perfect.
P: Splendid.
H.M.Jr: Thank you.
P: Right.

August 14, 1940
8:54 a.m.

H.M.Jr: Hello.

Operator: Mr. Jones at his office.

H.M.Jr: Hello.

Jesse
Jones: Hello, Henry.

H.M.Jr: Good morning. Jesse, if it is agreeable to you, I'd like to ask Arthur Purvis and Knudsen for lunch.

J: Be delighted. What time?

H.M.Jr: Well, you are coming at 1:00. I thought I'd invite them for 1:15, because I wanted to -- the President sent me over a letter that you wrote him on Packard and I'd like to show you my answer.

J: O. K.

H.M.Jr: I mean, just privately.

J: Yeah.

H.M.Jr: And then I'll invite them and I thought that -- there seems to be -- everybody seems to have a different understanding of it and if we all got down together maybe we could give it a little push.

J: O. K. 1:00 o'clock.

H.M.Jr: Yeah. I'll look for you at 1:00 and I'll invite the others at 1:15.

J: All right. Fine.

August 14, 1940
8:55 a.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Hello.

Wm. S.
Knudsen: Yes.

H.M.Jr: Henry talking.

K: Good morning, Mr. Morgenthau.

H.M.Jr: How are you?

K: Fine.

H.M.Jr: Bill, I'm trying to arrange a little luncheon today. I've got Jesse Jones and I've got Arthur Purvis and I'd like to have you and Foley so we could all talk a little bit about Packard.

K: All right.

H.M.Jr: Could you come at 1:15?

K: 1:15.

H.M.Jr: Yes.

K: All right.

H.M.Jr: There seems to be a little misunderstanding all around.

K: I see. All right, I'll be at your office then.

H.M.Jr: 1:15.

K: All right, sir.

H.M.Jr: Thank you.

August 14, 1940
8:59 a.m.

H.M.Jr: Hello.

Operator: Mr. Patterson.

Robert
Patterson: Hello.

H.M.Jr: Morgenthau.

P: Yes, Patterson.

H.M.Jr: You called me, I think.

P: Yes. I understood from Secretary Stimson
that you wanted to talk to me further on the
Swedish and the Allison business and I was
getting the background from Major Smith.

H.M.Jr: Yes.

P: Shall I come over?

H.M.Jr: Yes. Here's the point. Is 10:30 a good time
for you?

P: Fine.

H.M.Jr: What?

P: 10:30 is fine.

H.M.Jr: 10:30.

P: I'll be over.

H.M.Jr: Thank you so much.

P: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The Secretary told me this afternoon that he and Mrs. Morgenthau were leaving for Canada on Sunday night, to spend two weeks in that country.

At 3:10 P.M. I spoke with Mr. Stone in Secretary Hull's office. I told him that Secretary and Mrs. Morgenthau were arriving in Montreal at 8:05 A.M. on Monday, by New York Central train from New York. Mr. Stone said that appropriate instructions would be given by the Department of State to our Legation in Ottawa in order that appropriate customs courtesies may be extended. The American Consulate General in Montreal will also be informed of the Secretary's arrival. I was unable to give specific information as to the points and time of arrival of the daughter and sons of the Secretary, but let it be known that the entire family was to be at the Seignior Club at Lucerne, Quebec, for two weeks.

I also spoke with Commissioner of Customs Johnson who will let his people at the border and in Montreal know of the Secretary's plans.



01

83

The Secretary

Attached is a tabulation of a telegram from New York on airplanes awaiting shipment there.

It does NOT seem to indicate any very serious situation, except that the one large consignment awaiting orders might reveal that the British are having some difficulty getting enough bottoms.

A handwritten signature, possibly reading "C. S.", is written in dark ink. The signature is stylized with a large, sweeping initial 'C' and a smaller 'S'.

From: MR. GASTON

Airplanes and Parts Awaiting Shipment at New York August 14, 1940

<u>Article</u>	<u>Quantity</u>	<u>Destination</u>	<u>License issued</u>	<u>Reason for delay</u>
(Aeroplane instruments)	2 cases	Gr. Britain	yes	Awaiting arrival of Br. SS FORT BRISBAKE
(Aeroplane propellers and parts)	46 "			
(Aeroplane engine parts)	1 "	Australia	Yes	Awaiting arrival of Norwegian SS TAI PING YANG
(Aeroplane engine parts)	1 carton			
(Aeroplanes)	25	England	yes	Being laden on Br. SS BASEL
(Aeroplane engine accessories)	19 cases			
(Aeroplane engine parts)	1 "			
Aeroplane engine parts	6 "	Scotland	yes	Being laden on Belg. SS VILLE D ANVERS
Aeroplane	1	Canal Zone		Awaiting necessary papers
(Aeroplane parts)	1 case	Colombia, S. A.		Awaiting necessary papers
Aeroplanes	23	England		Being laden on Br. SS PACIFIC SHIPPER
(Aeroplane engines)	488	England		Awaiting orders of British Purchasing Commission
(Aeroplane parts)	2134 cases			
(Aeroplanes)	102			
(Aeroplane propellers)	441			
Aeroplane parts and accessories	2 car-loads	Unknown		Awaiting shipping instructions from Douglas Aircraft Corp.
Aeroplane parts and accessories	2 cases	England		Awaiting arrival of Br. SS WESTERN PRINCE.
Aeroplanes	17	England		Being laden on Br. SS JAVANESE PRINCE

<u>Articles</u>	<u>Quantity</u>	<u>Destination</u>	<u>License Issued</u>	<u>Reason for delay</u>
Aeroplane parts and engines	3 cases	Dublin, Ireland	Yes	Awaiting carrier
Aeroplane and engine parts	375 "	France		Awaiting further instructions.
Ammunition - 20 mm	10 "			
Aeroplane acces- sories and parts	6 pkgs.	Constantinople	Yes	No carrier available
Aeroplane parts	15 cases	Japan	Yes	No carrier available
Aeroplane parts	1 case	Salvador	Yes	Being laden on Pan. S/S PLATANO
Aeroplane parts	28 "	Rhodesia, S. Af.		Awaiting necessary papers
Aeroplane parts	1 carton	Honduras		Awaiting necessary papers

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 14, 1940.

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Report of trip made by Commander Kossler and Mr. Haas to the Allison Engineering Company, Indianapolis, Indiana, on Monday, August 12, 1940.

Officials interviewed:

Mr. R. K. Evans, Vice President
in charge of Production,
General Motors Corporation.

Mr. F. C. Kroeger, General Manager,
Allison Engineering Company.

Mr. O. T. Kreusser, formerly General Manager,
now a member of the Managerial Staff,
Allison Engineering Company.

Production

Allison is producing engine parts at the rate of 5 or 6 engines per day. Fifty engines have been produced and are on hand to be delivered as soon as a minor defect has been corrected. August production is estimated at 130 engines. This week's deliveries are estimated at 24, provisional upon correcting a minor defect in connection with one of the engine parts.

The Allison Company has agreed to send you a daily report of their deliveries, indicating to whom they were shipped.

Mr. Evans is very optimistic about the production prospects for the "C" engine. He thinks the problems connected with their production are or will be very shortly all under control. He doubts if deliveries on the "F" engine (Army Air Corps contract) and the "E" engine (for Bell airplanes) will begin before the first of the year. (See diagram of Allison engine models, attached as Exhibit I.)

Secretary Morgenthau -2-

The immediate difficulty which has held up deliveries is a defect in connection with the super-charger. Several of the blowers were found, after the "green test", to be out of dynamic balance. Mr. Evans expected to receive on Monday or Tuesday an instrument which will be used to test the dynamic balance of these parts before the engine is assembled.

The companies which have airplane contracts specifying Allison engines are:

Curtiss Aeroplane Division of
Curtiss-Wright Corporation,
Bell Aircraft Corporation,
Lockheed Aircraft Corporation, and
North American Aviation, Inc.

Future Machine Tool Requirements

Mr. Kreusser wants to order 200 machine tools, and wonders whom in Washington he should see about priority of delivery.

Army Air Corps "Spares"

Nine spare engines have already been delivered to the Army Air Corps, of which number 7 have been given the durability test of 150 hours by the Army Air Corps and are now being overhauled in the Allison plant, and the other 2 are still in the field.

Both Mr. Evans and Mr. Kreusser feel that deliveries to the British of the Curtiss P-40 airplanes could be greatly accelerated if the Army Air Corps would forego the delivery of spare engines during the month of August and allow these engines to be placed in the Curtiss P-40s for delivery to the British. They pointed out that the spares could be delivered to the Army Air Corps in September, at which time the Allison engine production increase would take care of the situation.

I am attaching, as Exhibit II, copies of correspondence of the Allison Company with the Army Air Corps and the British Purchasing Commission with regard to the spares situation. You will note that the Army Air Corps by telegram to the Allison Company definitely said no to their suggestion of allowing the spares to go into the British airplanes. Mr. Kreusser gave me this correspondence for your confidential information, but he was very much concerned about not developing any unfriendly feeling with the Army Air Corps.

Secretary Morgenthau

-3-

General Impressions

Commander Kossler and myself, through our discussions with the executives and our tour of the plant, were impressed somewhat as follows:

Excellent building and equipment throughout, with indications that no money had been spared (plant all air-conditioned, etc.)

Executives were all very high-grade men, but practically all of them with experience and training in other fields of production than in airplane engines. Coupled with this, they are attempting to produce on a large scale a new type of airplane engine.

Commander Kossler feels that they will, without doubt, eventually make good their commitment to produce Allison engines on a large scale, but that they will also, without doubt, continue to run into obstacles for some time before they achieve a smooth large-scale production of a new product requiring such close precision in construction.

Mr. Jansen, Plant Manager of the Curtiss Aeroplane Division of the Curtiss-Wright Corporation, said he thought Allison's main difficulty was that General Motors' executives under-estimated the problem of making airplane engines. He felt that this was a natural consequence of the fact that they had been so successful in production in other fields and they were therefore over-confident as to their ability to produce airplane engines on a large scale. He felt certain, however, that they would surmount the difficulties and, as he termed it, "beat the game".

July 23, 1940

Assistant Chief, Materiel Division
Wright Field, Dayton, Ohio

Via: Resident Air Corps Inspector

Subject: Contract W 535 ac-12553

Dear Sir:

The British Purchasing Commission has today urgently requested information as to deliveries of engines to Curtiss-Wright for assembly into airplanes. Accumulative to July 31st, Allison will have shipped on subject contract, 121 engines. Of this number, 112 will have been shipped to Curtiss-Wright and 9 will have been shipped to other points as spares.

Allison production of C-15 engines for the month of August will be 130 units, of which 88 will be required for airplanes. The balance of 42 will be available as spares or for other purposes.

We are informed by Curtiss-Wright that in order to maintain their plane production schedule, they will need all of the engines that can be made available by Allison during the month of August. They already have an accumulation of planes built on British contract awaiting engines. In view of this situation it would be helpful if delivery of spares due under Contract W 535 ac-12553 can be deferred until September, the August production schedule of Curtiss-Wright can be maintained at maximum capacity and in September Allison production will be sufficient to supply Curtiss-Wright manufacturing requirements and also complete delivery of all Model C-15 engines due under contract.

We request your consideration in this situation and would appreciate your advice as to allocation of available engines during the months of August and September.

Yours very truly,

ALLISON ENGINEERING COMPANY

O. T. Kreusser,
President

OTK:HDW
cc: Resident Air Corps Inspector

Exhibit II (b)

July 26, 1940

Colonel W. Sturmy Cave
British Purchasing Commission
15 Broad Street
New York, N. Y.

Dear Colonel Cave:

Replying to your letter of July 23rd as regards giving you information as to the flow of material, in accordance with Mr. Evans' telephone conversation and letter of July 23rd, we are definitely making available to you 13 V-1710-C15 engines during the month of August. We will coordinate the exact dates with your local representative.

In addition to these 13 engines, we are attempting to get release of 29 additional engines that are now allocated as spares for U. S. Air Corps. As soon as we hear in this regard, we will advise you definitely, through your local representative, the day to day deliveries.

Yours very truly,

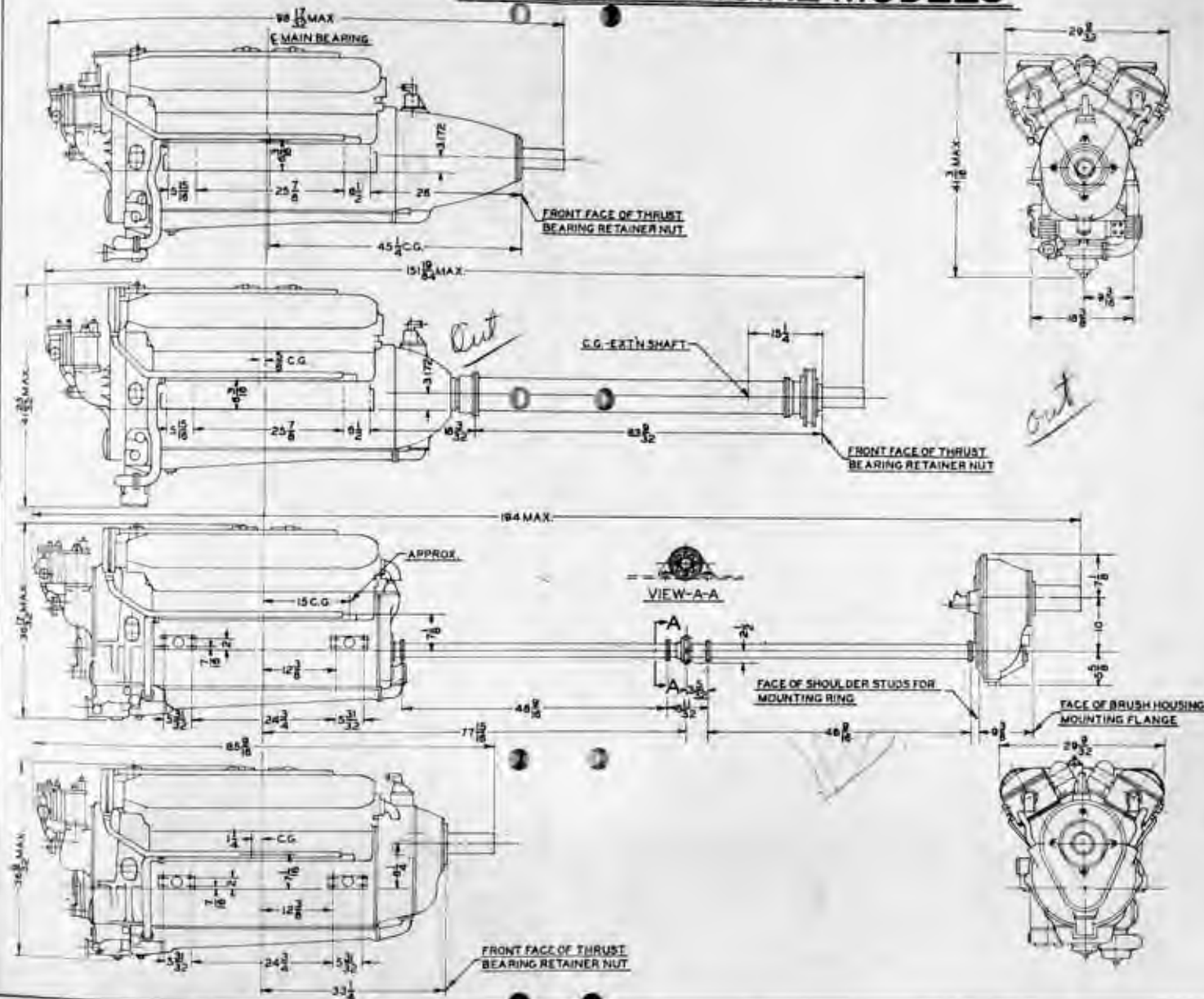
ALLISON ENGINEERING COMPANY

O. T. Kreusser,
General Manager

OTK:HDW

ALLISON ENGINE MODELS

EXHIBIT 2



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 14, 1940.

TO: Secretary Morgenthau

FROM: Mr. Haas *HAAS*

SUBJECT: Report of trip made by Commander Kossler and Mr. Haas to the Curtiss Aeroplane Division of the Curtiss-Wright Corporation, Buffalo, N. Y., on Tuesday, August 13, 1940.

Official interviewed: Mr. Jansen, Plant Manager.

Mr. Jansen stated that they have in storage at the present time 40 P-40s requiring Allison engines. They also have 46 P-36s in storage requiring Wright Cyclone engines. The P-36 situation, he said, will be cleared up by the end of this month, 13 Wright Cyclone engines having been received in the last two days.

A copy of their newly revised production schedule (attached as Exhibit III), given to me by Mr. Jansen, shows by weeks their Allison engine requirements. It also indicates the breakdown as between the Army Air Corps and the British Purchasing Commission. The revised figure of 15 Allison engines for the Army Air Corps beginning next week, you will recall, is the same figure you gave me over the telephone when you were talking to me at the Allison factory in Indianapolis.

Mr. Jansen asked me if I knew when the new program was going to get under way. He felt quite concerned about the delay. He, of course, would like to keep their plant running at capacity, which is about 130 airplanes a month.

ified

Regraded Unclassified

ORU

$$\sum_{i=1}^n \frac{1}{i^2} = \frac{\pi^2}{6}$$

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 14, 1940.

TO Secretary Morgenthau
FROM Mr. Haas

I talked by telephone with Mr. Lewis, of the Association of American Railroads in New York City, and he gave me the following information with regard to the piling up of airplanes for the British in the New York port.

Mr. Lewis prefaced his remarks by saying that he did not have detailed and positive information, but he understood that about 40 carloads of airplanes were involved, and that the difficulty arose from the fact that the engines were French contract engines and the New York Central felt that in order to protect themselves the release should come from French authorities rather than the British, as they felt if they accepted the British release the French may later come back with a claim against the New York Central. He said that the situation may have been straightened out yesterday to the satisfaction of the New York Central, but in any case he said he would check into the situation further and call me back.

August 14, 1940
10:25 a.m.

H.M. Jr: Hello.

Stimson: Hello, Henry.

H.M. Jr: Hello. Good morning, how are you?

S: Every now and then, I run into an unexpected run-in with you.

H.M. Jr: Oh, I'm sorry.

S: And not expected. One was yesterday afternoon in regard to those Allison contracts which I knew nothing about.

H.M. Jr: Yes.

S: But I've been taking up the last few days, whenever I could, the problem of the air here.

H.M. Jr: Yes.

S: And I want - I'd like you to remember this situation.

H.M. Jr: Please.

S: You know, I have fully sympathized with the effort to protect the British; in fact, I was one of the first shouters for that, long before I came here.

H.M. Jr: Yes.

S: We have, however, been so long delayed about it that the situation of the British has become more desperate and we've got to constantly think of the possibility of their defeat.

H.M. Jr: I don't like to do that.

S: I don't like to do it at all, but when I'm making contracts for airplanes, I've got to.

H.M. Jr: Yes.

- 2 -

S: Now, that situation means this, that while we should continue to make immediate deliveries in all amount that we can, in contracts for future deliveries we must be sure that the contracts contain provisions in them which will save us against such a situation as we've seen in France where the Germans have taken over a lot of our American airplanes and they are using them against Great Britain and eventually against us.

H.M.Jr: Yes.

S: And we don't want to see that situation happen in regard to the planes we're sending Britain, so we've got constantly to bear that in mind.

H.M.Jr: Yes. Mr. Patterson is here with me now. We're going over it.

S: Yes. Well, as I understand it, I am not sure, but some of these Allison engines, some of them come within that category. They'll belong to planes that will not be set up until after the present emergency is determined one way or the other. What I mean is, everything points now - that I get - to the probability, I think I can say now, of a drive to the finish against Great Britain by Germany. Now that can't last more than at the most, I should say, six weeks or certainly, two months. By that time, I mean, it will have been successful or else it will have been unsuccessful by the winter.

H.M.Jr: Yes.

S: And we should bear those things in mind in regard to contracts coming after that time.

H.M.Jr: Yes, but what I am pushing for, and it's about all I can do is to push, up to a certain point, is to get them material to fight with during the next sixty days.

- 3 -

S: Exactly. I'm heart and soul with you.

H.M.Jr: And I've got to take chances. That's all I'm trying to do for the moment.

S: But I'm simply looking forward to later arrangements and I'm going to - I'm speeding - I'm gambling there, too. But I'm speeding up - I'm speeding up our program on the chance that we may have to use it.

H.M.Jr: Well, I took it perfectly for granted that if anybody was manufacturing in this country ammunitions that there should be a clause in there that United States Government could go in there and take the materiel that they - if necessary.

S: Yes, there certainly should be.

H.M.Jr: And that --

S: I was staggered to learn yesterday over at the White House that the State Department had some doubts about that situation in regard to Sweden.

H.M.Jr: Well, that's what we're trying to clear up now.

S: Yes.

H.M.Jr: But, you and I can't have any argument as to a clause in the contract of recapture.

S: No.

H.M.Jr: For our own national defense.

S: There absolutely ought to be.

H.M.Jr: I mean, I'm in favor of that.

S: Yes, that's all right. I just wanted to clear up with you.

H.M.Jr: Thank you.

S: Goodbye.

August 14, 1940
4:28 p.m.

H.A.Jr: Hello.

Patterson: Yes? This is Patterson.

H.A.Jr: Morgenthau.

Patterson: Yes.

H.A.Jr: Listen, I'm not used to being rushed this way.

P: What's that?

H.A.Jr: I'm not used to being rushed this way, getting an answer the same day I put a proposal up.

P: The Swedish thing?

H.A.Jr: Yes. It just isn't done in that way in Washington.

P: (Laughs)

H.A.Jr: I'll have to readjust my whole mechanism. All right.

Believe me, to be serious, I think you've just been swell.

P: Well, thanks.

I told Cox to just - I said, "Those are the decisions, now you just give me a program written out on what's to be done," and he said he would.

H.A.Jr: Well, he's here with me now, and Foley, and I have this before me and it's all written out. I'll have Cox walk it right over, now.

P: All right.

H.A.Jr: I haven't initialed it. I don't know whether you want me to or not.

P: Well, initial it, if you like. I'd like it. I'd like to see what your initials are.

- 2 -

H.M.Jr: That's all right, I'll send you over --

P: Then I'll be on my guard against a forgery.

H.M.Jr: I'll send you over a dollar bill.

P: (Laughs) All right. Yes, that'll do.

H.M.Jr: Now, what I want to ask you is this. I'm going to show this to Purvis tonight.

P: Yes.

H.M.Jr: Is that all right?

P: Yes, sir.

H.M.Jr: And do I understand this is an accomplished fact now?

P: Well, I - I think so. I think so. When I came back - I left them conferring in here, and when I came back, the Generals had gone, so I understood that was cleared.

H.M.Jr: Fine. Well, I tell you what I think would be on the safe side, because Purvis has been disappointed so often, I'll tell him there's a fifty-fifty chance of it going through.

P: But if I don't hear from you, well I'll take it as....

And this thing of fooling around with this 14,000 thing. You know, that allotment business that I was talking to you about this morning.

P: Yes.

H.M.Jr: I don't believe these planes were ever in that picture.

- 3 -

P: Yes.

H.M.Jr: Because nobody ever counted on getting these.

P: Yes. What happened here was, General Brett said that's fine, that's all right. I said, "Is that a good deal for the War Department," and he said, "It is a good deal."

H.M.Jr: Well --

P: Then he called in General Arnold and of course Arnold, quite properly, saw another resource and decided he'd strike out for part of that resource.

H.M.Jr: Yes.

P: That was it.

H.M.Jr: Well, we don't want to - I think it's a mistake to try to be too sharp with the British at this time.

P: Yes.

H.M.Jr: I mean, I don't think it would be very diplomatic.

P: Yes.

H.M.Jr: Because these Swedish planes were never in that original picture.

P: Yes. It's a windfall.

H.M.Jr: It's definitely a windfall.

P: Yes.

H.M.Jr: Why not take it as such.

P: Well, perhaps you'd better hold off with Purvis for a few hours and if you'll send Cox over with the stuff, I'll clear it finally and for all.

- 4 -

H.M.Jr: I see.
P: Right.
H.M.Jr: Okay.
P: Thank you.
H.M.Jr: Ever so much obliged.
P: Not a bit. Goodbye.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

8/14/40.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.
Subject: War Materiel on Order by Sweden.

Assistant Secretary of War Patterson called in General Brett of the Air Corps as soon as he returned to his office from your office. In Cox's presence he summarized the understanding reached with you at this morning's conference as follows:

- (1) All outstanding licenses for export of war material to Sweden be revoked except possibly the license for the 9mm. ammunition already manufactured. Patterson set in motion the recommendation from the War Department to Lt. Colonel Maxwell, the Administrator of Export Control, that these licenses be revoked;
- (2) The Army would have the right to and would purchase the 211 airplane engines, propellers and other airplane parts except those which followed the Republic and Vultee planes as spare parts;
- (3) The Army have the option to refuse the spare parts for the commercial transport planes;
- (4) The Army is agreeable to Canada's purchasing the Republic and Vultee planes and the necessary spare parts from the manufacturers and would tell these manufacturers that it does not want these planes and has no objection to their sale to Canada.

General Brett said he thought the understanding was a good deal for the Army. He added, however, that he ought to and was going to report the situation to his immediate superior, General Arnold. Mr. Patterson said to General Brett that unless he heard to the contrary from him or General Arnold he would assume that it was satisfactory to execute the understanding.

- 2 -

At 12:25 p.m. Mr. Patterson telephoned Cox to return to Patterson's office. General Arnold, General Brett, Col. Burns and Captain Auckland were present with Mr. Patterson in his office when Cox arrived at 12:35 p.m. General Arnold said that the Air Corps wanted all of the Republic and Vultee planes for training purposes. Mr. Patterson asked Cox what were your views on the matter. Cox said that he was quite sure you thought all of the engines etc., should go to the Army but that the finished planes should go to Canada. General Arnold then said he would like to get all or any part of the planes for training purposes, but that if it were decided that all of the planes should go to Canada he would, of course, go along.

Mr. Patterson left the conference for a few minutes to go into Secretary Stimson's office. When he came out he said that the understanding arrived at in your office this morning would be carried out.

At 2:15 p.m. General Brett called Cox to make three points:

- (1) That the number of these finished planes purchased by Canada should be deducted from the allotment of 14,375 planes to the British made by agreement with Mr. Knudsen.
- (2) Part or all of the planes were urgently needed in connection with the Army's training program;
- (3) If the planes were not to be shipped and used overseas the Army should certainly have them.

Cox told General Brett that these three points would be called to your attention.

Recommendations

In view of the two conferences and the understanding, I would recommend that:

- (1) Mr. Purvis be advised that he should immediately contact the manufacturers of the Republic and Vultee planes and spare parts to arrange for their purchase on behalf of Canada. Mr. Purvis or his designee may want to suggest the following to the manufacturers:

- 3 -

- (a) The Army has decided not to purchase the planes and has no objection to their purchase by Canada; and
 - (b) If necessary Canada will indemnify the manufacturers against damages recovered from them by Sweden;
- (2) Mr. Purvis be advised of the Army's views that the number of Republic and Vultee planes purchased by Canada be deducted from the allotment to the British by agreement with Mr. Knudsen;
 - (3) I be authorized to send to Mr. Patterson the annexed memorandum which does not show it emanated in the Treasury.

E.H. 7h.

August 14, 1940

To: The Secretary

From: Mr. Buckley

Re: British Planes Awaiting Shipment
in New York

I have received the following information with reference to the British airplanes awaiting shipment in New York:

(1) There is an accumulation of about 100 French planes on the docks, in addition to current deliveries. Shipment of these planes has been held up due to lack of clearance from the New York Central Railroad, and not because of lack of available ships.

(2) Clearance has now been obtained from the New York Central Railroad on about 81 of the above planes, which will be shipped this week.

(3) Clearance from the railroad is expected within a few days on the remaining 19 French planes which will then be shipped within a week from clearance date.

(4) In addition, there are about 60 British planes awaiting shipment in the ordinary routine. They will be shipped within a week, which is the regular schedule on current deliveries.

The British Purchasing Commission emphasizes that the current difficulty has been merely one of mechanics in getting clearance from the railroad, and that there is no lack of shipping to take the planes as rapidly as delivered.

REB

August 14, 1940
4:37 p.m.

H.M.Jr: Hello.

Purvis: Hello. Purvis speaking.

H.M.Jr: Arthur.

Purvis: Yes.

H.M.Jr: I don't want to encourage you too much, but I just got through talking with Patterson. I think the chances are 75-25 we have the whole lot of Swedish planes.

Purvis: Oh, excellent.

H.M.Jr: But we'll know definitely in the morning.

Purvis: Thank you ever so much. That's most encouraging.

H.M.Jr: And the other thing - you're leaving town tonight, aren't you?

Purvis: I'm hoping to, yes.

H.M.Jr: The other thing, take a look when you get back tomorrow morning into what's the trouble with the New York Central on these planes that they're holding up. Have you heard about that?

Purvis: Yes, I heard that they didn't want to accept our okay on those - quite a bit of friction - I've got a note on that.

H.M.Jr: And I asked Averill Harriman to talk to Mr. Williamson, the president of the New York Central, and find out what the trouble is.

Purvis: Thank you very much. And we'll get our lawyers to satisfy them.

H.M.Jr: Will you?

- 2 -

Purvis: Yes.

H.M.Jr: And when I hear from Mr. Patterson definitely tomorrow, I'll let you know.

Purvis: Thank you very much.

H.M.Jr: You'll want to laugh - the last thing that they tried to do on it was, they wanted credit on the 14,000 planes for these.

Purvis: Oh, no!

H.M.Jr: And I said no, no, no, this was just a wind-fall.

Purvis: Oh, good for you. (Laughs) My heavens, it's a continual fight.

H.M.Jr: Pardon?

Purvis: It's a continual fight.

H.M.Jr: Yes. But I thought this was good news.

Purvis: Thank you very much.

H.M.Jr: I'll confirm it definitely in the morning and then you'll have to go at the manufacturer.

Purvis: Yes, we will. We won't waste any time.

H.M.Jr: Right.

Purvis: Thanks ever so much.

H.M.Jr: Goodbye.

Purvis: Goodbye.

August 14, 1940
4:49 p.m.

H.M.Jr: Hello.

Averill
Harriman: Mr. Secretary, this is Averill Harriman.

H.M.Jr: Yes.

H: On this question of these Curtisses --

H.M.Jr: Yes.

H: I can't find that they're having any difficulty.

H.M.Jr: Oh.

H: The situation as it stands now is as follows:
There are 35 Curtisses which are remaining
which the British have not called for. They
delivered 20 Curtisses yesterday and they're
delivering them as fast as the British seem
to be able to take them.

H.M.Jr: I see.

H: Now, in addition to these 35 Curtisses, there
are 58 Martins and 21 Douglasses and one North
American left, but they seem to be moving
because yesterday they delivered 12 Martins
and 20 Curtisses and 18 North Americans and
unless there's something - the New York Cen-
tral people don't seem to think there's any
difficulty about it, there are these ships
that are still there.

H.M.Jr: Where are the 35?

H: Well, as I understand it, they are in New
York harbor.

H.M.Jr: Oh. There's nothing - the way I got the
story - you know I told you that I wasn't

- 2 -

sure of it - that the New York Central wouldn't take any more out of Buffalo.

H: Well, I'll have to check back on that.

H.M.Jr: Well, wait until tomorrow and I'll check it for you.

H: I think it would be easier if we could get the whole story, to get to the bottom of it.

H.M.Jr: But what you're talking about is the number that they've taken is --

H: I thought there was some difficulty - I misunderstood you - I thought there was some difficulty about their taking delivery of the ships the French --

H.M.Jr: That's the way I got the story.

H: They delivered yesterday 20 Curtisses and there are still 35, as I understand it, which the British have not taken delivery of.

H.M.Jr: You mean in the New York harbor.

H: So I understand.

H.M.Jr: Well, let me get - I'll check up on my facts tomorrow and if you don't hear from me, why then it's okay.

H: But I'll be very glad - because naturally, it's very easy to trace it down and I certainly want to help to break the bottleneck if there is any.

H.M.Jr: Thank you.

H: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to your request in this morning's meeting that I get in touch with the National City Bank in regard to the report made by one of its officers with respect to the Japanese economic situation, particularly the accumulation of textiles in Japan. I have just talked with my friend Howard Sheperd, Vice President of the National City Bank, who works on foreign business. He stated that the report in question undoubtedly emanated from Mr. Arthur Shorey, Assistant Vice President of the National City with headquarters in New York, who just returned from a long trip in the Far East, Japan being the last country visited.

Sheperd volunteered to send Shorey to Washington tonight if the Secretary might be interested in receiving him tomorrow.

Would the Secretary be interested in getting a story directly from Shorey, or does he desire that I receive him? Since Shorey would be coming from New York at our request, may I suggest that the Secretary might be good enough to receive him for a short interview, even if it might be necessary for one of us to continue it from that point.



File 1030

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Today's dealings in registered sterling by the six reporting banks consisted of purchases of £127,000 by order of commercial customers. There were no reported sales.

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

Continuing its upward movement, open market sterling rose from 4.01-1/4 at the opening to 4.02-1/2 in mid-afternoon, the highest level recorded since last October. It closed at 4.02-1/4. The reporting banks effected sales of £95,000 and purchases of £51,000 for commercial concerns.

The other currencies closed as follows:

Swiss franc	.2279
Canadian dollar	13-3/8% discount
Lira	.0505
Reichsmark	.4005
Cuban peso	11-5/8% discount
Mexican peso	.1992 bid, .2016 offered

We purchased \$1,128,000 in gold from the earmarked account of the Bank of Mexico.

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

\$12,222,000 from Canada, representing two shipments by the Bank of Canada for its own account to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.

\$91,000 from Japan shipped by the Yokohama Specie Bank, Kobe, to its San Francisco agency, for sale to the U. S. Mint.

\$13,113,000 Total

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on August 7, showed that such deposits totaled \$47,122,000, an increase of \$10,682,000 since the last report as of July 31. Included in this total were \$28,572,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China; there was also a deposit of \$10,881,000 listed for its head office and Japanese branches, as against no balance in any previous week since June 19. The overdraft of the head office and

- 2 -

Japanese banks on the books of Yokohama's New York agency was \$16,076,000, a reduction of \$38,499,000 since July 31. As in the previous week, this decrease was entirely due to the transfer of an overdraft in the name of the Bank of Japan from the books of the New York agency to those of Yokohama's head office in Japan.

During the past week, the Federal Reserve Bank of New York has been in communication with the Yokohama New York agency, and has now obtained a full explanation of the method by which the overdraft figure was reduced by \$50,385,000 between July 24 and August 7. The New York agency, it was learned, held a custody account in the name of the Bank of Japan, and this account, on July 24, apparently contained some \$61,000,000 in cash (previously unreported) and a substantial amount in long-term securities, largely U. S. Treasury bonds. (We understand that the New York banks are not required to report outstanding holdings of long-term securities.) The overdraft was reduced by charging this custody account; a balance of \$10,881,000 was then transferred, in the week ended August 7, from the Bank of Japan's account to one in the name of the Yokohama head office. This explains the appearance of the deposit listed in the previous paragraph.

The Bombay gold price was equivalent to \$33.79, up 3¢.

Spot silver in Bombay was 1/8¢ higher at the equivalent of 45.07¢. According to the Department of Commerce daily statement of silver exports and imports, two shipments of refined silver bullion totaling 450,000 ounces were recently exported from New York to Bombay.

In London, the price fixed for spot silver declined 1/16d to 23-7/16d. The forward price, however, was 1/16d higher at 22-11/16d. The U. S. equivalents were 42.56¢ and 41.20¢.

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

We made two purchases of silver totaling 75,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL



August 14, 1940

Professor Chamberlain

Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Lyon of the State Department (Ext. 351) telephoned me this evening in regard to a letter received from Admiral Leahy, the American representative on the International Hydrographic Bureau. It was stated that the \$52,000 account which is to be opened with the Chase Bank will take care of this reserve of the Bureau, but that a second account will be established with Barclay's Branch Bank in New York, into which will be paid remittances from those countries which contribute to the maintenance of this Bureau. Consequently two applications for freeing of accounts are being submitted, or have been submitted to the Treasury. Mr. Lyon indicated the desire of the Department of State to see every possible courtesy and facility extended to this Bureau on which Admiral Leahy is the American representative and to which this Government, through the Department of State, contributes annually. I told Mr. Lyon that I had provided the Committee with a memorandum from the Federal Reserve Bank at New York in regard to the character of the Bureau, and that we are now considering the question. I added that if we might require any further information, or more specific indications from the Department of State, I would get in touch with him. He stated that in such an event he would be very glad to do the necessary.

B. M. J.

August 14, 1940

Professor Chamberlain

Mr. Cochran

At the request of the Secretary, I telephoned the National City Bank at New York this morning in regard to the visit to the Far East of an officer of the National City. During the conversation, Vice President Howard Shepard of the National City told me that it was his belief that the National City had filed two applications with the Federal in regard to operations for their bank in Paris. Have these applications been received, and has any action been taken thereon?

* * * *

After dictating the above memorandum, I talked again with Mr. Shepard. He stated that applications no. 33226 and no. 32294 had been forwarded through the Federal Reserve Bank to Washington, and no action had yet been taken thereon insofar as he was aware. The National City is especially interested in having the earliest possible answer with respect to the first-mentioned of these applications. Mr. Shepard read to me the attached cablegram which he had just received from the National City Bank chief in France, which makes plain the need of the National City in France for francs if it is to operate. In explaining the method of getting the francs, Shepard said there was "otherwise" to the sale of dollars to the Bank of France.



CABLE

From: National City Bank of N. Y.,
New York.

To: National City Bank of N. Y.,
Lapuy, France.

Your account overdrawn 12,600,000 francs, foreign branches
2,500,000 francs Stop Beg you again provide cover by cable
dollars Bank of France as previously requested or otherwise
Stop Franc funds constantly required the acceptances maturing
for you and clients' account cover for which good but coming
in slowly due present circumstances. Stop Earnestly solicit
your cooperation.

Mr. Pearson

(Received by phone from Mr. Edward Shepard at National City Bank
of New York, August 14, 1940 - lmp)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Following this morning's Group Meeting I telephoned Mr. Pinsent that his memorandum of August 13, indicating the interest of the Chancellor of the Exchequer in obtaining the good offices of Secretary Morgenthau with respect to American customs treatment of British imports under the proposed British consumption taxes, had been given to Secretary Morgenthau last night, and had been discussed this morning, both with the Secretary and Assistant Secretary Gaston.

I was instructed to ask Mr. Pinsent that he and Chalkley again talk with Mr. Johnson, Commissioner of Customs, upon this subject. Mr. Pinsent reiterated that this was a matter on which they desired the Secretary's personal decision. I told him that we fully understood the situation, but that the Secretary would not go into the matter personally until it had been studied by his assistants, and appropriate recommendations submitted. Pinsent feared that an interview with Commissioner Johnson would be futile, but will proceed according to our suggestions. He will, however, expect the final word to come from the Secretary. I told him that whatever recommendation Mr. Johnson had to make would go to Mr. Gaston, who could, in turn, speak with the Secretary. After this conversation I summarized it to Mr. Gaston, and also mentioned it to Commissioner Johnson in Mr. Gaston's office.

This afternoon Messrs. Pinsent and Summerscale of the British Embassy were received by Commissioner Johnson. The interview is summarized in the attached memorandum from Mr. Johnson. While the two visitors were with Mr. Johnson he telephoned me the results of their conference and I promised to report this to the Secretary, which I did orally at 5 p.m. The Secretary authorized me to tell Pinsent that he regretted there was no action which he could take to meet the British problem, considering the recommendations made by his assistants. I communicated this information to Mr. Pinsent by telephone at 5:15 p.m.



August 14, 1940.

TO: ASSISTANT SECRETARY GASTON,
MR. H. MERLE COCHRAN,

FROM: W. R. JOHNSON.

Re: British "purchase" tax.

Mr. Pinsent, Financial Counselor of the British Embassy, and Mr. Summerscale, Commercial Counselor, called on me this afternoon at two o'clock to discuss the probable customs treatment in the United States of a British tax to apply to all goods sold at wholesale in Great Britain for home consumption.

I advised these gentlemen that on the basis of the information they furnished, including the text of the proposed law, it appeared to me that the tax in question would ordinarily be a part of the dutiable value of imports from Great Britain, and that the Treasury Department is without authority of law to provide that ad valorem duties shall be assessed on values from which the tax is excluded.

I further advised that I am unable to recommend that our Secretary of the Treasury initiate or sponsor an amendment of our tariff laws to provide for the assessment of duties on the basis of values in which the tax is not included.

Such legislation would open the tariff act to amendments and would involve questions of policy far beyond the particular question in which the British are interested. The questions which should be considered in connection with any change in our system of tariff valuation are so numerous and so complex that to give them proper attention would require weeks, if not months, of diligent study.

The gentlemen expressed complete understanding and appreciation of my position in the matter but desired a final answer from the Secretary. I suggested that they take that point up with Mr. Cochran, who had previously discussed the matter with the Secretary.

(Signed) W. R. Johnson

COPY

inc

August 14, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Buckley
Mr. Thompson
Mr. Graves
Mr. Cochran
Mr. Chamberlain
Mr. Foley
Mr. Haas
Mr. Schwarz
Mr. White
Mrs. McHugh

H.M.Jr: Who sat in on that meeting with Patterson yesterday, did you?

Buckley: Yes, sir.

H.M.Jr: Was there a stenographer present?

Mrs. McHugh: No.

Buckley: I sent Mr. Patterson yesterday a copy of the table which we were talking about.

H.M.Jr: But did you write up what you were talking about?

Buckley: No.

H.M.Jr: You were supposed to do that. And he is coming in again at 10:30. I know you have a meeting, but you will have to excuse yourself and come in to mine.

Buckley: All right.

H.M.Jr: He is coming back. Have with you this thing on Sweden.

- 2 -

And, Ed, I would like you to sit in, because it is another deal of arms and planes and so forth. Are you familiar with it?

Foley: Those same 145 planes you have been talking about?

H.M.Jr: Yes. Under the present law can you - if the Army seizes these planes, turns them back to the manufacturer and gets the credit, can the manufacturer sell them to whoever he wishes?

Foley: Well, could they be declared surplus?

H.M.Jr: Well, the Army just takes them for themselves, ostensibly.

Gaston: There is a new bill pending under which the Army could requisition material of that kind.

H.M.Jr: Well anyway --

Foley: Where are these planes?

H.M.Jr: In the United States.

Foley: In the Vultee factory?

H.M.Jr: There are a few on the docks, but that is kind of hopeless.

Foley: Well, I will look into it and I will be ready at 10:30.

H.M.Jr: And at 1:15, Knudsen, Jones, Purvis on Rolls-Royce-Packard. For lunch, with beef.

Foley: Raw meat?

H.M.Jr: You have had too much now. Now, I have got a lot of stuff here. Here is a queer one. Here is one concerning the Naval Attache at Lima, Peru, with information to the F.B.I. That is for you (Gaston).

Incidentally, all of my F.B.I. letters,

- 3 -

after I have read them, you (Mrs. McHugh) let them go to Mr. Gaston to read, and you (Gaston) initial them after you see them.

Gaston: All right.

H.M.Jr: And here are two on your (Cochran's) bank deposits.

You (Mrs. McHugh) give this to Professor Chamberlain. That is my weekly mail summary and so much of it is on what you (Chamberlain) are doing that I think you would be interested. Some people cuss me up and down and some people think it is wonderful. There is a lot of discussion on my remarks on offsetting the French gold against their debts. I think you would be interested.

Chamberlain: I would be very much interested. I have seen a good many notes on that from Mr. Cochran.

H.M.Jr: Merle, did you say Mr. Pinsent urgently desires a discussion? Here is one concerning a statement on the finance bill.

Gaston: The question is whether the new tax adds to the foreign value of the product and it seems to be up to them to make their law so it won't.

Cochran: We told him the first time that you wouldn't.

H.M.Jr: The second time, please.

Cochran: All right, sir.

H.M.Jr: Two French ships in San Pedro. That would go to Mr. Gaston, wouldn't it?

Cochran: Yes, I just spoke of that.

H.M.Jr: This is just distribution hour, getting stuff off my desk on somebody else's.

On this one, page two requires an answer. Mr. Knoke telephoned and is anxious to learn whether the Treasury Department approves the suggestion of the Federal

- 4 -

Reserve Bank in New York that it accept in its own name the gold deposits of the British, Netherlands, Canadian, and act as fiscal agent of Treasury only in handling dollar accounts.

Cochran: On that, Mr. Secretary, they had insisted before that they would have to act as fiscal agent in taking the gold. Now they are willing to do it in their own name and I think we should let them.

H.M.Jr: If you don't mind, I am going to wait until Mr. Bell comes back. Do you mind?

Cochran: There is no hurry.

H.M.Jr: Would you keep it?

Cochran: Yes, sir.

H.M.Jr: I don't care. I think it would be nice to let Archie Lochhead know. Who calls him here?

Cochran: I can call him or Dr. White.

White: He calls occasionally.

H.M.Jr: Well, I think it would be nice to let him know - who contacts him?

Cochran: He calls me and I call him.

H.M.Jr: Let him know about this road, the Burma road being open.

Cochran: Yes.

H.M.Jr: Have you seen these?

White: No.

H.M.Jr: And these two cables - and if I could have these back tomorrow when T. V. Soong comes in at 11:15. Hornbeck at eleven, Harry. And you (Cochran) had better sit in on that, too.

- 5 -

Cochran: Tomorrow?

H.M.Jr: At eleven.

"Harris fears inflammatory effect of public opinion. Suggests clarifying statement."
Is my reply right?

Cochran: If there is any reply to be made. The question is whether we should make any reply or not.

H.M.Jr: I was on the hot spot and I couldn't help it. I had to say something. I couldn't say I was waiting while we were making up our minds what we were going to do with the money. From reading my correspondence, three fourths of the people thought it was a swell idea, this using the gold as an offset against the debt. We go by the great American public.

Sullivan: How much is there?

H.M.Jr: I don't know, over a billion dollars, anyway.

White: All the gold we have here?

H.M.Jr: No, French.

White: Oh, just French. There are other assets. There is no question about it being popular.

Chamberlain: It will be popular in this country.

H.M.Jr: Well anyway, it got me off the hot spot, which is something.

Chamberlain: We are getting some communications from foreign people. They don't quite know how to take it.

White: It doesn't do any harm, because all the French would do about it might be to worry, but it won't affect the final action one way or the other.

H.M.Jr: Have you got some Roosevelt buttons?

Foley: Sure.

- 6 -

(Handing buttons to Secretary.)

H.M.Jr: You (Mrs. McHugh) send those over to Miss LeHand with my card.

White: Have you got a Willkie button?

Foley: I have got a design for one. It says, "Willkie for President of Commonwealth and Southern Holding Company."

H.M.Jr: What is that?

Foley: Tom is going to have a thousand of them made.

H.M.Jr: There was a very old politician who lived down at Beacon near where I lived. I went up to one of my first conventions at Saratoga years ago and I was wearing a button for somebody for governor. He came up to me and said, "It is a great mistake." I said, "What do you mean?" So he puts his hand in his pocket and brought out a button for every candidate. He says, "You will never learn politics. Always wait until you are sure until you put the button on."

White: Ed is following that practice.

Foley: I am sure.

White: Yes.

H.M.Jr: Mr. Gaston?

Gaston: I don't think I have anything to bother you with. I have got the boys at work in New York on that survey of the planes that are on the docks and cars in New York harbor. Fitzgerald is doing a lot of that stuff.

H.M.Jr: Good. Well, somebody made a remark, didn't they, that there - somebody - George made the remark from Buffalo that there were planes in New York harbor not - that the English weren't waiting. Right?

- 7 -

Haas: Yes. A man just came back - one of the Wright men and said the docks were filled there and the New York Central was reluctant to take more down there from the Wright plant. That is his story.

H.M.Jr: I question it.

Gaston: We can find out pretty quickly how many are there.

Haas: It was because the ships weren't there that was the difficulty, the ships to take them away.

H.M.Jr: Check on it through the - make the statement again so Buckley gets it right.

Haas: He said he was talking about these P-36's that Wright made. He said it was a shame the British hadn't been able to move them, that they were piled up on the piers down in New York. He said he just came back from down there and Janssen, the plant manager, said, "That is a bad sign. Evidently they can't get ships over here to take them away, as bad as they need them over there."

Buckley: I will check them. Their transportation man, I think, is going to be in town today.

H.M.Jr: Hell, you can check that through your Railroad Administration.

Haas: Sure.

H.M.Jr: They have got the figures and all. Why don't you call them up?

Haas: I will do that. I know the manager.

H.M.Jr: I would do it right after you leave here.

Haas: All right.

H.M.Jr: You say their transportation man is coming?

Buckley: I think he will be here in town.

- 8 -

H.M.Jr: We can get it three ways. What else, Herbert?

Gaston: I think that is all of importance.

H.M.Jr: Mr. Foley?

Foley: Allen Throop, the General Counsel for the Trustees of Associated Gas, came in yesterday and left with me to give you a request for reconsideration of the tax settlement of Associated Gas. He came in personally to assure us that they were doing it as part of their duty, and they would like to get an early consideration of the matter because we have given them an extension of 60 days, which expires the first week in September, to pay the first installment of that settlement. I think it is about \$5,700,000. I assume you want it handled the regular way down in the Bureau. I will send your copy of the letter down there.

H.M.Jr: All right.

Foley: If you have a few minutes some time during the day, I think it would be well if you could talk to Sam Klaus and me about continuing Sam out there in Chicago.

H.M.Jr: Make it tomorrow. I am tied solid today. Tell McKay.

Foley: All right. That is all.

Sullivan: I would like to see you for just a moment after this meeting.

H.M.Jr: That is possible.

Sullivan: Thank you.

Cochran: Bernard Carter of the American Bank in Paris just arrived in New York yesterday. He has been working with Wayne Taylor on Red Cross and he is coming down tomorrow. I am going to take him to see Professor Chamberlain.

H.M.Jr: Merle, call up the National City Bank. I

- 9 -

heard through one of the Intelligence services that there is a vice-president or somebody of the National City who just came back from Japan who was in charge of their offices there. He had a very interesting story. He said there were nine million - this was a Naval Intelligence man - 900 million yards of goods in storage in Japan, cotton goods, finished goods, waiting to ship them, and there was no sale and there is a very serious commercial crisis there. I wondered if you couldn't call up somebody, Burgess, and ask him who this man is and could he come down and talk to us.

Gaston: Our Commercial Attache in Kobe is in town. He ought to know something.

H.M.Jr: Ask him. This came through Naval Intelligence.

Cochran: I can get it.

H.M.Jr: Nine hundred million yards of cotton goods in storage, unsalable.

White: It sounds like there are too many zeros there, but it is very interesting.

H.M.Jr: Maybe it was inches.

White: Or yen.

H.M.Jr: Professor Chamberlain?

Chamberlain: I am not quite ready to take up one or two matters I would like to take up with you later.

H.M.Jr: Today or tomorrow?

Chamberlain: No, I don't believe I can do it today.

H.M.Jr: I tell you, why don't you have lunch with me tomorrow?

Chamberlain: All right, I will do that.

- 10 -

H.M.Jr: I would like your company, even if you haven't any business.

Chamberlain: Well, thank you very much, Mr. Secretary.

H.M.Jr: All right.

Chick, are you taking care of "Wild Bill"?

Schwarz: The Press Club hadn't already left an invitation with the office of the Secretary of the Navy and they are checking now to learn why it wasn't delivered yesterday. I just assume it might have been sidetracked, but they will see that it reaches him.

H.M.Jr: They will? He would like to do it?

Schwarz: They think it is a fine idea and would like to have him.

H.M.Jr: It is interesting. We were with him last night and he was amazed that Senator Wheeler should bring up this question of having gotten his indictment and he said as far as he was concerned, he never had any doubts but what Senator Wheeler was guilty of having been retained, while Senator, to get special oil leases from the Department of Interior and he said that Senator Borah did the most beautiful job on squelching the thing that was ever done. But as to why they should bring this thing up at this time - he was simply amazed. He said as far as he was concerned, Wheeler always was a crook and he never changes his mind about it. You know, Wheeler in his anger yesterday tried to criticize Dougherty.

Gaston: They referred to Dougherty as the great military authority.

H.M.Jr: He was brought down here by Stone, not by Dougherty, the way the paper said.

Incidentally, they mentioned the fact last night - what is the name of this gentleman

- 11 -

who is the great Maritime lawyer in New York?
You know, he is 80 years old.

Foley: Burlingham?

H.M.Jr: Yes. In yesterday's Congressional Record,
evidently, is Charlie Burlingham's legal
opinion on how - about these destroyers.

Foley: Ben Cohen wrote it and Burlingham and Thatcher
and some others signed it.

H.M.Jr: Have you seen it?

Foley: Yes, it was in the New York Times Sunday.
That is the thing I told you about. Ben
has been working on it for some time.

Cochran: Did you hear Senator Walsh's talk last night
on the radio?

H.M.Jr: What position did he take?

Cochran: Oh, he is against it.

H.M.Jr: And last night, Donovan told me he had taken
care of Walsh, Walsh was all right.

Sullivan: He isn't, and isn't going to be.

H.M.Jr: Walsh?

Sullivan: No.

H.M.Jr: Political?

Sullivan: Yes.

H.M.Jr: Donovan says, "It is all right, I have taken
care of Walsh."

George?

Haas: I have got several things in connection with
that trip. You probably want them included
in a written report.

- 12 -

H.M.Jr: I will get it by word of mouth. Tell McKay, will you? You had better write it up, too. Tell McKay I want to see you.

Haas: All right. I have the pictures.

H.M.Jr: Pictures?

Haas: Of those motors, you know. You wanted the different models, and so on, the E's and F's.

H.M.Jr: Kind of tough trip?

Haas: No, it wasn't particularly tough except I slept three nights in sleepers. It was a little hard on the Coast Guard pilot.

H.M.Jr: You didn't both have the same lower berth, did you?

Haas: No, but he preferred flying and he would have flown back from Buffalo, but he couldn't get anything to fly in.

H.M.Jr: It was very useful.

Harry?

White: Just received a letter from Saddler, in which he is sending you a lot of apparently very interesting maps. They are coming by express. I take it you would like to have them photostated.

H.M.Jr: Yes.

White: If and when the Chilean delegation see you, we have a one-page resume of the Chilean situation that you could peruse in a few minutes before they come.

H.M.Jr: You (Buckley) are coming in at 10:30 with Assistant Secretary Patterson and Mr. Foley?

Buckley: One --

- 13 -

H.M.Jr: On airplanes for Sweden.

White: Remember, the Chinese would like to be able to buy them.

H.M.Jr: How are they going to get them up there, Harry?

White: Well, he has got a way figured out.

H.M.Jr: How?

White: Well, they were going to ship them to Burma and fly them over, was one route. The other was to send them to Vladivostok and fly them down. He claims to have a way figured out. I was wondering whether he could see Ed or somebody, whoever is - whether he could get his bid in in time.

H.M.Jr: It is too late now.

Buckley: One development yesterday in export control, the State Department advised us that they are treating Dutch East Indies applications very sympathetically at the moment for what it may be worth. The Dutch East Indies do have on order about 250 planes and wish to order about 250 more.

White: The Dutch East Indies?

Buckley: Yes. That is a separate organization from the Royal Netherlands Government. They have this separate mission.

H.M.Jr: I didn't know that.

White: Are you taking any interest in those Dutch East Indies purchases of the planes?

H.M.Jr: Through Buckley.

White: In the light of what has been said, it looks like a - whether it is wise to sell them planes now is a matter that needs, I think,

- 14 -

some consideration.

H.M.Jr: Well, okay. What else?

Buckley: That is all I have.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Norman?

Thompson: Nothing.

H.M.Jr: Who wears buttons? Have you and Foley gotten together on this, "Button, button, who's got the button"?

Thompson: We haven't final rulings from the Civil Service, but this ruling is important.

Gaston: Huntington Cairns dissents from the opinion of the Civil Service Commission about wearing a button.

Foley: Sure we do. That is not obvious partisanship at all.

H.M.Jr: All right, gentlemen.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned me this morning in regard to the question of the Federal Reserve Bank in New York opening an earmarked gold account for Afghanistan. I told him that the Treasury favored this idea, if the Federal Reserve Bank can be satisfied as to its formal requirements. I added that the State Department had also let me know that they would welcome the opening of the account under reference. Mr. Knoke stated that these expressions should assist him in obtaining a decision from his directors at tomorrow's meeting, when this question will be posed.



August 14, 1940
9:10 a.m.

H.M.Jr: Hello.

Sumner
Welles: Hello.

H.M.Jr: Sumner --

W: Good morning, Henry.

H.M.Jr: Good morning.

Sumner, I still have Mr. T. V. Soong
around town.

W: Yes, I'd like to see him.

H.M.Jr: I haven't seen him since I spoke to you
last.

W: Yes.

H.M.Jr: And you remember the idea that we discussed
with the President on the three-cornered
view with Russia.

W: Yes.

H.M.Jr: And then when I mentioned it to you, you
said at the time that kind of freezing their
money wasn't very opportune.

W: That's right.

H.M.Jr: Well, I don't know whether it is any more
opportune now.

W: Well, I'm just in the middle of conversations
with the Soviet Government.

H.M.Jr: I see.

W: And I think it would be a very bad idea to
take it up with them now.

H.M.Jr: Yes.

- 2 -

W: What I'm trying to do is to smooth out the various differences that have arisen so that we can talk about other matters.

H.M.Jr: Yes.

W: At the present time, we have these problems which have arisen during the past twelve months, refusal of export licenses and that kind of thing here, so far as they are concerned, and the treatment of our nationals in the Soviet Union and the taking of our citizens' properties, and so on, from our side.

My thought was if I can work out a satisfactory agreement on these matters, relations would be much better and we then can talk about political questions of this kind that you have in mind.

H.M.Jr: Well, let me ask you this. I want to see T. V. Soong.

W: Yes.

H.M.Jr: And who follows this thing for you, particularly, with China, leaving Russia out of the picture.

W: I couldn't hear you, Henry.

H.M.Jr: Who follows China for you, particularly, Hornbeck?

W: Yes, Hornbeck.

H.M.Jr: Well, couldn't Hornbeck come over and see me and then I'd have a little talk with him and then have T. V. Soong come in later?

W: Why, certainly. I'll be glad to tell Hornbeck to get in touch with your office.

H.M.Jr: Well, if you just would have somebody tell Hornbeck if he could come over at 11:00, tomorrow.

- 3 -

W: At 11:00 tomorrow.

H.M.Jr: And I'll have a talk with him, then I'll see Soong a little later, with Hornbeck.

W: That's all right, Henry, but on this Russian thing, I don't want to move at all until I am satisfied that we've worked out the other side.

H.M.Jr: Well, let's leave it this way. I'll leave it in your lap and when you're ready, you call me on that.

W: All right, I'll be glad to do that.

H.M.Jr: All right.

W: And I'll tell Hornbeck to be over at 11:00, tomorrow.

H.M.Jr: Thank you.

W: All right, Henry, thanks.

H.M.Jr: Goodbye.

20551

VOLUNTARY REPORT

No. 544

CONFIDENTIAL

C O N F I D E N T I A LPOSSIBLE TRADE EFFECTS OF PROPOSED BRITISH PURCHASE TAXDETERMINATION OF TAXABLE VALUE

From:

Homer S. Fox
Acting Commercial Attache

LONDON, ENGLAND: Date of Completion - August 14, 1940

C O N F I D E N T I A LPOSSIBLE TRADE EFFECTS OF PROPOSED BRITISH PURCHASE TAXDETERMINATION OF TAXABLE VALUE

The officially declared objects of the new British purchase tax, provision for which is contained in the Finance (No. 2) Bill now before Parliament, are to provide additional revenue and at the same time to restrict the consumption of a wide range of goods considered as non-essential (or at least non-essential in normal peace time quantities) during the war period.

The trade restrictive effects of such a tax will obviously depend not only upon the rate of the tax, but upon the ultimate charge falling on the consumer as determined by the method of application of the tax.

As the proposed tax is to be charged on the wholesale value of the goods taxed rather than on the retail value as is usual in the case of sales taxes the amount of tax payable by the consumer is dependent upon several variable factors, not the least of which may be the method of determining wholesale value for the purpose of applying the tax.

Goods subject to the tax are to be divided into two categories: Those falling in the classification of more strictly

- 2 -

strictly luxury goods to be charged at $33 \frac{1}{3}$ per cent and the others at $16 \frac{2}{3}$ per cent both on the wholesale value - not it is noted, on the wholesale price. It has been estimated that these rates would be approximately equivalent to 24 per cent and 12 per cent respectively of retail prices. The accuracy of this estimate will depend, as mentioned above, on a number of factors including the method of determining the wholesale (taxable) value.

The proposed tax is administratively an excise tax and is to be administered by the Commissioners of Customs and Excise. It is interesting to note, therefore, that the principles and methods for determining the taxable value are precisely those adopted under the provisions of the Finance Act of 1935 for the determination of the value of imported goods for the purpose of applying ad valorem duties. A comparison of the text of section 10 of the Finance Act, 1935 (which lays down the method of determining dutiable value) and of section 21 and schedule 3 of the Finance (No.2) Bill, 1940 (which lay down the method of determining wholesale value for the purpose of the purchase tax) discloses only such minor differences of detail as are required to adapt the import procedure to internal application. The principles and in large part the terminology are the same in both cases: For example, the main

definition

- 3 -

definition of value as the price which in the opinion of the Commissioners the goods would fetch on a sale in the open market is carried forward to the new tax. Further the ascertainment of what the open-market price would be is based on the same assumptions, namely that the price is the sole consideration of the sale of the goods, that all commissions and others costs, charges and expenses incidental to the making of the contract of sale and the delivery of the goods to the buyer are included, that there has not been and will not be any commercial relationship between seller and buyer other than that created by the sale and that neither the seller nor any person associated in business with him has any interest in the subsequent result or disposal of the goods.

There are also similar provisions relating to patented and trade-marked goods, and the provisions for appeal against the decisions of the Commissioners are identical, namely, to a referee appointed by the Lord Chancellor.

* Some five years experience by importers in the United Kingdom of the inequities which may and have resulted from the application of this somewhat complex

and

*This is not to suggest that the British Customs have administered this system in any but the most impartial manner. On the contrary, Customs officials have invariably been most solicitous to extend facilities for the correction of any unequal treatment. The difficulties which have arisen have been those inherent in the complexities of the system itself.

- 4 -

and cumbersome system of determining dutiable values in the case of imported goods, leads to some speculation as to whether the same system as applied to the determining of value for the purpose of an internal tax will meet with any greater degree of acceptance or approbation on the part of the trading interests concerned. There is the further speculation as to whether this method of determining taxable value may, as in the case of dutiable import values, have the effect of raising appreciably, in many cases at least, the taxable values and consequently the amount of tax to be collected.

In any case it is an interesting experiment in the application of an internal tax and while some trade objections have already been raised it is quite probable that under existing war conditions little serious opposition from the trades concerned is likely to be encountered.

The reasons for adopting this valuation system, apart from the fact that it was already at hand and the machinery for its application established as a result of Customs experience, include the necessity for having some system to deal with the situation arising in the case of chain stores, cooperatives, etc., where prices charged to subsidiary organizations might not in all cases

- 5 -

cases correspond with the true open-market price. Once the decision has been reached to impose the sales tax on wholesale rather than on retail prices some method of dealing with other than open-market sales is, of course, necessary and from the standpoint of the administrators, i.e. the Customs and Excise, the system as applied to the determination of dutiable import values appears to have proved eminently satisfactory.

As of possible interest to those in the Departments of State or Commerce who have been interested in this problem in connection with the Anglo-American Trade Agreement or otherwise, and for ready comparison there are attached copies of Section 10 of the Finance Act, 1935 and of Section 21 and Schedule 8 of the Finance (No. 2) Bill, 1940.

Enclosures:

1. Bases for Determining Dutiable Import Values -
Section 10, Finance Act, 1935
2. Bases for Determining Taxable Values for
Purposes of Proposed Purchase Tax Section 21 and
Schedule 8, Finance (No. 2) Bill, 1940

File 610.1 Haf-Mad

mg

ENCLOSURE NO. 1 to REPORT NO. 544, AUGUST 14, 1940

Section 10, United Kingdom Finance Act, 1935

(Bases for Determining Dutiable Import Values)

(1) For the purposes of any enactment for the time being in force whereunder a duty of customs is chargeable on goods by reference to their value, the value of any imported goods shall be taken to be the price which they would fetch on a sale in the open market at the time of importation, and duty shall be paid on that value as fixed by the Commissioners.

(2) For the purposes of computing the price aforesaid it shall be assumed -

(a) that the goods to be valued are to be delivered to the buyer at the port or place of importation, freight, insurance, commission and all other costs, charges and expenses incidental to the making of the contract of sale and the delivery of the goods at that port or place (except any duties of customs) having been paid by the seller; and

(b) that the price is the sole consideration for the sale of the said goods; and

(c) that neither the seller nor any person associated in business with him has any interest, direct or indirect, in the subsequent re-sale or disposal of the said goods; and

(d) that there has not been and will not be any commercial relationship between the seller and the buyer, whether created by contract or otherwise other than that created by the sale of the said goods.

(3) Where the goods to be valued are manufactured in accordance with a patented invention or are goods to which a registered design has been applied, it shall also be assumed for the purpose of computing the price aforesaid that the buyer is not the patentee or the proprietor of the design and has not paid any sum or given any consideration by way of royalty or otherwise in respect of the patent or design and, on payment of the price, will be entitled to deal with the goods free from any restriction as regards the patent or design.

(4) Where a trade mark is used in the United Kingdom in relation to goods of the class or description to which the goods to be valued belong for the purpose of indicating that goods in relation to which it is used are goods of a foreign supplier of the goods to be valued or of a person to whom he has assigned the goodwill of the business in connection with which the trade mark is so used, it shall also be assumed for the purpose of computing the price aforesaid that the goods to be valued are sold under that trade mark, unless it is shown to the satisfaction of the Commissioners that the goods to be valued have not at any time been, and security is given to the satisfaction of the Commissioners that they will not be, so sold by or on behalf of the foreign supplier or any such person as aforesaid.

(5) For the purposes of this section -

(a) two persons shall be deemed to be associated in business with one another if, whether directly or indirectly, either of them has any interest in the business or property of the other or both have a common interest in any business or property or some third person has an interest in the business or property of both of them;

(b) the expression "foreign supplier," in relation to any goods to be valued, means any person by whom those goods have been grown, produced, manufactured, selected, dealt with or offered for sale outside the United Kingdom, and includes any other person associated in business with such a person as aforesaid;

(c) the expression "trade-mark" includes a trade name and a get-up.

(6) Subsections (1) and (2) of section fifteen of the Import Duties Act, 1932, shall cease to have effect, and subsections (3) and (4) of that section (which relate to regulations) and section sixteen of that Act (which relates to the determination of disputes as to value) shall have effect for the purpose of this section as they had effect for the purpose of the said section fifteen.

ENCLOSURE NO. 2 to REPORT NO. 544, AUGUST 14, 1940

Section 21 and Schedule 8, Finance (No.2) Bill, 1940

(Bases for Determining Taxable Values for Purposes of
Proposed Purchase Tax)

(1) The wholesale value of any goods in respect of which tax is chargeable shall be taken to be the price which in the opinion of the Commissioners the goods would fetch, on a sale made at the time when the tax in respect of the goods becomes due to a person selling by wholesale in the open market in the United Kingdom to a retail trader carrying on business in the United Kingdom only, if no tax were chargeable in respect of the sale and it were made in the circumstances specified in the Eighth Schedule to this Act.

(2) If, in ascertaining the amount of tax for which any person is accountable, any dispute arises as to the wholesale value of any goods, the question shall be referred to the arbitration of a referee appointed by the Lord Chancellor, who shall not be an official of any Government Department, and the decision of the referee with respect to the matter in dispute shall be final and conclusive:

Provided that this subsection shall not have effect, and tax shall be chargeable on the wholesale value of the goods as fixed by the Commissioners, unless, within the prescribed period from the time when the Commissioners' opinion as to the wholesale value of the goods has been communicated to the person accountable, or within such further period as they may allow, notice requiring a reference thereunder has been served on the Commissioners, and that person has deposited with them the amount of the tax appearing on the basis of their opinion to have become due.

(3) If the amount of the tax chargeable on the basis of the wholesale value of any goods as determined on a reference under the last preceding subsection is less than the amount deposited with the Commissioners thereunder the excess shall be repaid.

Eighth Schedule

Purchase Tax (Determination of Wholesale Value)

1. For the purpose of computing the price which goods to be valued would fetch on such a sale as is mentioned in section twenty-one of this Act the following circumstances shall be assumed.

2. It shall be assumed -

- (a) that any commission or other costs, charges or expenses incidental to the making of the contract of sale are to be paid by the seller;
- (b) that the price is to include the cost of delivery to the buyer at his place of business, and of insurance and other costs, charges and expenses incidental to such delivery;
- (c) that the price is the sole consideration for the sale;
- (d) that neither the seller nor any person associated in business with him has any interest, direct or indirect, in the subsequent re-sale or disposal of the goods; and
- (e) that there has not been and will not be any commercial relationship between the seller and the buyer, whether created by contract or otherwise, other than that created by the sale.

3. Where the goods to be valued are goods made in accordance with a patented invention or are goods to which a registered design has been applied, it shall also be assumed for the purpose of computing the price aforesaid that the buyer under the sale mentioned in section twenty-one of this Act is not the patentee or the proprietor of the design and has not paid any sum or given any consideration by way of royalty or otherwise in respect of the patent or design, and, on payment of the price, will be entitled to deal with the goods free from any restriction as regards the patent or design.

4. Where the seller under the purchase in relation to which the valuation is to be made is, or is associated in business with, the proprietor or a registered user of a trade mark registered in respect of the goods to be valued, or could have sold them under such a trade mark without infringing the right to the use of the trade mark given by the registration thereof, it shall also be assumed for the purpose of computing the price aforesaid that the sale mentioned in section twenty-one of this Act is a sale under that trade mark, unless it is shown to the satisfaction of the Commissioners that the goods to be valued have not at any time been, and security is given to the satisfaction of the Commissioners that they will not be, so sold by or on behalf of the seller under the said purchase or any person associated in business with him.

5. Where a particular form of get-up is used in the United Kingdom by any person in relation to goods of the class to which the goods to be valued belong, and the goods to be valued are the goods of that person, it shall also be assumed for the purpose of computing the price aforesaid that the sale mentioned in section twenty-one of this Act is a sale of the goods got-up in that form, unless it is shown to the satisfaction of the Commissioners that the goods to be valued have not at any time been, and security is given to the satisfaction of the Commissioners that they will not be, so sold by or on behalf of the seller under the purchase in relation to which the valuation is to be made or any person associated in business with him.

6. For the purposes of this Schedule two persons shall be deemed to be associated in business with one another if, whether directly or indirectly, either of them has any interest in the business or property of the other or both have a common interest in any business or property, or some third person has an interest in the business or property of both of them.

August 14, 1940

My dear Mr. Hoover:

This will acknowledge receipt of the following communications which I received from you recently:

August 7 - Newsprint industry in Mexico;

August 8 - Continental Mining Corporation;

August 8 - "The German White Paper", published by Howell, Soskin and Company, Inc., of New York;

August 8 - The S. S. Weser;

August 8 - Booklet entitled "Suggestions for Protection of Industrial Facilities."

Thank you very much for making this information available to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

August 14, 1940

My dear Mr. Hoover:

This will acknowledge receipt of the following communications which I received from you recently:

- August 7 - Newsprint industry in Mexico;
- August 8 - Continental Mining Corporation;
- August 8 - "The German White Paper", published by Howell, Soskin and Company, Inc., of New York;
- August 8 - The S. S. Weser;
- August 8 - Booklet entitled "Suggestions for Protection of Industrial Facilities."

Thank you very much for making this information available to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

JOHN EDGAR HOOVER
DIRECTOR

210

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

August 7, 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 copy of a memorandum receiving from a confidential source believed reliable pertaining to the newsprint industry in Mexico.

It is noted that the German interests are endeavoring to sell newsprint in Mexico for delivery prior to the end of this year.

Sincerely yours,

J. E. Hoover

Enclosure

August 7, 1940

MEMORANDUM

RE: MEXICAN NEWSPRINT INDUSTRY

Mexico imports the newsprint used by its newspapers, magazines and so forth. The importation is handled by a semi-government institution called the Pipsa (Productores y Importadores de Papel, S. A.) The capital of this organization was furnished jointly by the Government and the principal consumers of newsprint, the newspapers, magazines, etc. The objective of the Pipsa was to secure lower prices by breaking the monopoly of a Mexican Company, the San Rafael Paper Mills.

Newsprint prior to September, 1939, was obtained by the Pipsa from German sources. The Germans quoted a price considerably lower than the Canadian producers. Likewise, German newsprint was part of the barter deal - newsprint for petroleum products. When the war cut off direct importations from Germany, the Germans made every effort to ship via Italy, but these efforts were not successful and the Pipsa was forced to buy its newsprint from Canadian mills. At the present time the Canadian Newspaper Trust is supplying the newsprint to Pipsa. During the present month of July, Pipsa has received word from the German newsprint suppliers advising that they expect to be able to supply newsprint prior to the end of this year, and recommending Pipsa to not make a firm contract for 1941 with the Canadian producers, as they can guarantee not that the German price will be from \$5.00 to \$10.00 (dollars) a ton under any price quoted by the Canadian Combine.

The Mexico City representative of the German newsprint suppliers has advised one of our informants that he expects to be able to supply Pipsa with newsprint from Finland within the near future.

It is to be noted that the Germans are as of this date advising Pipsa of their intention to supply newsprint for Mexico before the end of the year, and that the same German interests have also indicated that Finland is a possible source of supply.

At the present time Mexico is absolutely depending on Canada for its newsprint. This gives opportunity to the Canadian Government to require that the newsprint furnished by the Canadian producers shall not be made available to publications following an anti-American, anti-British or anti-Canadian policy; in other words, the power rests in the hands of the Canadian Government to keep newsprint from reaching the anti-American, anti-British, and anti-Canadian publications of Mexico.

The German financed daily paper "Diario de La Guerra" was compelled to cease publication for five days during the week of July 14 due to shortage of paper, but finally managed to obtain a temporary supply from "El Universal", through the influence of Congressman Falcon.

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

August 8, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

As you may know, there was recently put on the market a magazine entitled "The German White Paper", published by Howell, Soskin and Company, Inc. of New York City.

This magazine, which sells for \$1.00, purports to be the full index of the Polish documents found in the Polish Foreign Office at Warsaw by the German Government after its invasion of Poland, setting forth particularly the war attitude of American Ambassador William C. Bullitt.

Information has been received that this magazine was published at the instigation of one Manfred Zapp, a registered agent of a foreign principal. There is enclosed a copy of a memorandum which summarizes information contained in the files of the Federal Bureau of Investigation pertaining to the activities of Zapp and his attempt to publish this magazine.

I thought that this might be of interest to you.

Sincerely yours,

J. Edgar Hoover

Enclosure

BY SPECIAL MESSENGER

August 7, 1940

M E M O R A N D U M

On January 30, 1939, Manfred Zapp, a news correspondent and representative of the Transocean News Service of Berlin, Germany, registered with the Department of State as an agent of a foreign principal, his foreign principal being Transocean News Service, a German corporation located at Goeringstrasse W 9, Berlin, Germany. The nature of the business of the registrant was stated as being the selling of subscriptions for the news service of Transocean News Service (a world-wide service) to American newspapers and American broadcasting stations and the collecting of American news for his foreign principal. Transocean is in the wireless news service with correspondents in nearly every country in the world collecting political, economic and sports news. According to the registration statement, Zapp is of German birth, entering the United States on German passport No. 175, issued November 17, 1934, at Ratingen, Germany, and visa No. 1161 granted by the American Consulate General at Berlin dated December 28, 1938, as a non-immigrant under classification of treaty alien. He was admitted at the Port of New York on January 13, 1939.

Information has been received that Zapp had approached a publisher in New York City in the spring of 1940 with reference to the publication of a book. Zapp informed this publisher that the Deutscher Verlag of Berlin, Germany, which is represented by the Transocean News Service, owned papers which were found in Subassien in Warsaw, Poland, at the time of the Polish invasion by the Germans. Zapp desired to arrange for the publication of these papers in a paper-bound book entitled "Germany's White Paper". Zapp is reported to have told a publisher that he desired 50,000 copies of this book published and that he would immediately place an order for this number of copies at 50¢ per copy. This would mean that the publisher would receive \$25,000 to place this book on the market. Zapp is reportedly associated with a Mr. Strassberger of Norristown, Pennsylvania, the owner of the Norristown Press, and one of the conditions of the deal was that the printing of the book was to be done by the Norristown Press, which was to receive \$11,000 for this printing. Zapp was to receive \$5,000 for his services, which would leave \$9,000 for the publisher, whose only duty was to lend his name to the book. Half of the \$9,000 was to be paid at the time the agreement was completed and the balance at a time when the book was ready for distribution, which according to Zapp would be on or about May 28, 1940. At the present time it is not known who this publishing company is, as this information was received from an individual who refused to name the publisher.

-2-

Recently Howell, Soskin and Company, Inc. of New York City issued a publication in magazine form called "The German White Paper". This magazine sells for \$1.00 and publishes what purports to be the full index of the Polish documents found in the Polish Foreign Office in Warsaw by the German Government after its invasion of Poland. These documents also purport to report on American Ambassador Bullitt's war attitude. An investigation is being conducted of Howell, Soskin and Company, Inc. to determine whether it is an agent of a foreign principal which should be registered with the Department of State, and it is not known if it is connected with Zapp.

It has recently been reported that Zapp occupies a garage at Bethesda, Maryland, from which he operates a short-wave radio station and that possibly he is engaged in espionage activity. For this reason, an investigation is being conducted of the activities of this individual, this investigation being just recently instituted.

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

August 8, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

I am enclosing a copy of a memorandum which I have forwarded to the President and which I thought may be of some interest to you.

As you will note, this memorandum deals with the Continental Mining Corporation, which is reported to be leasing tungsten mines with a view to shutting down tungsten production by exercising options in the leases allowing the company to pay the owners of the mines stipulated sums per month in lieu of production.

Additional investigation is being conducted into this matter at the present time.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

August 7, 1940

H E R O R A N D V M

Recently a Mr. Mark Schreider, the sports announcer for Radio Station K.L.Z., in Denver, Colorado and a writer of feature stories for various Hearst papers and magazines, called at the Denver Field Division of this Bureau seeking information, which was not furnished to him.

He informed that he had in mind writing a story to be released to the various Hearst publications setting out the fact that the Continental Mining Corporation has sent numerous representatives to Colorado, New Mexico and Arizona for the purpose of securing leases on mines located in those States. He intends to make statements in his article to the effect that this corporation, after acquiring leases on various mines, mainly tungsten, takes advantage of provisions set out in the contracts to alone the mines by paying the owners a stipulated sum each month even though the mine is not in operation. He reported that this corporation has followed a similar practice in securing leases for tin mines in the Dutch East Indies and various South Pacific Islands.

This Bureau has previously conducted some investigation of the Continental Mining Corporation, which also uses the name "Mining Company of Colorado, Incorporated, Dorothy-Kate Tungsten Mines". This investigation has revealed that in October or November of 1939 an individual by the name of Felix Ochs came to Boulder, Colorado, as a representative of the Continental Mining Corporation of New York City. The Continental Mining Corporation has leases on certain tungsten mines in the vicinity of Boulder and was reported to be shipping tungsten ore into Mexico for subsequent shipment to Germany. Ochs was reported as being of foreign extraction, speaking with a foreign accent. He appointed as local manager for the mine an individual by the name of George H. Teal, who is well known in Boulder, Colorado, and comes from a good family there.

Information was received that the Continental Mining Corporation is operated by a group of Germans, all recent arrivals in the United States. These men are all well educated individuals,

appearing to be college professors or trained engineers, although none of them seem to have had any previous mining experience. An individual named Robert May, a graduate mechanical engineer educated in Germany, was placed directly under Mr. Feal. It has been reported that the Continental Mining Company has acquired leases on mining properties at Kingman, Arizona, and near Colorado Springs, Colorado.

An informant has advised that from all appearances the men controlling this company are interested in producing only enough ore to cover expenses, contrary to the natural desire of all individuals to make a profit in any business undertaken. The Continental Mining Corporation has offices at 80 Broad Street, New York City, and is incorporated under the laws of Connecticut with an authorized capital of \$100,000. It was incorporated on August 25, 1939. The original President of this corporation was an individual named Eugene H. Densiger. He withdrew from the company on December 5, 1939, and was succeeded by Selig M. Schwarzschild. This individual is 63 years of age and a native of Germany but reported to be a citizen of the United States. He, however, resigned some time near the 1st of March, 1940, and the last information available indicates that the office of presidency is still vacant. The Vice-President is Ernst Gottschalk, also a native of Germany, who came to the United States in 1937. This company maintains an active bank balance at Boulder, Colorado, the money being supplied from the main office in New York City.

August 16, 1940.

MEMORANDUM

A confidential letter from J. Edgar Hoover to the Secretary, dated August 8th says:

"Information has come to me from a source considered reliable to the effect that during the past week the President of Honduras exhibited copies of several messages and a letter which he had received from Costa Rica, all referring to the S. S. WESER. These several messages and the letter warned the President of Honduras not to allow the S.S. WESER to dock at Amapala unless heavily guarded, further stating that it was a well established fact that the S.S. WESER had her hold loaded with ammunition and guns destined for Central American Pacific ports, but especially for Mexico."

I had Commander Richmond look up the S. S. WESER, nationality not stated, and received the following report from him:

"The German M.S. WESER arrived at Punta Arenas, Mexico, 17 October, 1939. On the 24th of October a conversation was overheard between an officer of the vessel and another German. Reference was made to a rendezvous between an unidentified vessel and submarine off the west coast of Mexico on 25 October. At the time of arrival the WESER was reported to have a cargo of hardware and sheet metal.

"The WESER departed at 6:00 p.m., 17 July, 1940 and arrived Manzanillo, Mexico, 6:00 a.m., 21 July. A question arose in relation to the fuel needed for the vessel. A request was made for 18,000 bbls. and her capacity is listed in Lloyd's as 9,603 bbls. The agent of the Petroleum Administration offered to cooperate at the request of this government and limit the amount of fuel taken to the capacity. The American Consul requested instructions. It is understood that fuel for the WESER was being shipped on the Nor. SS. FAGERFJELL due to arrive on August 10. A departure permit was granted the latter vessel on 20 July for Tampico in ballast.

"The WESER is 9,179 gross tons, 5,694 net tons."

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

August 8, 1940

House

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:

Information has come to me from a source considered reliable to the effect that during the past week the President of Honduras exhibited copies of several messages and a letter which he had received from Costa Rica, all referring to the S.S. Weser. These several messages and the letter warned the President of Honduras not to allow the S.S. Weser to dock at Amapala unless heavily guarded, further stating that it was a well established fact that the S.S. Weser had her hold loaded with ammunition and guns destined for Central American Pacific ports, but especially for Mexico.

Sincerely yours,

J. Edgar Hoover

J. EDGAR HOOVER
DIRECTOR

221

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

August 8, 1940

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

My dear Mr. Secretary:

*I am enclosing herewith a
copy of a booklet entitled "Suggestions
for Protection of Industrial Facilities"
which I thought might be of interest
to you.*

Sincerely yours,

J. Edgar Hoover

Enclosure

Suggestions for

**PROTECTION
OF
INDUSTRIAL FACILITIES**

Issued by

FEDERAL BUREAU OF INVESTIGATION
UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

AUGUST

1940

This is a secret document containing confidential information and must be treated as such. It is the property of the United States Government and shall be returned upon request.

Anyone finding this document should mail it immediately, together with his name and address, to:

John Edgar Hoover
Director
Federal Bureau of Investigation
U. S. Department of Justice
Washington, D. C.

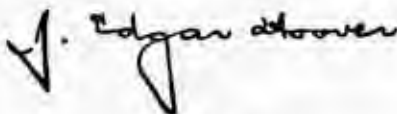
Registration # 014 (Recorded when issued).

The following formal statement was issued by
the President of the United States on September 6, 1939:

"The Attorney General has been requested by me to instruct the Federal Bureau of Investigation of the Department of Justice to take charge of investigative work in matters relating to espionage, sabotage, and violations of the neutrality regulations.

"This task must be conducted in a comprehensive and effective manner on a national basis, and all information must be carefully sifted out and correlated in order to avoid confusion and irresponsibility.

"To this end I request all police officers, sheriffs, and all other law enforcement officers in the United States promptly to turn over to the nearest representative of the Federal Bureau of Investigation any information obtained by them relating to espionage, counterespionage, sabotage, subversive activities and violations of the neutrality laws."

A handwritten signature in dark ink, appearing to read "J. Edgar Hoover". The signature is stylized, with a large, sweeping "J" and a long, horizontal stroke extending to the right.

Director

CONTENTS

METHODS OF SABOTAGE	Page 3
INDUSTRIAL INFORMATION SOUGHT BY ESPIONAGE AGENTS	4
METHODS OF ESPIONAGE	4
VULNERABLE POINTS	6
HAZARDS	6
PERSONNEL	7
Application Forms	8
Source and Selection of Personnel	11
Rules for Employees	12
Morale of Employees	12
Check of Absentees	13
Movements of Employees within the Industrial Units	13
Rest Rooms and Cafeterias	15
Locker Rooms	15
Employees Entrances	15
PHYSICAL PROPERTIES TO BE CONSIDERED DURING A SURVEY	16
Floodlighting	16
Automobiles	17
Shipping and Receiving Platforms	17
Delivery Trucks	17
Precision Tools	18
Restricted Areas	19
Telephones	19
Explosives	20
CONFIDENTIAL DOCUMENTS	20
Plan Office	20
Safes	23
Handling of Mail	24
Disposal of Wastepaper	25
Janitors and Charwomen	26
IDENTIFICATION SYSTEMS	26
Identification Badges	27
Identification Cards	29
Visitors	30
Sub-Contractors	31

GUARD FORCE

Organization	31
Qualifications	33
Number of Guards Required	34
Training	35
Rules and Regulations	36
Uniforms and Identification	37
Keys	37
Shifts	38
Communication Systems	39
Duties at Fixed Points	39
Incoming Freight Cars	40
Loading Platforms, Railroad Sidings and Wharves	40
Duties of Guards on Foot Patrol	41
Duties during Fires	42
Reports	43
Packages	43
Guard Headquarters	44

FIRE PREVENTION

HANDLING OF BOMBS AND EXPLOSIVES

Page
31

31

33

34

35

36

37

37

38

39

39

40

40

41

42

43

43

44

46

49

This handbook has been published because of a growing demand for authentic information on the subject of industrial security. Its issuance does not in any way replace the individual surveys conducted by the Federal Bureau of Investigation at the request of the War and Navy Departments. Each industrial facility or utility presents a problem peculiar to itself, making it impossible to set out specific recommendations for individual units unless the physical properties of such units are first surveyed and studied.

These general suggestions, therefore, are not to be considered as all-inclusive but may be helpful to those who may desire to personally survey their own facilities with a view toward improving their existing protection against sabotage and espionage.

PROTECTION OF INDUSTRIAL FACILITIES

In times of emergency involving improvement, development and enlargement of our national defenses, the industrial facilities present an immediate problem of adequate protection. These include individual facility problems as well as coordinated problems interdependent upon each other both in local and extended areas. To provide for this protection, this document deals primarily with the protection of industrial plants.

The suggestions outlined herein while primarily directed to industrial plants are, nevertheless, adaptable to public utilities, transportation facilities and other types of facilities, either local, State-wide or nation-wide in their ramifications.

When the suggestions contained herein are applied to multi-unit facilities, they should be considered from the standpoint of protection for each individual unit.

Although the management of a facility may not be particularly experienced in conducting plant surveys it may, with the assistance of this document, do much toward improving the protection of its properties and output. Sufficient consideration of the facts contained herein, coupled with a practical application of the many suggestions, should materially reduce the effectiveness of saboteurs and espionage agents against American industry.

METHODS OF SABOTAGE

There are set out below some of the more common methods of sabotage. It is, therefore, advisable to consider and provide protection against these or other forms which may be particularly applicable to your plant.

- (A) Damage to machines or equipment by breakage, manipulation, abrasives, chemicals, or foreign bodies.
- (B) Damage to vital machinery, equipment, or buildings, by time bombs, gas explosions, incendiary bombs and devices, or the use of other explosives.
- (C) Damage to power stations, transmission lines, transfer stations, switchboards or other key points of the power system.
- (D) Damage to materials either used or being manufactured at the plant, including raw materials and materials being used for processing.
- (E) Damage to precision tools or technical mechanisms.
- (F) Damage or delay to finished products both at the plant and in transit.
- (G) Damage to, theft of, or interference with blueprints, formulae, working models or other confidential data.
- (H) Bacterial infection or other pollution of water and foodstuffs for the consumption of the employees or

foodstuffs being manufactured on contract.

- (I) Injury to personnel, including the introduction of contagious diseases.
- (J) Damage by arson, including undue negligence and existing fire hazards.

INDUSTRIAL INFORMATION SOUGHT BY ESPIONAGE AGENTS

Although practically any industrial information is of interest to a foreign power, the following are classes of information frequently sought:

- (A) Improved methods of production.
- (B) Type of material being produced.
- (C) Rate of present production and capacity.
- (D) Quantity of articles on order by this and other governments.
- (E) Specifications, formulae, and plans of all munitions and war equipment.
- (F) Test records of newly developed munitions, airplanes, guns, torpedoes, and other equipment.

METHODS OF ESPIONAGE

Foreign agents exhibit unlimited ingenuity in collecting pertinent information for their governments. The following are examples of tactics to which foreign agents resort in obtaining

information regarding industrial plants:

- (A) Infiltration of spies into plants as employees.
- (B) Purchasing information from employees.
- (C) Theft or purchase of stolen plans, papers and other confidential documents.
- (D) Copying documents.
- (E) Photographing working models or finished products.
- (F) Reproduction or theft of working models or finished products.
- (G) Questioning employees either openly or under pretext.
- (H) Enticing employees who are particularly familiar with the production of confidential materials to enter the services of a foreign power and serve in an advisory capacity for the production of similar war munitions, either in this country or abroad.
- (I) Personal observation of production operations, test runs, or confidential papers.
- (J) Foreign espionage rings disguised as commercial concerns, import-export associations, scientific organizations, businessmen's groups, and engineering organizations may attempt to obtain confidential or other information of benefit to a foreign power.
- (K) Pressure and threat with reference to relatives and friends of an employee, who reside in a foreign country.

VULNERABLE POINTS

Any material, machine, equipment, or product of a utility without which a plant cannot operate is considered as a vulnerable point and should receive particular attention. Likewise, any place or point in the operation where the flow of production could be blocked by reason of a bottleneck operation, or which point is readily accessible to attack, is a vulnerable point. To compile a list of such places or necessities, a plant owner should ask himself the question, "At what points would a single act of sabotage materially disable my plant?"

The vulnerable points differ with the various types of industry. Sources of power, water and raw materials are vital to a majority of plants. Telegraph and telephone companies consider cable concentrations, emergency power units, and operating floors as vulnerable points. Hydroelectric power companies consider penstocks, generators, bus structures and switchyards as of primary importance, whereas railroad companies pay particular attention to bridges and tunnels. Thus, each industrial concern or public utility can easily compile a list of the materials, products or areas that are most necessary for continued operation and which require primary protection. When these facilities are at fixed points and cover a large area, maps and diagrams should be prepared definitely indicating the location of each.

HAZARDS

In considering the security of an industrial unit, the manage-

ment should realize that knowledge of all hazards may be considered as helpful to any foreign-controlled plan of sabotage. Whether an industrial unit has been destroyed by neglect or by intention is immaterial when considering the loss of the plant to American industry during a time of emergency. Likewise, a condition which constitutes a hazard to the personnel is usually as dangerous as a saboteur who may attack and attempt to so injure the personnel that the plant production will be curtailed. Thus, a survey should include the observing and removal of all fire hazards and all safety hazards constituting a danger to the plant itself or to the personnel employed therein.

PERSONNEL

Managers should consider the personnel as the most important factor in plant protection. Disloyal employees are in a better position to commit sabotage and espionage than a non-employee. Employees and former employees have a complete working knowledge of the plant functions and are in possession of authentic information which enables them to strike at the vulnerable points of the industry with which they are familiar.

In contrast to these individuals, loyal employees may readily assist in protecting the plant properties as well as reporting overtures made to them by foreign agents. It should be considered, however, that the efficiency of loyal employees performing these patriotic duties is entirely dependent upon the training that has been afforded

them and the instructions they have received.

It is, therefore, deemed advisable for all plant owners to establish schools so that all employees, particularly those in supervisory capacities, may receive instructions as to their duties in connection with the protection of plant properties against foreign-controlled sabotage or espionage.

Foreign agents will make every effort to obtain employment in an important plant or a plant producing confidential material. Applicants should, therefore, be carefully investigated before actual employment.

APPLICATION FORMS

An added precaution against the employment of a foreign agent is the adoption of a suitable application form. Such a form should be executed by all present and future employees and should include the following information:

- (1) The employee's full name and present address.
- (2) The personal history of the employee, including:
 - (a) Place of birth
 - (b) Nationality
 - (c) Parents' birthplace
 - (d) Wife's maiden name
 - (e) Wife's birthplace

Women employees who are married should be requested to give:

- (a) Their maiden name

- (b) Their husband's full name
- (c) Their husband's birthplace
- (d) Their husband's employment.

- (3) If foreign born, the name used when entering the United States, the name of the ship, and the port of entry.
- (4) Citizenship. For those employees who are naturalized citizens, the following should be secured:

- (a) Dates when and places where citizenship papers were obtained
- (b) Method of obtaining citizenship.

The applicant should be required to exhibit his or her naturalization papers if foreign born and naturalized.

- (5) Names and addresses of the employee's immediate family, including immediate relatives of husband or wife. This information should specifically include the names and addresses of all members of the employee's family who may be residing in foreign countries.
- (6) Education, specifying names of all elementary, grade and high schools as well as colleges, universities and higher educational institutions attended, giving their locations, periods of attendance and courses pursued.
- (7) Former employment. This should include a list of

all places where the employee formerly worked, together with a statement as to the type of work performed, the period of employment and the reason for the termination of employment. Date and place of any Civil Service employment should also be set out.

- (8) Military or naval experience, including both domestic and foreign. This should also include information as to the reason for the termination of such service, when and where enlisted, when and where discharged, what branch, and serial number of enlistment.
- (9) The names of all relatives employed in the Government service of the United States or in the service of any foreign country.
- (10) A list of all organizations to which the employee belongs, other than labor unions.
- (11) A statement as to the employee's whereabouts and activities during the period from 1914 to 1918, inclusive.
- (12) The employee's Social Security number.
- (13) At least three references, excluding relatives.
- (14) Identity of the person, giving relationship, who should be notified in case of emergency.
- (15) A statement as to whether the applicant has been arrested and, in the event that he has, information as to the date, place of arrest, and the

offense charged, including the disposition thereof.

Using this application form as a basis, all present employees in key or confidential positions should be sufficiently investigated to establish nativity, status of naturalization if foreign born, and degree of patriotism.

Prior to employment, an official should interview the prospective employee, using the employee's application form as a basis for the interview. All the information on the form should be discussed and examined with the employee to determine its correctness. The date of birth should be compared with the school record. Employment dates should be compared with the statement as to the applicant's whereabouts from 1914 to 1918, inclusive. If foreign born, the date of entry into the United States should be compared with the employment record, and dates and places of naturalization should also be compared with the other information contained in the form.

Where physical examinations are given, the medical report should be compared with the application form for inconsistencies. Much of the information may be verified by form letters to such places as schools and former places of employment.

SOURCE AND SELECTION OF PERSONNEL

It is believed desirable to request all persons applying for employment to execute the proposed application form. These application forms should be filed according to the position desired or the qualifications of the applicant. Thus, the plant personnel official may refer to

the application forms on file when it becomes necessary to fill vacancies that have occurred. Men who own their homes and have resided in a community for a considerable length of time are less liable to be connected with or controlled by a foreign government. The employment of local residents also simplifies personnel investigations.

RULES FOR EMPLOYEES

A complete set of rules to be followed by employees should be prepared and each employee should be fully advised as to the provisions of such rules at the time of employment. A printed copy of the rules should be submitted to the employee at the time of his employment, for his signature. Printed copies of the rules should be given each employee or posted conspicuously throughout the plant so that all employees may refer to them from time to time. A copy of the Federal Espionage and Sabotage Statutes should be conspicuously posted for the attention of the employees. A strict compliance with all rules should be required.

MORALE OF EMPLOYEES

Inasmuch as the strict rules which may be necessarily imposed upon employees and the supervision to which they will be subjected during a national emergency may have a tendency to arouse in certain employees a feeling of resentment, it is necessary that an intelligent and constant effort be made to keep the morale of all employees at a high level. Suggested means of accomplishing this are the use of posters, the circularization of plant publications, publicity in local newspapers

and employee meetings. All possible means should be used to develop in each employee the realization that his work at the plant is of a highly confidential nature and that it is very essential to the national defense. The necessity for strict secrecy and for the protection of the plant from the operations of enemy agents should be constantly pointed out in an endeavor to cause employees to appreciate the reason for the strict rules and supervision to which they are subjected. Publicity will be valuable not only in making employees amenable to the discipline at the plant but also in encouraging individual employees, acting through a spirit of patriotism and loyalty, to report to the management suspicious instances which they may personally observe or persons whom they may suspect of espionage or sabotage activities.

CHECK OF ABSENTEES

A check should be made each day with respect to each employee who is absent from duty to determine the reasons for his absence or to verify them. Such a check may be conducted in some instances by a telephone call to the employee's home or by personal contact with him or members of his family. Any employee who is absent from the plant without a legitimate excuse should be looked upon with suspicion and a careful investigation should be made to determine his activities during his absence. This is especially true where the employee is found to have secretly traveled to another city or a foreign country.

MOVEMENTS OF EMPLOYEES WITHIN THE INDUSTRIAL UNITS

An employee who desires to leave the unit in which he is

employed for the purpose of visiting another unit for personal or official reasons should secure a pass from his foreman. This pass should reflect the name of the employee and the purpose of his visit to the other unit and should be time stamped, indicating the time of departure from the unit to which he is assigned. This pass should be presented to the guard on duty at the entrance of the unit to be visited, or if no guard is present, to the foreman of that unit. The guard or foreman of the unit being visited should time stamp the pass and return it to the employee when he leaves the unit, noting the time of his departure. It should then be returned to the foreman from whom it was originally obtained. He should indicate the time of the employee's return to the unit in which he is regularly employed. These passes should be made a matter of permanent record.

It should be definitely understood among the employees that any employees who are found in an area other than that to which they are assigned, without the proper authorization, will be subject to drastic disciplinary action.

An employee who desires to leave the plant prior to the termination of his shift should obtain a pass from his foreman stating the reasons for his departure, which pass should be delivered by the employee to the guard on duty at the gate. The guard should note the time of the employee's departure and should also note the time of his return in the event that he does return to the plant prior to the expiration of the shift on duty. Upon the employee's return, he should

be admitted in the usual manner and required to present his badge and identification card.

REST ROOMS AND CAFETERIAS

Rest rooms, recreation rooms and cafeterias should be so located that it is unnecessary for employees, in order to reach them, to proceed through areas other than those to which they are assigned.

LOCKER ROOMS

Employees should be furnished with locker rooms and requested to change their clothing and leave their lunch boxes in these rooms. Clothing and lunch boxes should not be permitted to remain in or near important areas of the plant.

EMPLOYEES' ENTRANCES

Obviously a guard should be on duty at each employees' entrance and should identify the employees when they enter the plant. This may be accomplished most effectively by requiring each employee to exhibit his identification card and badge. In those cases where the guard at the gate may be suspicious of an individual entering, he may closely examine the suspect's credentials and, if still in doubt, communicate with the personnel office for positive identification.

It is difficult for a single guard to check the credentials of employees entering in more than one line. It is, therefore, desirable to so construct the entrance gates that the employees must enter single file. If desired, provisions may be made to enable several lines of employees to enter through each gate. If this method is employed,

separate guards should be assigned to each line.

Employees should be assigned a gate number and should always enter and leave the plant through that gate only.

PHYSICAL PROPERTIES TO BE CONSIDERED DURING A SURVEY

During the survey, consideration should be given to all possibilities of unauthorized persons gaining entrance to the plant. Persons who may attempt to enter through regular entrances will be discussed under the caption of "Guard Force Systems."

Sidewalk elevators, coal chutes, skylights and outside fire escapes may be used to gain entrance. Appropriate action should be taken to guard against such entries being used improperly.

Factories should consider, among other things, water frontage, railroad right of ways, outside windows facing sidewalks, storm sewers and unfenced areas. Adequate fencing, screening and illumination are the three most important factors in the prevention of unauthorized entry. Gates should be installed over spur tracks and attended by guards at such time as they may be open. Windows, skylights and other openings available for entrance may be covered with heavy screen to prevent an intruder from gaining entrance.

FLOODLIGHTING

No plant area should be so poorly lighted as to enable a trespasser to proceed to any point within the plant premises without readily being observed by the guards on duty. All exterior floodlighting

systems should be installed within the fenced area for its protection and should particularly illuminate the areas immediately surrounding all buildings. The interiors of plants should also be adequately illuminated at night.

AUTOMOBILES

To properly protect a plant, it is necessary to positively identify all persons entering, and, in all instances, it is desirable to definitely ascertain the contents of all packages being brought in by persons entering in automobiles.

It is therefore advisable, when practicable, to establish parking areas for employees' cars. These parking areas should be enclosed by adequate fencing if within the plant area, thus making it necessary for the employees to enter through pedestrian entrances. Parking areas should not be adjacent to vital plant units.

SHIPPING AND RECEIVING PLATFORMS

Plant owners should consider the possibility of establishing receiving and shipping platforms near the boundary line of the plant property so that it will be unnecessary for delivery men to enter the plant proper when making deliveries. Platforms so situated relieve the guard force of the necessity of accompanying trucks which otherwise would be required to enter the plant area.

DELIVERY TRUCKS

In those factories where it is necessary to admit delivery trucks, a truck register should be established. To do this, it is

necessary to designate certain gates to be used by trucks. The guard at the truck gate should, prior to admitting a truck, record the following information on a proper form.

- (A) Date and time of entrance
- (B) License number of the truck
- (C) Signature of the driver
- (D) Signature of the helper
- (E) Name of the owner
- (F) A brief description of the materials carried
in the truck
- (G) Time of departure

To conform with the suggested badge regulations, a temporary badge should be issued to truck drivers upon entering the plant. This badge should clearly indicate that the wearer thereof is a truck operator and not a regular employee.

When it is deemed necessary, an employee should accompany truck drivers to the point where they will discharge materials being brought into the plant.

No persons other than bona fide helpers should be permitted to accompany any truck driver when making a delivery inside the plant.

PRECISION TOOLS

Technical and precision tools should receive the utmost protection. The loss or damage of such tools may retard or stop production entirely until the tool has been replaced. Precision tools

may also be of interest to a foreign government which may be contemplating the production of similar equipment.

It is therefore suggested that all technical and precision tools be maintained in a separate room or in a well-screened area. This area should be considered as restricted. An attendant should be on duty in the tool room at all times when such tools are being used and should maintain a detailed charge-out system. The guard force should consider the tool room as a vulnerable point at such times as an attendant is not on duty therein.

RESTRICTED AREAS

In practically every industrial plant or utility that may be subjected to the acts of sabotage or espionage agents, there are certain areas where particularly vulnerable facilities exist or where confidential information or materials are kept. These areas should be considered as "restricted" and only those members of the personnel who are regularly employed within such areas should be admitted to them. In those areas where material is being manufactured for the War and Navy Departments, visitors should not be admitted to the restricted areas unless upon the express authorization of a Government Inspector.

TELEPHONES

Employees should be discouraged from receiving other than emergency personal telephone calls at the plant. Telephone messages that are unimportant should be transmitted in written form by messenger to the employee. Emergency calls for employees should be received by

the employee in his foreman's office.

Extreme care should be exercised in transmitting information by telephone.

EXPLOSIVES

Explosives should be stored in a place where a minimum of damage would result if an explosion occurred. Safe storage of explosives is usually accomplished by providing a fireproof magazine beneath the surface of the ground. Thus, if an explosion occurs, the possibility of damage will be limited. Such a magazine should be securely locked and frequently visited by the patrol guards. A daily inventory should be taken to assure that any theft will be brought to the attention of the plant officials immediately.

CONFIDENTIAL DOCUMENTS

PLAN OFFICE

It is highly desirable that plants working on confidential material have a Plan Office, preferably located in the main administration building. All confidential items such as blueprints, photographs, accounts, formulae, working models, performance charts, confidential reports and confidential communications should be stored and protected in this office. Such an office should be adequately protected by the plant guard service at all times. It is suggested that it be illuminated by floodlights during the nighttime to prevent a trespasser from approaching it unobserved.

All materials maintained in this office should be kept in fireproof containers equipped with suitable locks. Each confidential document should be serialized and a record kept of the number of copies of each. There should be established a rigid charge-out system which would account for the location of all copies at all times. A trusted, well-informed employee who has been thoroughly investigated should be in charge of the Plan Office and he should be held directly responsible for all materials contained therein. He should report directly to the plant protection official. In those plants where confidential blueprints and such items are maintained by the construction or designing engineer, the employee in charge of the Plan Office should be under his supervision.

A small item of a confidential nature should not be included in or attached to a large or voluminous document. To prevent an unnecessary burden on the part of clerical employees and to insure greater protection to confidential material, confidential supplements should be prepared, where practicable, for documents which are otherwise non-confidential. There should be no reference in the non-confidential material indicating the existence of a confidential supplement.

When a plant official, foreman or other employee has a legitimate reason to secure a blueprint, plan or other confidential item, he should submit an appropriate request to the Plan Office, whereupon, if deemed advisable, the necessary material should be issued to him and a charge-out slip prepared, which slip should bear the name of the

individual requesting the item and should be signed by this person at the time he receives the material. The date and time the material is charged out should also be noted on this slip. Any such item should be retained by the employee only as long as it is absolutely necessary and should then be immediately returned by him to the Plan Office where an appropriate notation will be placed on the charge-out slip indicating that the material has been returned and designating the time it was returned. In any event, no such confidential material should be retained in the possession of any employee after the shift on which he is employed is completed. It should then be returned to the Plan Office, regardless of whether the employee has finished with it, and may again be secured by him on the following day. Any negligence or lack of judgment on the part of a Plan Office employee in the handling of such confidential material should result in strict disciplinary measures.

The charge-out records should be maintained permanently either in the Plan Office or in the office of the plant protection official so that at any future date information can be obtained as to all employees who had access to a particular plan, blueprint or other confidential matter, and likewise information can be secured as to all materials which have been handled by a particular employee.

All employees should be strictly prohibited from making sketches or copies from blueprints or other confidential materials for their personal use as differentiated from the official use of the

plant. Where practicable and possible, plant protection officials should install a careful system of checking all photographic, photo-static and other types of reproduction material. Consideration may be given to the use of a requisition system showing the specific number of copies to be made, the distribution to be made of the copies, and a check, if possible and practical, of all spoilage, improperly exposed copies and prints, and other wastage in the reproduction processes.

On such occasions as it may be necessary to take confidential blueprints, plans or other material from the plant for the purpose of having copies made or for any other purpose, they should be appropriately charged out to the person taking them from the plant and should be accompanied at all times by a member of the plant guard force, who will remain with them during the process of copying or other action. Such confidential materials may be taken from the plant only upon the specific authorization of the plant protection official. Extra copies of blueprints or plans may be kept in the possession of plant officials, but special care should be exercised to afford these copies protection from persons engaged in espionage.

SAFES

Small safes that can be carried away should never be used for confidential documents. If small safes are employed they should be encased in a wall or a floor in concrete to prevent the possibility of their removal. A safe door should never be closed if it is to remain unlocked. Keys to inner doors should never remain in the locks.

Combinations to safes and keys to important areas should, of course, be issued only to responsible persons. Important locks should not be capable of being opened by master keys.

Upon the termination of employment of an employee having had keys or combinations to locks on important places, both the locks and combinations should be changed.

Newly appointed employees should not be trusted to transfer an important key from one person to another.

Locksmiths, when working on a safe should be requested to arrange the combination in such a manner that it may be changed by an official of the plant to a combination that is unknown to the locksmith. When in doubt as to the safety of a combination of a safe, the safe should remain empty and open until such time as the combination has been changed.

HANDLING OF MAIL

All mail sent from the plant should be handled by one or two trusted clerks who should be designated to inspect all outgoing mail before sealing and stamping it. All letters prepared in the plant should be directed to the mail clerks for inspection to determine that no improper material is included in the letter. They should then be placed in the appropriate envelopes, sealed, stamped and placed in mail pouches, which in turn should be sealed by the mail clerk and delivered to the Post Office or retained in his custody until called for by the Post Office truck.

Incoming mail should be received at the appropriate receiving station which should be located at a point removed from any vital area in the plant. When received, the mail should be carefully examined and particular attention should be directed to packages received which may contain material designed to injure the plant. All mail after having been properly checked in the receiving station should then be delivered to the appropriate officials of the plant. Any threatening or suspicious letters received at the plant should be protected to preserve latent fingerprints and should be placed in envelopes by the receiving officials and immediately transmitted to the plant protection official so that they may be delivered to the local office of the Federal Bureau of Investigation. Incoming mail marked "Personal and Confidential" should not be opened by the mail clerk but should be delivered by him personally to the officer to whom it is addressed. Outgoing "Personal and Confidential" mail should be sealed by the author or his secretary before sending it to the mail room.

DISPOSAL OF WASTEPAPER

All wastepaper should be collected and disposed of in the plant area by means of an incinerator or shredding machine. Under no circumstances should wastepaper be taken from the plant area to be disposed of or sold as junk. Particular care should be taken during the disposal of wastepaper from the drafting or photostating rooms where confidential specifications, plans or diagrams may be prepared.

JANITORS AND CHARWOMEN

The opportunities of janitors and charwomen to obtain confidential information should not be overlooked. It is to be realized that these employees are in the lower salary brackets and do not require any special training or experience to obtain such employment. It is to be further realized that these employees have access to all departments of the plant, usually during such times as the regular employees are not on duty. It is therefore necessary to instruct the members of the guard force to make irregular observations of these employees during the course of their duties to remove the possibility of their obtaining confidential information in the plant and selling or transmitting it to foreign agents. Nothing in this section should be interpreted to mean that because of their positions they should be under greater suspicion than any other employees.

IDENTIFICATION SYSTEMS

In conformance with the suggestion that all employees in a factory assist in protecting that factory, it is further suggested that a system be established wherein employees may readily recognize an outsider or an employee who may be within an area of the plant without authority. To enable employees to efficiently assist in this manner, the adoption of a badge system in plants having a large number of employees is absolutely necessary.

IDENTIFICATION BADGES

In designating badges to be used, it is suggested that consideration be given the adoption of a combination color scheme and number system which will clearly indicate to all persons observing the badge, the Department in which the wearer is employed, his authority to enter certain portions of the plant, and his payroll number. This may be accomplished through the adoption of one of several systems.

The most practical, perhaps, is the use of a badge having two or more colors, one color to indicate the Department in which the wearer is regularly employed and the second color to indicate the privileges extended to that employee insofar as entering restricted areas in the plant is concerned. The number on the badge may be identical with the employee's payroll number. It is not suggested that these numbers be identical with the employee's employment number, in view of the fact that such numbers consist of several digits.

Plants adopting a badge system should establish definite rules regulating the use of the badges. These rules should provide for the following:

- (A) That the badge be worn in a uniform place on the outside of the employee's clothing.
- (B) That all persons wear a badge when within the confines of the plant property.
- (C) That all visitors be issued a temporary special badge when entering upon plant property.

- (D) That all official and administrative personnel wear badges at such times as they are on the plant property other than in the Administrative Buildings.
- (E) That all employees and members of the guard force be advised that there are to be no exceptions to these rules and any person observed in the plant without proper identification, irrespective of official rank, should be immediately reported to a member of the guard force.
- (F) That employees reporting for work without their badges will be instructed to return to their residences for them.
- (G) That a suitable penalty be inflicted upon any employee losing his badge.
- (H) That all employees are responsible for the enforcement of these rules.

Plant officials should, under no circumstances, consider themselves as being exempt insofar as these rules are concerned and may consider the desirability of making irregular checks on the effectiveness of the badge system by attempting to enter the plant or restricted areas without their badges attached to their clothing as provided for in the regulations. If plant officials find this possible, appropriate corrective action should be taken. This policy will definitely indicate to members of the guard force and all employees that no one is exempt

and that there are no exceptions to the company rules covering the admission of officials, employees or visitors to the plant.

IDENTIFICATION CARDS

Appropriate identification cards should also be issued to each employee. Identification cards should contain the following information:

- (A) The full name of the employee
- (B) Address
- (C) Brief description consisting of age, weight, height, color of hair, and color of eyes
- (D) Photograph
- (E) Signature of the employee
- (F) Signature of the official issuing the identification card.

Similar to the suggestions set out above covering badges, a color scheme may also be used in connection with identification cards to indicate an official status or the privileges that are to be extended to the holder thereof.

All identification cards should be so manufactured that it is impossible for a person who may find a lost card to remove the photograph therefrom and attach one of himself or in any other way effectively alter the card. This is accomplished by means of several patented processes as well as by attaching the photograph to the card with a company seal or stamping the card with a company stamp in such a manner that the impression partially covers the photograph.

VISITORS

All persons who are not employed in a plant should be considered as visitors. This group includes utility repairmen, vendors, salesmen and other individuals who may occasionally desire to enter the plant property.

Before a visitor is issued a badge he should be required to execute a form giving the following information:

- (A) Date and time of entrance
- (B) Full name
- (C) Address
- (D) Purpose for entering the plant
- (E) Person to be interviewed
- (F) Area of the plant to which he desires admittance
- (G) Time of exit
- (H) An agreement to comply with all rules and regulations while within the confines of the plant property.

These cards should be filed for future reference in the event that it becomes necessary to conduct an investigation relative to the persons who may have visited a plant on a certain date.

Under no circumstances should a visitor be permitted to enter a plant unaccompanied. In those cases where an interview is desired, a plant employee should conduct the visitor to the person to be interviewed. The employee interviewing the visitor should then be responsible for the return of the visitor in a similar manner to the exit.

Visitors should not be permitted to carry cameras into a plant. Such persons may attempt to take photographs of restricted areas or the camera may contain explosives or other damaging materials which the carrier may attempt to deposit at some vulnerable point.

Visitors should not be permitted to carry uninspected packages into the plant. Should it become necessary for salesmen or other persons to enter a plant while in possession of packages, these packages should be inspected by an employee prior to the time that a visitor's badge is issued.

Likewise, it is not desirable to permit visitors to drive their own automobiles into a plant. It is suggested that appropriate parking space be provided near the gate leading to the Administration Building where visitors may leave their cars before entering the plant property.

SUB-CONTRACTORS

Sub-contractors and their employees should be subject to the same rules and regulations as are the regular employees. A badge should be issued for each of these employees, the color indicating that the wearer is an employee of a sub-contractor.

GUARD FORCE

ORGANIZATION

The entire guard force should be under the direction, supervision and control of a plant official who is charged with the handling

of plant protection. This official should be empowered with sufficient executive authority to purchase and install the necessary protective services and to hire or discharge members of the guard force.

The actual supervision of the guards should be under the control of an employee acting in the capacity of "Chief of the Guard Force." It may appear that the duties of these two individuals are identical. This is not true, however, as the Chief of the Guard Force will be responsible for the discipline, duties and assignments of the members of the guard force, whereas the plant protection officer should be the company official to whom the Chief of the Guard Force reports.

There should also be one man designated as being in charge of each shift. In smaller plants the Chief of the Guard Force may personally supervise one shift, preferably during the daytime. In larger plants, however, it is felt that an individual serving in the capacity of a Lieutenant or Captain should be assigned to each shift, in addition to the Chief of the Guards.

To properly supervise guard forces having an exceptionally large personnel, it may be desirable to appoint non-commissioned officers to assist the commissioned officers in charge of each shift.

Those industrial concerns operating several plants in a relatively small area should consider the advisability of appointing a Chief of Guards having jurisdiction over the guard forces in all plants, thus bringing the total guard personnel into one organization and under one head. By designating a Chief of Guards for such an organization,

it is possible to obtain applications from higher type men for these duties due to the likelihood of higher salaries being paid. This will also permit the organization to develop a guard system that is much more flexible in view of the added number of personnel under a unified supervision.

QUALIFICATIONS

In selecting persons for employment as guards, complete information should be obtained as to the applicant's personal history, education, past employment, citizenship, membership in societies and organizations, reputation, and background, as well as all other information which is set forth in the suggested application form for use in connection with the hiring of all employees. Particular attention should be given to any indebtedness of the applicant. Superior officers should submit to the Chief of Guards, not later than thirty days after the initial employment of any guard, an efficiency rating reflecting the guard's abilities as indicated by his performance of duties for that period. Similar efficiency reports should be submitted semi-annually so as to enable the Chief of Guards and the plant protection official to consider the proper persons for advancement when vacancies in superior positions occur.

In submitting efficiency reports, the following qualifications should be among those considered:

- (A) Loyalty, integrity and honesty.
- (B) Intelligence.
- (C) Knowledge of duties.
- (D) Physical fitness.
- (E) Alertness.

- (F) Ability to handle and control people.
- (G) Ability to obtain the assistance of all employees in the protection of the plant against espionage and sabotage.
- (H) Tact and diplomacy.
- (I) Ability to maintain secrecy in connection with confidential official matters.

NUMBER OF GUARDS REQUIRED

To assist in arriving at the total number of guards necessary to properly protect a plant, the following factors should be considered:

- (A) Number of pedestrian, automobile, truck and railroad gates and the hours they are open.
- (B) Approximate number of visitors admitted to the plant daily.
- (C) Wharves to be guarded and protected.
- (D) Number of patrol beats necessary to cover the entire area of the plant and grounds.
- (E) Number of restricted areas.
- (F) Necessary guard for the Plan Office and other areas where confidential information is kept.
- (G) Visitors' and Applicants' Reception Rooms.
- (H) Vulnerable points, including electric, gas, steam and water lines.
- (I) Pump and power houses.

- (J) Number of gangplanks, if in a shipyard.
- (K) Number of investigators necessary for applicant investigations.
- (L) Employees' automobile parking space.
- (M) Days off, Sundays and vacations.

Consideration should be given to any intended increase in the total number of employees during a plant expansion program; also to possible increases in employees, designed to bring the plant to a maximum capacity of production.

If the conditions referred to in the preceding paragraph are likely, it is suggested that a list of reserve guards be maintained. These guards should be properly trained and available, if and when the guard force is expanded, or to serve during emergencies. It is suggested that reserve guards consist of employees who are otherwise employed in the plant and who may be used temporarily for guard duty, or, if necessary, permanently appointed to the guard force.

TRAINING

To serve more efficiently, all members of the guard force should be afforded training in schools conducted by plant officials or law enforcement officers whose experience makes it possible for them to conduct training along well regulated lines and particularly in modern methods of plant protection.

The following subjects may be considered in arranging a curriculum for training schools:

- (A) Duties and responsibilities of plant protection employees.
- (B) Discipline, loyalty, tact, alertness and appearance.
- (C) Promptness in reporting irregularities.
- (D) Note taking on the part of plant protection employees.
- (E) Searches of persons.
- (F) Searches of places.
- (G) Protection of the scene of a crime.
- (H) Patrol and guard duty.
- (I) Supervising visitors at the plant.
- (J) Personal descriptions.
- (K) Arson.
- (L) Bombs and explosives.
- (M) Plant organization and records.
- (N) Fire prevention and the use of fire fighting equipment.
- (O) Plant rules.
- (P) Rules and regulations for the guard force.
- (Q) First aid.

This training program may be extended over a considerable period of time so as not to unnecessarily inconvenience or make it burdensome to the members of the guard force.

RULES AND REGULATIONS

A comprehensive set of rules and regulations covering the

activities of the guard force should be prepared by the Chief of the Guard Force in collaboration with the plant protection official. These rules should cover all of the duties to be performed by the guards in the protection of the plant and should definitely fix responsibility. They should not, however, be so inclusive and comprehensive as to eliminate the necessity for individual alertness, initiative and judgment on the part of the guard personnel. It should be definitely and forcefully brought to the attention of all members that the rules are intended to serve as a guide and that the success or failure of the guard will depend upon his personal qualities and initiative.

Copies of these rules and regulations should be furnished to each member of the guard force.

UNIFORMS AND IDENTIFICATION

The members of a plant guard force should be provided with appropriate uniforms to wear while on duty. In addition, each member should be provided with an appropriate badge. Each member should also be provided with a pass or credential card similar to that provided other employees at the plant.

KEYS

It will be necessary for certain members of the guard force to have available for their official use, keys to various locks in the plant. A set of such keys when issued to an employee should be systematically charged out with the understanding that they are never to be taken from the plant property. At the conclusion of the guard's

tour of duty, such keys should be deposited at guard headquarters and a notation made as to their return. When keys are lost, immediate arrangements should be made for the changing of locks to prevent unauthorized persons who may come into possession of the keys from using them for the purpose of espionage or sabotage.

SHIFTS

The tours of duty for guards should be considered from the standpoint of physical fitness, alertness and greatest efficiency. The changing of guard shifts is dependent upon the operation of the plant and should not be identical with the time that other employees change shifts. It is preferable for the guard shifts to change at least one hour in advance of the other employees.

Officers reporting for duty should report to the officer in charge of their shift at headquarters where they should receive their orders and obtain their equipment. The reporting officers should then proceed to their assigned stations and relieve the guards presently on duty, after which the departing officers should report to the officer in charge at headquarters where they will submit written daily reports and check in any equipment they may have assigned to them. Guards who are assigned to confidential or restricted areas, upon being relieved should conduct, with the guard coming on duty, a joint inspection of all safes, locks and doors to insure their being in good condition at that time. This inspection will fix responsibility and protect an innocent guard from being charged with the negligence of

a guard he has relieved. Officers in charge of shifts should confer with relieving officers and impart to them all information necessary which pertains to important occurrences during the shift which is terminating.

COMMUNICATION SYSTEMS

There are numerous types of communication systems which may be satisfactory for use by a guard force. Any communication system which includes the ability to positively identify the voice of a guard calling in; the ability for the officer in headquarters to summon any or all guards on patrol; and the ability for the officer in headquarters to definitely ascertain the location from which the call is being made is considered as being adequate. There are numerous patented automatic registering devices which embody all of these features.

Irrespective of the type of communication system adopted, all members of the guard force should be required to communicate with headquarters at regular intervals, not to exceed one hour, and a permanent record should be kept which reflects the time of each call made by each member of the force. In those cases where a guard fails to call at the specified time, an immediate investigation should be conducted to ascertain whether the guard has been the victim of foul play. The time of call should be varied from day to day to prevent an observer from anticipating the exact time when the next call is to be made.

DUTIES AT FIXED POINTS

Sufficient guards should be designated for duty at each of

the gates and entrances to the plant. A sufficient number of guards should be assigned to duty at each gate to enable an individual check of the credentials and badges of each employee entering that particular gate. The guards at the employees' entrances should also maintain a check room for packages belonging to employees. The functions of such check room are described in detail elsewhere in this pamphlet.

Intoxicated persons should not be permitted to enter the plant under any circumstances. All guards should be instructed that regardless of the identity of an individual, NO EXCEPTIONS TO THE RULES GOVERNING PASSES, BADGES AND IDENTIFICATION CARDS WILL BE TOLERATED.

INCOMING FREIGHT CARS

A guard should immediately inspect all empty box cars coming into the plant to insure against itinerants and other unauthorized persons gaining admittance to the plant in this manner. A careful inspection of these cars should also be made for dangerous materials such as explosives and combustibles.

LOADING PLATFORMS, RAILROAD SIDINGS AND WHARVES

Guards should be on duty at all loading platforms, railroad sidings and wharves where material or equipment is being received or shipped. Guards should prevent unauthorized persons from loitering near these points and should closely observe the loading or unloading operations whether conducted by plant employees or outside concerns.

A guard should also supervise the sealing of railroad cars to determine that no unauthorized or damaging materials may be contained

in them at the time they leave the plant. Railroad cars loaded with important or confidential material which have been moved from the plant property to a siding awaiting removal by a railroad company, should also be protected by a member of the guard force until such time as the railroad company assumes control over such a car.

DUTIES OF GUARDS ON FOOT PATROL

Guards assigned to foot patrol duties should be thoroughly familiar with the entire plant and particularly the location of dangerous and especially hazardous materials as well as the location of all restricted areas where confidential work is in progress, confidential plans or specifications are kept, and where vulnerable points exist. He should thoroughly understand the purpose and should know the location of all important sprinkler, steam and gas line valves, and all main electric switches. He should thoroughly understand the proper operation of this equipment during fires or explosions.

He should be thoroughly trained in fire prevention and should immediately report the existence of fire hazards. He should understand the operation of all fire fighting equipment and be thoroughly familiar with its location. He should understand first aid methods and should know the location of the first aid equipment in all sections of the plant. All guards should be particularly alert for the observance of unauthorized persons within the confines of the plant and for employees who are in areas of the plant other than those which they are authorized to frequent. The areas to be patrolled by guards should be divided and assigned

in accordance with the equipment or materials in those areas. Particular attention should, of course, be given to areas which would most likely be the objects of sabotage and espionage agents. Guards on patrol duty should not adopt a routine course of patrol, but should vary their patrol routes to prevent the possibility of their appearance at a particular point being anticipated.

Patrol guards should inspect all fences to determine whether attempts have been made to either cut the fence or tunnel underneath. Particular attention should be given to foreign objects near the fence either on the inside or the outside. Such materials may consist of equipment for climbing over the fence or materials which may be used to commit an act of sabotage. They should also inspect all locks to gates and doors on their respective patrols and immediately report any conditions that are at variance with the conditions as provided for in their instructions or the rules and regulations.

Consideration may be given to the use of automobiles, motorcycles, horses and trained dogs by patrol guards in plants covering extensive areas. In large plants, patrol areas assigned to guards should be changed frequently to insure each guard becoming familiar with the entire plant property. This will also provide for an automatic check on the ability of each guard and will minimize the possibility of guards performing their duties in a routine manner.

DUTIES DURING FIRES

A fire or a fire drill in an industrial factory presents an

excellent opportunity for espionage and sabotage agents to become active. Guards whose services are not necessary at a fire should remain at their posts of duty and be particularly alert for suspicious occurrences. If buildings are completely empty during fire drills a sufficient number of guards should remain in the buildings to protect them during the absence of the regular employees.

REPORTS

Unusual occurrences requiring immediate action should, of course, be reported orally to the officer in charge of the watch. At the conclusion of each shift all guards should submit written reports outlining the duties performed by them, setting out in detail any unusual circumstances which may have been observed and particularly instances indicating carelessness on the part of employees. This practice makes it possible for plant officials to take the proper steps to prevent the recurrence of such derelictions.

All reports should be read and initialed by the Chief of the Guard Force before they are filed. The Chief should prepare a daily summary for the information of the Plant Protection Officer. This summary should include a brief synopsis of all unusual occurrences for the preceding twenty-four hours and should indicate any action taken or instructions issued in connection with each.

PACKAGES

Employees who desire to remove packages from the plant should be requested to affix their names and badge numbers thereto and present

the packages to their foreman for inspection. The foreman should inspect the package to ascertain that the material contained therein is of a personal nature and, after affixing his initials thereto, should arrange to have the package transported to the gate by a messenger where the guard will hold it in a check room until it is called for by the owner upon leaving the plant property at the termination of his shift. Passes for packages should not be issued directly to employees desiring to remove a package from the plant as this affords the employee an opportunity of including unauthorized materials in the package prior to actually taking it from the plant.

Employees should be afforded the privilege of checking packages with the guard at the gate when reporting for duty. This procedure will prevent the necessity of the foreman inspecting packages which may be carried into and out of the plant on the same day.

GUARD HEADQUARTERS

An office should be provided for the headquarters of the guard force which should be located in a convenient place and in which all activities of the police force are centered. This office should never be left unoccupied. The officer in charge of each shift should remain in headquarters except on those occasions when it is necessary for him personally to attend to matters in other sections of the plant. At such times as the officer in charge leaves the headquarters a subordinate should be designated to remain in headquarters for the purpose of receiving telephone calls and taking any immediate action that may

be necessary. Auxiliary records for the police force should be maintained in the Guard Headquarters. The permanent and confidential records should be maintained in the office of the plant protection official. Lockers should be provided in the guard headquarters for each of the guards employed at the plant and additional lockers should be provided for equipment.

There should be available in the guard headquarters all telephone numbers which may be used in emergency, including the following:

- Plant protection officials
- Plant electricians and plumbers
- Plant fire chief
- City fire department
- Local police department
- Service departments of gas, water and electric companies
- Telephone numbers and addresses of all plant guards
- Nearest office of the Federal Bureau of Investigation,
- United States Department of Justice

There should also be located in the guard headquarters, the controls for all alarms, floodlights, fire prevention systems and communication systems for the guard force. Direct communication should be provided with each of the gates, with the office of the plant protection official and with outside contacts such as the local police and fire departments.

FIRE PREVENTION

Although it may be desirable in extremely large plants to organize a fire brigade separate and apart from the guard system, it is believed desirable in most instances to organize a fire brigade to come under the supervision of the Chief of the Guard Force. Guards should be schooled in fire prevention as thoroughly as members of the fire brigade.

Employees from each department area and shift should be designated as members of the fire brigade. Thus, a thorough distribution of persons familiar with fire fighting and prevention is assured. All members of the brigade should particularly concern themselves with observing and reporting or removing fire hazards. The chief of the brigade should be given an opportunity to confer with city fire chiefs, fire marshals, or insurance inspectors for current information on fire prevention and the maintenance of equipment. It should be the duty of the Plant Fire Chief to cause frequent inspections of fire fighting equipment to assure its working condition. He should also conduct inspections of the plant to remove fire hazards. At such times as fire insurance inspectors, fire marshals or city fire chiefs inspect the plant, the Plant Fire Chief should accompany them during the inspections and record all suggestions or criticisms. A report should be submitted by the Plant Fire Chief reflecting the findings during such an inspection, and it should be the equal duty of the Fire Chief, Chief Guard and the plant protection officer to provide for necessary corrective measures.

The fire chief or the plant protection officer should confer

with officials of the local fire department and arrange for efficient cooperation between the City Fire Department and the Plant Fire Department in the event that a fire should occur in any of the various parts of the plant. Definite arrangements should be made to provide for the necessary entrance of City Fire Department apparatus into the plant area and a routing plan for the apparatus in the plant area should be definitely established so that it may most effectively proceed to a fire in any designated section of the plant.

Fire drills at irregular intervals should be conducted. The time taken for members of the brigade to reach their designated posts and for the employees to leave the building in which the drill is held should be noted. If the plant has a fire alarm system of its own, periodic tests should be made of its efficiency.

Fire alarm boxes or telephones should be accessible at all times. Rooms in which they are located should be unlocked and all employees should be advised of the alarm box or telephone nearest their station. Adequate exits, fire boxes, and fire escapes should be clearly designated by appropriate signs in corridors, on walls, et cetera. The Plant Fire Chief when present at fires will assume general supervision of operations until the arrival of the City Fire Department, at which time he will give such information as to the exact location and nature of the fire, precautions to be taken, valuable equipment or material subject to damage, et cetera, as he may possess and render whatever assistance may be necessary. The Plant Fire Chief will be familiar

with all activities in plant buildings and know the location of shut-off valves in the various pipe lines, electric switches, and storage spaces for highly combustible or explosive materials. He also should familiarize himself with the location of valuable materials, records, equipment, et cetera, in case there is an opportunity to salvage such materials. He should also familiarize himself, as well as other members of the brigade, with the most effective method of using fire protective apparatus and appliances.

The Plant Chief Electrician and Chief Plumber, or their immediate assistants, should be present with available employees of their respective departments at all fires, prepared to render such assistance in their lines as may be necessary.

Members of the plant who are trained in first aid should report at fires with equipment to render first aid treatment under direction of the staff physician, if needed.

When a fire is reported telephonically to the plant switch-board operator, she should immediately call the Plant Fire Department, the City Fire Department, the Plant Guard Service, and the Plant Protection Officer in the order named. She should furnish to the fire departments at the time of this call the location of the fire as reported to her. She should record the time, location, and the name of the person reporting the fire and submit this material in written form to the Plant Protection Officer.

If a fire is located in any of the buildings not reached

through the usual entrance, the guard at the entrance through which the fire apparatus will pass should be advised of the location of the fire and direct the fire apparatus to the building concerned.

Employees not in the immediate vicinity of the fire, and having no interest therein or not needed to assist in combatting it, should remain in their usual places of employment. Employees previously designated to take specific action in case of fire in accordance with the regular fire drills should proceed to their designated posts.

Employees in the building or part of the building affected and not needed to assist in combatting the fire should leave the building in the interests of safety.

Strict rules governing smoking in a plant should be included in the plant rules and regulations. In those plants where smoking constitutes a hazard, appropriate fireproof rooms or safe areas should be provided for employees to prevent the employees from surreptitiously smoking in dressing rooms and other places which may force them to quickly and secretly dispose of burning tobacco. In plants producing explosives or highly combustible materials, the rules should prohibit the introduction into the plant of matches, tobaccos or other materials incidental to smoking.

HANDLING OF BOMBS AND EXPLOSIVES

As it is possible that bombs or infernal machines may be found in industrial plants, by employees, it is suggested that each plant ascertain the names, addresses, telephone numbers and availability of

explosive experts within their respective communities. Experience has revealed that there is no safe method of handling all types of infernal machines. Perhaps the only suggestions that are applicable in all cases are the following:

- (A) Remain a safe distance from the bomb at all times.
- (B) Consider the protection of life first, and clear the surrounding area of all persons.
- (C) Remove inflammables from the immediate vicinity to prevent the spread of fire in the event the bomb explodes.
- (D) Disconnect all power lines in the immediate vicinity to prevent fire or the "shorting out" of the power lines over a large area.
- (E) Shut off all illuminating gas lines in the area.
- (F) Have in readiness fire fighting equipment.
- (G) Provide for an explosives expert to handle the bomb.

Untold ingenuity is employed in the manufacture of infernal machines. As an indication of the danger in handling bombs, some will explode when moved, due to a trigger or pendulum arrangement, others explode at a specified time by use of a clockwork device, others are connected with lighting circuits so that when the lights are turned on the bomb explodes, while others are equipped with an acid timing device which will cause the bomb to explode if it is submerged in water. These are only a few of the many methods employed. Even these few will illustrate that there is no one method of handling bombs that can be safely employed.

Field Division Offices
FEDERAL BUREAU OF INVESTIGATION
United States Department of Justice

DIVISION	BUILDING	OFFICE PHONE
1 Albany, New York	737 National Savings Bank	5-4505
2 Atlanta, Georgia	501 Bealey	Walnut 3029
3 Baltimore, Maryland	800 Court Square	Plaza 5770
4 Birmingham, Alabama	330 Federal	4-1877
5 Boston, Massachusetts	10 Post Office Square, Room 1018	Liberty 8470
6 Buffalo, New York	400 U. S. Court House	Cleveland 2030
7 Butte, Montana	302 Federal	2-2304
8 Charlotte, N. C.	914 Johnston	3-4127
9 Chicago, Illinois	1900 Bankers'	Randolph 6226
10 Cincinnati, Ohio	637 U. S. Post Office and Court House	Cherry 7127
11 Cleveland, Ohio	1448 Standard	Prospect 2450
12 Dallas, Texas	1200 Tower Petroleum	2-9089
13 Denver, Colorado	518 Railway Exchange	Main 8341
14 Des Moines, Iowa	739 Insurance Exchange	3-8998
15 Detroit, Michigan	911 Federal	Cadillac 2883
16 El Paso, Texas	202 U. S. Court House	Main 1711
17 Grand Rapids, Mich.	715 Grand Rapids National Bank	6-5337
18 Honolulu, Hawaii	302 Dillingham	4621
19 Houston, Texas	2708 Gulf	Capitol 9717
20 Huntington, W. Va.	700 West Virginia	8928
21 Indianapolis, Indiana	323 Federal	Riley 5418
22 Juneau, Alaska	515 Federal and Territorial	618
23 Kansas City, Missouri	707 U. S. Court House	Victor 3113
24 Knoxville, Tennessee	407 Hamilton National Bank	3-7929
25 Little Rock, Arkansas	500 Rector	2-3153
26 Los Angeles, Calif.	527 U. S. Post Office & Court House	Michigan 0781
27 Louisville, Kentucky	833 Federal	Jackson 5139
28 Memphis, Tennessee	2401 Sterick	H-4236
29 Miami, Florida	1300 Biscayne	3-5558
30 Milwaukee, Wisconsin	1021 Bankers'	Daly 3431
31 Newark, New Jersey	935 Raymond-Commerce	Market 2-5511
32 New Haven, Connecticut	510 The Trust Company	7-1217
33 New Orleans, Louisiana	1308 Masonic Temple	Raymond 9354
34 New York, New York	607 U. S. Court House, Foley Square	Rector 2-3520
35 Oklahoma City, Okla.	940 First National	2-9186
36 Omaha, Nebraska	623 First National Bank	Atlantic 8644
37 Philadelphia, Pa.	4050 U. S. Court House	Walnut 0555
38 Phoenix, Arizona	307 W. C. Ellis	4-5766
39 Pittsburgh, Pa.	620 New Federal	Grant 0800
40 Portland, Oregon	411 U. S. Court House	Atwater 5171
41 Richmond, Virginia	601 Richmond Trust	3-0189
42 Saint Louis, Missouri	423 U. S. Court House & Custom House	Central 4115
43 Saint Paul, Minnesota	404 New York	Garfield 7509
44 Salt Lake City, Utah	301 Continental Bank	Wasatch 1797
45 San Antonio, Texas	478 Federal	Fannin 8052
46 San Diego, California	728 San Diego Trust & Savings Bank	Main 3044
47 San Francisco, Calif.	One Eleven Sutter, Room 1729	Exchange 2679
48 San Juan, Puerto Rico	213 Federal	962
49 Savannah, Georgia	305 Realty	3-3054
50 Seattle, Washington	800 Joseph Vance	Main 0460
51 Sioux Falls, S. D.	400 Northwest Security National Bank	2885
52 Springfield, Illinois	1107 Illinois	2-9675
53 Washington, D. C.	2266 U. S. Department of Justice	National 5303

CONFIDENTIAL

223

G-2
J M

0-2/2657-234

August 14, 1940.

MEMORANDUM FOR THE CHIEF OF STAFF (No. 71):

Subject: Messages from Military Attaches.

Following are paraphrased messages received from the Military Attaches as shown:

Peiping. Filed 03:20, August 13. Guard at British Embassy including arms, ammunition and storehouse to leave for Tientsin at three this afternoon. This sudden move surprised Japanese who asked if British had conferred with our Embassy. British C. O. greatly handicapped by lack of cooperation from railroad authorities and Japanese Army. Munson.

Chungking. Filed 05:00, August 13. Major Mayer reports by air mail from Hanoi as follows: Japanese demands referred by Admiral Decoux to Vichy Government. Vichy instructed Decoux to stall the Japanese off and finally to refuse demands. Since Germany dominates Vichy Government this stand is interesting. Weak acceptance by former governor of earlier Japanese demands strongly criticized. Attitude of Decoux has improved morale which is still very low, as their only hope lay in cooperation with British which Vichy now regards as treason and the situation is hopeless. Many of the French, however, are ready for a showdown with Japan now. Principal deficiency is in planes and hopes are high that mission now in America will be able to buy some. Chinese pressure on Lungchow-Manning road makes supply of Japanese troops on border very difficult and Japanese are anxious to reinforce and supply these troops via Indo-China. Barrett.

Chungking. Filed 06:00, August 13. Continuing Mayer's air mail report from Hanoi. Japanese troops on border according to some reports are meatless, barefooted and ragged. French will permit passage of rations but not men or munitions. I visited antiaircraft and coast defenses at Haiphong and military field at Hanoi. Japanese mine layer with landing party at Haiphong. There is also a transport with troops and supplies aboard lying off the harbor waiting permission to land, which so far has been

CONFIDENTIAL

CONFIDENTIAL

refused. French have enough military strength to make Japan loath to use force unless early submission assured. Japanese forces in South China barely strong enough to carry out present missions and availability of more troops matter of conjecture. The Japanese Navy and Air Force are available but doubtful that they are willing to risk damage plus probable American reaction. Local French morale and determined leadership on part of governor are keys to situation. Barrett.

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

td

Distribution outside War Dept.:

General Watson
State Dept.
Secretary of Treasury
ONI

CONFIDENTIAL

G-2/2657-220

RESTRICTED

No. 169

SITUATION REPORTM.I.D., W.D.
August 14, 1940
12:00 N.

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

I. Western Theater of War.

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

The large scale air action over England was resumed on the 13th. According to the British estimate, 500 German bombers were employed in attacks which centered over the southern coast from Plymouth to the Thames estuary. Southampton was heavily attacked. Attacks were also made on several airdromes between Dover and the Thames. Attacks were also delivered in the Newcastle area on the northeast coast.

The Germans also made raids over England on the night of August 13-14.

In addition to conducting defensive operations against the German attacks, the British embarked on counter-air force day-light attacks on German airdromes along the east coasts of the Channel and North Sea. Apparently these attacks were made on a limited scale. One eccentric and costly attack was made on the airdrome at Aalborg, Denmark.

According to press reports, operations over England were practically zero until noon, London time. Thereafter German bombers, using heavy clouds as cover, resumed operations. It is possible that weather may have been a factor in the foregoing lull.

II. Mediterranean Theater of War.

No ground operations reported. On the night of August 13-14 British bombers, estimated at about thirty, and probably based in England, raided cities in the Po valley.

RESTRICTED

RESTRICTED

III. East African Theater of War.

Ground fighting is continuing to the south of Berbera.
No aerial operations reported.

RESTRICTED

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin.

DATE: August 14, 1940, 9 a.m.

NO.: 3499.

FOR TREASURY FROM HEATH, AND FOR DEPARTMENT'S INFORMATION.

The REICHGESETZBLATT on August 8 publishes a decree of the Reich Defense Council imposing a "Social equalization levy" of 15 percent on the incomes of all Poles in the German Reich, including the annexed Polish territories. The levy is in the form of a surtax on the regular income tax. The revenues resulting therefrom are to be exclusively for the benefit of the Reich. The Reich Minister of Finance is empowered, in agreement with the Reich Minister of the Interior and the Reich Minister of Labor, to extend the provisions of this decree to other racial groups and to issue the regulations necessary to carry out this decree, which is effective as of August 1.

Apparently there has not as yet been any comment or information concerning this decree in the German press. Obviously the decree is directed mainly at the Polish people living in the regions annexed by Germany. The effect of this decree will be to handicap Polish professional and businessmen in Germany and to establish a lower standard of net wages and living for Polish employees and laborers. Notwithstanding the fact that

as

-2-

as expressed in the title the purpose of the law is "social equalization", it apparently exemplifies the theory that the Polish people do not have the right to equal opportunity or pay with that of the German race which dominates.

KIRK

EA:EHS/msg

JR

PLAIN

London

Dated August 14, 1940

Rec'd 12:25 p.m.

Secretary of State,
Washington.

2717, 14.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer has agreed in response to Parliamentary pressure to exempt from the purchase tax books, newspapers and periodicals, knitting wools, sewing threads, household brooms and brushes, certain surgical and medical appliances and "protective boots" designed for use by quarrymen and steel smelters, and clogs.

2. The Exchequer accounts for the past two weeks indicate that expenditure is now rising to levels well above the annual rate of pounds 3,476 million estimated in Sir Kingsley Wood's budget. Total expenditure which averaged just under pounds 54 million in the quarter ended June 30 has run for the past two weeks at well over pounds 70 million. The amount spent for supply (that is not on debt services) jumped to pounds 76-1/2 million for the week ended August 10 having stood between pounds 60 and pounds 68 million during the previous six weeks. Total

expenditure

-2- #2717, August 14, from London.

expenditure at pounds 77.6 million during the week ended August 10 is at the rate of over pounds 4,000 million per annum. Though revenue has been coming in well in the past six weeks and was at pounds 25.6 million for the week ended August 10 and the total since March 31 is pounds 83 million ahead of the figure for the corresponding period of last year, the deficit has been over pounds 52 million for the past two weeks. It is significant that if expenditure runs at a weekly average of pounds 70 million and revenue (as estimated in the budget) over the year averages pounds 30 million, the remaining gap of pounds 40 million, which may be reduced by say pounds 10 million a week as a result of gold sales, leaves pounds 30 million which should be forthcoming from savings, assuming that the rate of expenditure does not continue to rise. Savings, including subscriptions to 2-1/2 per cent on tap bonds have lately averaged around pounds 20 million. Obviously, therefore, savings must be stepped up another pounds 10 million a week (or more if expenditure increases) if the gap is to be filled without further inflationary influence. Efforts to increase subscriptions to 2-1/2 per cent on tap-bonds are being made in the city, the response being regarded as not satisfactory since the completion of the reinvestment of the pounds 100 million of unconverted 4-1/2 per cent conversion loan repaid in July.

TFV

KENNEDY

AUG 14 1940

Dear Mr. Hoover:

This will acknowledge your letter of August 7, 1940, and the enclosed copy of a letter from Mr. W. A. White suggesting use of the tax laws to check on the activities of foreign agents. Mr. White's suggestions will be referred to the proper officials of the Treasury Department for consideration. Please accept my thanks for communicating them to us.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
United States Department of Justice,
Washington, D. C.

cc to Thompson

HLM:wm
8/10/40

HLM

Robb

to [unclear] [unclear]

AUG 14 1940

Dear Mr. Hoover:

This will acknowledge your letter of August 7, 1940, and the enclosed copy of a letter from Mr. V. A. White suggesting use of the tax laws to check on the activities of foreign agents. Mr. White's suggestions will be referred to the proper officials of the Treasury Department for consideration. Please accept my thanks for communicating them to us.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
United States Department of Justice,
Washington, D. C.

HLN:mrn
8/10/40

JOHN EDGAR HOOVER
DIRECTOR

233

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

August 7, 1940

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

My dear Mr. Secretary:

There is enclosed herewith a copy of a letter dated July 29, 1940, addressed to this Bureau by Mr. W. A. White, Editor and Owner of The Emporia Gazette, Emporia, Kansas.

You will observe certain suggestions which have been offered by Mr. White, one of which relates to the application of income tax laws to certain German funds and also a suggestion with reference to the control of such funds by the Treasury Department. Mr. White's suggestion is being referred to your office since it appears to relate to a matter under the jurisdiction of the Treasury Department.

I have also transmitted a copy of Mr. White's letter to The Assistant to the Attorney General for consideration in connection with the suggestions relative to proposed legislation, and Mr. White has been informed of this reference.

Sincerely yours,

J. Edgar Hoover

Enclosure

COPY

THE EMPORIA GAZETTE
W. A. White, Editor and Owner
Emporia, Kansas

July 29, 1940

Dear Mr. Hoover:

A practical suggestion has come to me about getting information concerning German activities in this country that are inspired and more or less directed and paid for in Germany. The letter comes from a man named Leopold Heinnemann, a Jew in this country who under the old regime was the leading economist for the German railroad system—a man of wide learning, great common sense and of course burning loyalty for this country. His contention is that as practically all European mail is handled by the Clipper ships we can easily control mail going out to Germany or to any other of her Allies and dependencies. We could do it by ten lines of legislation carefully written inside of some omnibus bill, maybe a post-office bill which would read something like this:

"The Government of the United States shall be given powers for the duration of the present war in Europe and in Asia that in which_ever case a foreign government is violating international conventions the same action taken by that government shall be lawfull for the Government of the U.S.A."

As you see, that would give us pretty complete censorship of European mail. If we had that power, we could make a list of persons sending mail and receiving mail from those

#2—Mr. Hoover

countries which would give us a rather complete list of all German connections in America and would lead to the discovery of mediators forwarding German mail to German agents in England also. That would leave Germany down to short wave machines as the only means of getting in touch with their spies in Britain and over this country. The whole thing should be done under the supervision of the Military Intelligence Division (G_2) and could be done and I think it ought to be done.

Here is another idea: "German Consulates and Vice-Consulates are making a practice by pretending an extraterritorial status for their activities. Such extraterritoriality is only granted to embassies and legations. Consulates operate only under a so-called 'Exequatur'. It should be suggested that the State Department issue instructions as to the status of these foreign consulates. Whenever such a consulate is found having transgressed the limits of consular legitimate activities, the American Exequatur should immediately be withdrawn from the foreign officer found guilty. Still more dangerous is the fact that the German Embassy has been increasing its staff and is claiming full extra-territorial rights for an unjustified large number of dubious 'diplomats'. It should be suggested the State Dept. to issue an ordinance that extra-territorial status must not be granted to any legation or embassy but in reciprocity to the number of staff members of the American diplomacy in any respective country.

#3—Mr. Hoover

"As apparently large German funds are distributed for German language newspapers and periodicals rigorous use should be made of income-tax violation laws. Wherever such gifts, subsidies and so on have not been declared in income and corporation tax declarations the Treasury should sue in federal courts. As many of those activities are being carried on under the mask of benevolent societies, so benefitting from tax exemptions, strict bookkeeping rules should be enforced and a right of control of all such funds by the Treasury. Every contribution must be entered in those books with full name and address of any individual donor. Wheresoever tax exemption for benevolent reasons is claimed the fact of benevolent activities must be proved. Moreover, the term 'benevolent activities' must be clearly defined by the Federal Government. Such proceedings would not only stop German and Fascist interference but bring the entire Fifth column inclusive Father Coughlin, KKK, etc. under control."

I am checking this whole thing up to you. I fairly believe there is an idea in this that you could afford to incorporate into law. If I can help in any way, I want to do so.

Sincerely yours,

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

W. A. White (Signed)

WAW/MY.

RDS

GRAY

DUBLIN

Dated August 14, 1940

Rec'd 5:45 p.m.

Secretary of State,
Washington.

167, August 14, 5 p.m.

Department's telegram No. 53, August 10, 5 p.m.

When the order was received it was intended to apply in a manner similar to income tax law and affect all persons resident six months in Ireland irrespective of nationality. The order, however, gives authority to Finance Minister to grant exemptions from its application to certain classifications of security holders when claim to exemption is duly filed. While the Minister of Finance has not yet decided on what line he will exercise his authority I have obtained assurance from the Ministry of External Affairs that there is no reason to assume that application here will differ from the British as far as American citizens are concerned.

The registration registration order does not envisage obtaining foreign exchange at the present time but is purely a question of ascertaining extent of the (*) for future contingencies. I shall continue to press, however, for a definite statement on clear exemption of American citizens. If publicity is favorable, I suggest that it be treated

-2- #167, August 14, 5 p.m., from Dublin.

treated solely as action taken by Minister of Finance as the Government would prefer not to link it with British precedent.

GRAY

(*) apparent omission

EMB

841D.5151/

TREASURY

239

18889

JR

GRAY

Bern

Dated August 14, 1940

Rec'd 9 p.m.

Secretary of State,
Washington.

NOT FOR PUBLICATION

134, August 14, 4 p.m.

Reference my telegrams No. 78, June 22, noon

The Swiss Federal Council yesterday ratified the text of a new clearing agreement between Switzerland and Germany signed in Berlin on August 9 which replaces the basic clearing agreement of June 30, 1937 (Legation's despatch No. 5044, June 15, 1937). The new agreement takes effect retroactively as of August 1 and will remain in force until June 30, 1941. Its text has not as yet been published here and as usual a whole series of subsidiary arrangements taking effect at the same time will not be revealed to the public.

It is understood that the new agreement provides for the removal of various restrictions on Swiss exports of manufactured goods and agricultural products to Germany to restore substantially the pre-war trade ratio between the two countries. For such purpose the Swiss Government has also undertaken to discount bills of Swiss exporters pending

-2- #134, August 14, 4 p.m., from Bern.

pending their settlement through the clearing. Swiss exports to Germany during first half of 1940 were valued at 69,000,000 francs compared with 206 and 191 millions in 1938 and 1939. Swiss imports from Germany in the same years were respectively 196, 440 and 373 million francs.

Switzerland obtains promise of resumption on limited scale of deliveries of German coal but it is said that the quantities will be insufficient and that Switzerland will continue to look to a source of supplies in the United States (see my telegram No. 93, July 8, 11 a.m.). I have been assured that there is nothing in the German-Swiss agreement detrimental to Swiss trade with the United States which is dependent on improvement in communications (Legation's confidential telegram No. 129, August 11, 3 p.m.).

It is said there has been no substantial change in rate of interest (?) as regards Swiss credits in Germany, that slightly increased sums are to be allowed for German visitors to Switzerland and the percentage of payments into the clearing accounts earmarked for the Reichsbank as free exchange remains at 11.8%.

Swiss officials express considerable satisfaction over the outcome of the negotiations which they say were carried on in an entirely amicable spirit on both sides, contrary to rumors prevalent at one time that political pressure was
being

-3- #134, August 14, 4 p.m., from Bern.

being exercised by Germany on the Swiss negotiators.

It is emphasized that the discussions were confined as in previous years to matters coming normally under the German-Swiss clearing and that no questions regarding the proposed establishment of a European clearing office in Berlin were raised.

Mail report follows.

HARRISON

EMB

CONFIDENTIAL

G-2/2657-235

M.I.D., W.D.
 Tentative Lessons
 Bulletin No. 30
 August 14, 1940

TENTATIVE LESSONS FROM THE RECENT
 ACTIVE CAMPAIGN IN EUROPE

NOTICE

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. Its reproduction in whole or in part is subject to the provisions of letter TAG, November 15, 1939, AG 350.05 (11-1-39) MEM, "Dissemination of Military Information by the Military Intelligence Division and by Recipients of M. I. D. Information".

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

CONTENTSSOME ASPECTS OF TRAINING IN THE GERMAN ARMY

- I. GENERAL OBSERVATIONS (Various Allied and German Sources)
 - II. TRAINING OF A GERMAN INFANTRY BATTALION IN MAY, 1939 (British Official Source)
 - III. ADVANCE GUARD, BRIDGING, AND DIVISIONAL EXERCISES, AUGUST, 1939 (British Official Source)
 - IV. OTHER NOTES ON GERMAN TRAINING
- I. GENERAL OBSERVATIONS.

Reports from both German and Allied sources throughout the recent hostilities indicate that training in the German Army includes special emphasis upon flexibility of organization,

CONFIDENTIAL

CONFIDENTIAL

coordination, physical fitness, speed, knowledge of situation, secrecy, simplicity, initiative, realism, and offensive spirit. Reference has been made in previous bulletins of this series to several of these characteristics of German training. They are here summarized.

A. Flexibility of Organization.

The absence of rigid corps organization and the high degree of standardization of transport and other equipment permit the shifting of units from one formation or command to another with a minimum of difficulty. Units are so trained that they can be transferred as circumstances dictate. Temporary groups are formed, shifted, and disbanded to meet changing conditions. Flexibility is made possible by the high standards of performance achieved in training of both individuals and units to handle their weapons and machines effectively under any circumstances.

B. Coordination.

Thorough training of individuals and units is supplemented by painstaking combined training in order that there may be effective coordinated employment of all arms and techniques applicable to any given situation. Authorities agree that German successes have been primarily due to the effective integration and balance of all fighting elements. Use of the four-arm advance combat team, consisting of armored units, motorized infantry, motorized engineers, and air force, has been characterized by close harmony and absence of rivalry among the arms. A German source attributes this cooperation partially to the faith of officers in the high command and to their belief that the failure of some missions is expected and will be understood.

C. Physical Fitness.

An official British source expresses the opinion that "The most remarkable achievement of the German Infantry is its ability to cover long distances without undue fatigue." Impressive marching power is ascribed to reservists and Landwehr formations as well as to regular troops. Allied sources concede that in some cases the Germans have covered from 30 to 40 miles per day for several successive days, and German sources lay claim to a march of 44 miles in 24 hours during the Polish campaign. This marching ability is supplemented by fitness, toughness, vitality, and endurance under prolonged strain resulting from continuous operations and enemy action under all sorts of conditions.

It is evident that German troops have been carefully

CONFIDENTIAL

CONFIDENTIAL

conditioned throughout their training periods. Apparently the possibility that motorized personnel may lose their equipment and have to retreat hastily on foot has not been overlooked. The British learned this lesson in the Battle of Flanders.

Fitness in action indicates that the German soldier has long been trained to function on his simple but substantial wartime diet. His physical stamina is due in large part to his training with the Hitler youth organizations and the Labor Service.

Lack of physical fitness is not necessarily a bar to service in the army. Officers who might normally be disqualified because of age or disability are trained as specialists in mobilization and administration. Thus most of the active officers are released for field service.

See also this Bulletin, paragraph II. C. 1. a.; II. C. 2. a.; III. C. 1.

D. Speed.

In order that rapid and decisive results may be obtained, the time for making an estimate and for originating, transmitting, and executing orders is reduced to a minimum. Prior training is such that, in action, only bare essentials need be included in orders. In units below the division, oral orders are used exclusively. It is a German maxim that quick action, even if it is sometimes wrong, is preferable to hesitation and possible loss of initiative.

See also this Bulletin, paragraphs II. C. 1. b.; II. C. 2. a.; II. C. 3. a.; III. C. 2.

E. Knowledge of Situation.

German soldiers show a remarkable knowledge of methods used and tactical doctrines employed. Officers, and especially graduates of the Kriegsacademie, are apparently careful to keep their troops informed as to progress in the broad phases of action.

See also this Bulletin, paragraphs II. C. 1. c.; II. C. 2. b.; III. C. 3.

F. Secrecy.

According to an official British comment upon German methods, "Secrecy of operations is all-important; this can be ensured by careful training in peacetime and strict discipline in

CONFIDENTIAL

CONFIDENTIAL

war." In spite of the fact that large numbers of Germans are acquainted in advance with contemplated operations, knowledge of plans does not pass beyond them. Examples are furnished in the secrecy with which plans and training for attacks upon Norway and Fort Eben Emael were guarded.

See also this Bulletin, paragraph III. C. 4.

G. Simplicity.

Complications of any type are avoided wherever possible both in training and in action. Equipment and methods are designed to fit the hand and mentality of the average soldier. As regards German reserve officers, an official British source observes, "...The principle of teaching them only simple and easily-learned rules, and not bothering them with elaborate theories, seems to have been most successful."

See also this Bulletin, paragraphs II. C. 2. a.; II. C. 3. b.; III. C. 5.

H. Initiative.

Careful training in initiative is given at all levels in order that combat teams, whether large or small, may deal aggressively with fleeting opportunities. Many ideas on the subject of organization, method, and equipment are tested before a definite standard is adopted.

See also this Bulletin, paragraphs II. C. 1. d.; II. C. 2. a.; II. C. 3. c.; III. C. 6.

I. Realism.

Training plans are made with very definite times, terrains, and objectives in view, and they are carried out under conditions approximating as closely as possible those to be met in actual combat. These plans embrace complete destruction as well as entrapment of the enemy. The thoroughness and realism of training for the campaign in Norway is discussed in TENTATIVE LESSONS BULLETIN, NO. 14, Page 1, and of training for attacks upon modern permanent fortifications in TENTATIVE LESSONS BULLETIN NO. 26, pages 4-5.

See also this Bulletin, paragraphs II. C. 1. e.; II. C. 2. c.; II. C. 3. d.; III. C. 7.

J. Offensive Spirit.

CONFIDENTIAL

CONFIDENTIAL

According to an official British source, "The German high command shows that in its opinion the offensive spirit is indispensable to the troops, even when they are carrying out a purely defensive task." Training is planned accordingly.

See also this Bulletin, paragraph II. C. 2. a.;
II. C. 3. d.

II. TRAINING OF A GERMAN INFANTRY BATTALION, May, 1939.

The following observations were made by a British officer after a two-day visit to a German infantry battalion in May, 1939. At this time Germany was training for a war against Poland, an enemy inferior in numbers, armament, and leadership.

A. Mobilization.

The men in the battalion were residents of the general area in which the organization was located. Thus very rapid mobilization was possible.

B. Individual and Combined Training.

Training began on November 1, 1938, when recruits were taken in. For the first six months, three separate groups were employed for purposes of training: recruits, second-year men, and non-commissioned officers. In each case instruction was individual. The training of second-year men was obviously more advanced than that of the recruits. After about two months, first and second-year men trained together on certain exercises, but it was only after six months that they were combined in the same platoons for both work and administration.

C. Exercises.

The British observer witnessed field firing, individual and section training exercises, company in the attack, and sand-table exercises for non-commissioned officers.

1. Field Firing.

The 100,000 rounds of small arms ammunition allotted to the battalion each year were sufficient for about five field firing exercises per platoon, and the battalion commander considered this training the most valuable given. Each platoon carried out a simple attack, supported by a section of 81 mm mortars, a section of heavy machine guns from the machine gun company, and two heavy machine guns from the rifle

CONFIDENTIAL

CONFIDENTIAL

company. (Under the reorganization of the infantry battalion, effected in October, 1939, the rifle company no longer has these machine guns.) Men from the local artillery regiment provided an artillery O.P. The enemy was represented by 26 figure targets, some of which could be moved by wires. A short conference was held after each attack, and officers were either highly praised or severely criticized before their men.

The following points should be noted:

a. Physical Fitness. Although objectives were usually 1000-1400 yards distant, the men, small but exceedingly fit, were fresh upon arrival at these objectives. However, the strain of transporting ammunition to forward troops and of carrying machine guns cross country was very great, and officers favored the introduction of a small armored handcart, which could be pushed by one man, and a machine gun carrier similar to that used by the British.

b. Speed. Since the enemy was represented as holding lightly defended positions, speed was essential to prevent his consolidating the defense. The battalion commander remarked that the speed of the German army would enable it invariably to catch the enemy before he was ready and that he must be given no time for rest.

c. Knowledge of Situation. In every new situation, the first action of a section commander was to send a runner to platoon headquarters with a verbal message describing the situation. Thus the platoon commander was kept fully informed at all times.

d. Initiative. Junior leaders were repeatedly told that inaction was criminal and that it was better to do something that might turn out to be wrong than to remain inactive. When a position had been captured and when further support, in the form of a machine gun or mortar, had arrived, forward troops pushed on without waiting for orders from the company commander. Platoon commanders selected their own objectives.

e. Realism.

(1) Machine guns fired ball ammunition and mortars fired dummy shells over the heads of attacking troops with very small safety margins when these troops were advancing in the open. The purpose was to accustom the men to actual wartime conditions. The battalion commander stated that in practice, as well as in reality, mortar shells should support the infantry to a point

CONFIDENTIAL

CONFIDENTIAL

within 50 yards of its objective. Artillery fire was represented by smoke puffs, manipulated by umpires, one of whom was assigned to each platoon.

(2) Riflemen had been thoroughly trained in rapid sharpshooting from the standing position while advancing through high grass, and an impressive degree of accuracy was evident in this type of shooting. General standards were more difficult to judge. While, in the case of each platoon, 20 of the 26 targets were hit, it was impossible to say whether they were hit by rifle or machine gun fire.

(3) Although the use of runners seemed to be overdone, the German officers argued that, unless the training of section commanders was exaggerated in peace, they would forget about sending messages in war.

(4) Upon capturing a position, men were not required to dig in, although the necessity for doing so in actual operations was emphasized.

f. Weapons.

(1) 81 mm. Mortars. A company commander could usually rely upon having the use of two 81 mm mortars for an attack. In spite of a high wind, only four or five ranging rounds were normal for getting on targets. The battalion commander emphasized the fact that, while a mortar shell might not kill the enemy, it would give him a thorough fight and reduce his resistance accordingly.

(2) Machine Pistols. Experience in Spain apparently proved the value of machine pistols. The feeling among officers was that eventually all junior commanders would be armed with them. Under the reorganization of October, 1939, machine pistols were provided at the rate of 16 per company.

(3) Hand Grenades. Men were criticized for throwing hand grenades too soon. Officers pointed out that the hand grenade was to be used at a range of ten yards or less and that its purpose was to kill rather than to frighten.

2. Individual and Section Training Exercises.

The object of these exercises was to train the soldier and the section to face unexpected situations and to deal with them effectively. Exercises were carried out by platoons on a small field near barracks.

CONFIDENTIAL

CONFIDENTIAL

a. Physical Fitness, Speed, Simplicity, Initiative, and Offensive Spirit were demonstrated in exercises such as the following:

(1) A soldier was required to cross, at double time, a narrow plank over a number of shell holes filled with water. On the other side he was met by a disappearing figure target and was required to take action against it.

(2) A section was ordered to clean a house of the enemy and then to deal speedily with a number of figure targets which it met upon leaving the house.

(3) A section was called upon to meet an enemy attack while engaged in wire cutting.

(4) Two sections approached one another over terrain covered with shell holes. Upon meeting, they threw at one another hand grenades equipped with fireworks. Reasonable care had to be taken in avoiding the grenades.

b. Knowledge of Situation was passed on to sections and soldiers by numerous umpires who were constantly giving explanations throughout the action.

c. Realism was introduced by liberal employment of blank ammunition, firework grenades, shell holes, barbed wire, and even houses and trenches. The enemy was always represented in some form.

3. Company in the Attack.

The British observer witnessed a simple attack, with the company commander acting in his official capacity and also as director. The enemy was represented as holding a lightly defended position about 1400 yards in advance of the starting line. Two platoons, supported by two 81 mm heavy mortars and a platoon of heavy machine guns, were moved up under cover to the attack. Sections understood the principle of fire and movement and carried out the attack well.

Among the criticisms made were the following:

a. Speed.

(1) The company commander took about 25 minutes to deliver his orders. He later apologized and explained that, since he had recently completed a tour of staff duty, he was out of touch with company tactics.

CONFIDENTIAL

CONFIDENTIAL

(2) The attack began about 15 minutes after the issue of orders, this time being allowed for the supporting mortars and machine guns to assume positions.

b. Simplicity. Orders for the company attack were long, complicated, and involved.

c. Initiative. On the whole, platoon commanders showed great initiative, but they were criticized by the commanding officer for not trying to get forward every time the supporting weapons opened fire. There was a tendency among them to be too theoretical and stereotyped in their methods, perhaps because, in the short time they had been out of the classroom, they had not fully learned to apply theory to actual conditions. Soldiers showed a tendency towards bunching. This was perhaps due to overtraining in the principle of following a leader.

d. Realism. The use of blank ammunition, fire-work grenades, and smoke puffs to represent artillery was liberal, but neither tank nor air action was mentioned. Orders were issued in a very realistic manner.

e. Offensive Spirit. The exercise gave the impression that German infantry will push ahead rapidly in attack. Soldiers are taught that they are superior to any enemy they are likely to meet and that a speedy offensive will produce victory.

4. Sand Table Exercises for Non-Commissioned Officers.

The problem dealt with a platoon advancing deployed on either side of a road and suddenly coming under enemy fire. Its object was not tactical, but rather for the purpose of training non-commissioned officers in making quick decisions and giving orders. They were required to be clear and exact in their commands, and sometimes they were given the opportunity of acting as platoon or company commanders. Message writing and message sending were stressed. Examples from the World War, always favorable to the German side, were cited frequently. All the principles employed in field exercises were equally emphasized at the sand table.

Neither officers nor non-commissioned officers showed much originality, and, although most of those present invariably arrived at the same conclusion, they did so with speed and initiative. The company commanders stated that this situation was just what he desired.

CONFIDENTIAL

CONFIDENTIALD. Miscellaneous Observations on Personnel.1. Officers.

Company commanders had an average of about 15 years' service each. Only one had been in the World War. They were well trained. Each company had two young officers, about 24 or 25, who were keen and intelligent, but lacking in originality.

2. Non-Commissioned Officers.

Standards of training were high for non-commissioned officers. They were well able to command platoons and generally superior to the young officers in military education and leadership.

III. ADVANCE GUARD, BRIDGING, and DIVISIONAL EXERCISES, AUGUST, 1939.

Late in the summer of 1939, two British officers were attached to a German division for maneuvers and given the opportunity of witnessing advance guard, bridging, and divisional exercises. The observations which they made are of value only if it is realized that troops were being trained for employment against the Polish Army, which the Germans knew to be inferior to their own in numbers, equipment, and leadership.

A. General Notes on Exercises.

1. Type of Opposition. All exercises dealt with either the break-through against weak opposition or the pursuit of a demoralized enemy.

2. Terrain. The country was flat. Thick open woods alternated with large unfenced fields, in which cornstalks provided excellent concealment from the air. No artificial camouflage equipment was seen.

3. Air-Ground Cooperation. The air force cooperated in most exercises. In the smaller ones it made occasional low-flying machine gun attacks; in the divisional exercise it made attacks of all kinds.

4. Tactical Situation. A tactical situation was prepared in the technical exercises and explained to all troops, but little attention was paid to it subsequently except as regards active antiaircraft protection. Machine guns were concealed and permanently manned.

CONFIDENTIAL

CONFIDENTIALB. Notes on tactics.

1. Headquarters of both leading and reserve units and formations were always well forward for quick action. In one exercise regimental headquarters was within $\frac{1}{4}$ mile of the leading troops, while in the divisional exercise, divisional headquarters was within a mile of them. This gave commanders as complete a view of the battlefield as possible.

2. Intercommunication from front to rear was excellent. Efficiency of all officers and non-commissioned officers in reporting by message was invariably supplemented by submission of sketches drawn to the same scale as the map in use. Since it was the commander's duty to push his troops regardless of flank conditions, a high degree of excellence in flank communications was not considered essential and was not obtained during the exercises.

3. Equipment for Assault Crossings has been discussed in TENTATIVE LESSONS BULLETIN NO. 28, but the following information can be added: Power-driven speedboats, as well as pneumatic rubber boats, were used in these exercises. Every company had three of these speedboats, each being sufficient to transport one platoon. While companies made crossings about 400 yards apart, each company's three boats were launched at the same point. Thus, they presented an excellent target. The speed boats, suitable only for large rivers, were much faster, less cumbersome, and less vulnerable than the rubber boats. In a time of only two minutes, troops made a 30 yard dash to the bank, fitted the motor, loaded the boat, crossed the Elbe (450 feet), and returned. In conference it was indicated that the maximum number of boats should be used in the assault and none should be held in reserve.

4. Bridges and Rafts were used in later phases of the crossing. Immediately the boats had crossed the river, engineers began the construction of a 9 ton pontoon bridge, and later an 18 ton bridge. Meanwhile, all divisional loads up to and including the 75 mm light infantry gun were taken over on rafts made from two large rubber boats. Horses swam across. An experimental foot bridge constructed of light rubber boats was abandoned when one or two men who tried to cross it fell into the water. Heavy loads could sometimes be gotten across the 9 ton bridge. The gun was uncoupled from the tractor and drawn across by men, or a long drape wire was used between tractor and gun for distribution of the load on the bridge. Sites for bridges were selected almost regardless of roads and approaches, and, while instances of bogging were common, tractors and man power were always available to clear routes. Alternative bridge sites were prepared so that whole bridges

CONFIDENTIAL

.....
CONFIDENTIAL

could be moved if necessary. It was pointed out in conference that all bridging columns must be well forward to prevent delay from infantry and artillery vehicles blocking roads to the river.

5. Machine Guns never seemed to fire more than two or three bursts from the same position, and, in spite of their weight, they were quick in coming into action after moving 40 or 50 yards. Heavy machine gun fire was an automatic signal for all troops to rush forward and continue the assault. The machine guns were sited up to 3850 yards but were never seen in action at more than 1100 yards.

6. Antitank Guns were placed with the point of the advance guard and were always well forward both in offense and defense. They were used largely for blocking flank approaches. All were motorized. In action they were well camouflaged, as were their trucks, which were placed close to guns so that their headlights could be used to illuminate possible targets. In motion, an antitank company's vehicles could transport 60 men, including assault troops, if some rode on running boards.

7. Artillery cooperated intimately with infantry. The most constantly used weapon was the 75 mm light infantry gun, which was used right forward with the leading troops. It was seen in action at a range of 300 yards and once at about 900 yards over open sites. Although employed very much as a heavy mortar, it sometimes went into action in front of a battalion of heavy mortars.

8. Antiaircraft Guns were sometimes the first supporting weapons to cross the river. In the divisional exercise, the antiaircraft regiment attached to corps was decentralized so that each leading infantry regiment had two light troops, each of twelve 20 mm guns. At least one troop was forward with the leading troops.

9. Air Attacks of all types took place during the divisional exercise. These were particularly directed against villages and bridge sites.

10. A Motorized Reconnaissance Unit, organized to work with an armored or motorized infantry division, was inspected at the cavalry school. Its organization - one armored car squadron, two motorcycle squadrons, a pioneer platoon, and a signal platoon - was experimental. An instructional unit was given the task of finding and forcing crossings over a river 20-30 miles ahead of the division. After unsuccessful attempts to cross at a point held by

CONFIDENTIAL

CONFIDENTIAL

antitank guns, the pioneer platoon, under cover of fire from the motorcycle squadrons, launched its rubber boats about 500 yards away from, and out of sight of, a bridge. The personnel of the motorcycle squadrons, left their vehicles behind with one driver each, crossed in the boats, worked up to the bridge under cover and drove the enemy off. The armored cars and motorcycles then crossed and picked up the personnel.

11. Night attacks were avoided in so far as possible, since their use was found by actual experiment to be either totally or partially unsuccessful.

12. Traffic Control was complicated because of the combination of horse-drawn and motorised vehicles, and apparently it had not been carefully studied in its tactical aspect. During the divisional exercise, a spectacular dive bombing attack took place over a town where traffic was at a complete standstill for 20 minutes. Similar incidents, which occurred frequently, were hard on morale.

13. Orders from the infantry brigade down were given orally and apparently not confirmed in writing. Recipients were always required to repeat back in a loud voice and were given opportunity to ask questions.

14. Thorough Reconnaissance was stressed at conferences as one of the elements upon which success depended, but it was indicated after an exercise in pursuit that no engineer reconnaissance should take place in front of the leading infantry. Otherwise, the surprise element might be lost.

C. General Notes on Training.

1. Physical Fitness :

The British officers who witnessed these exercises reported that fitness and endurance amounted to a fetish with both officers and men, primarily because of the conviction that lack of these qualities were responsible for the loss of the World War. For training purposes officers often went 21 hours without food during exercises. Troops carried heavy loads of mortars, machine guns, and other equipment as far as 1000 or 1200 yards in fast rushes of 50 yards. Just before exercises, one engineer battalion had marched 85 miles through the mountains in three days.

No drivers of motorised vehicles were allowed to smoke or drink on duty, and, since working hours were unusually

CONFIDENTIAL

CONFIDENTIAL

long, the large majority of soldiers never used tobacco or alcohol. Their rations were good; they had coffee, bread, and jam or butter for breakfast, hot stew for dinner, and cold sausage in the evening.

Each man was equipped with a gas mask, but, during the ten days of exercises, they were used for only one period of seven minutes.

2. Speed.

The basis of all tactics was speed, and this element was nowhere more evident than in bridge building. The Elbe River, with a width of 140-150 yards and a current of 3-3½ knots, was spanned by a nine ton bridge within a period of one hour. A cut to avoid a fire ship was made in the bridge in two minutes, and the bridge was reformed in seven minutes. An 18 ton bridge was built in the dark in seven and a half hours.

3. Knowledge of Situation.

In order to offer criticism and to disseminate information for keeping personnel properly posted, commanders made an invariable rule of holding a conference on the ground at the conclusion of each exercise.

4. Secrecy.

It was continually drummed into men of all ranks that indiscriminate discussion of military subjects at any time was dangerous. Notices and lectures to this effect were frequent. On exercises, all numerals were covered up.

5. Simplicity.

It was emphasized that all plans and orders must be as simple as possible. Complicated traffic plans were cited as causes of delay.

6. Initiative.

While non-commissioned officers appeared to be excellent leaders of men, the British officers reported that they showed "a certain lack of initiative."

7. Realism.

Emphasis was laid on the necessity of using,

CONFIDENTIAL

CONFIDENTIAL

in training, areas unfamiliar to officers and men. Use of much fresh ground was made possible by frequent movements from town to town.

Antiaircraft and machine guns treated all aircraft as hostile and opened fire at once. Thus they had plenty of practice even when no planned attack was in progress.

8. Miscellaneous Observations on Personnel.

a. Officers. There was a lack of efficient officers between the ranks of lieutenant and lieutenant colonel, with the result that heavy weight was thrown to the shoulders of non-commissioned officers. Many of the officers between these ranks were wartime officers between the ages of 40 and 56. Austrian officers of all grades were particularly inefficient.

Junior officers, both regular and reserve, were keen and efficient, although there was a slight feeling between the regulars and the reserves, some of whom were inclined to be too familiar with troops. Senior officers were all impressive.

It was commonplace to see senior officers criticizing lieutenant colonels and officers of all lower grades frankly and before their men. Reproofs were handed down to the junior grades and to non-commissioned officers, but apparently no sting was left after incidents were closed.

b. Non-Commissioned Officers. As a rule, non-commissioned officers handled well the responsibilities thrust upon them. Many had completed their conscript service and were earmarked for training as officers.

IV. OTHER NOTES ON GERMAN TRAINING.

A. FOR AIR LANDING AND PARACHUTE TROOPS: See TENTATIVE LESSONS BULLETIN, NO. 8.

B. FOR THE INFORMATION SERVICE: See TENTATIVE LESSONS BULLETIN, NO. 17.

C. FOR THE MEDICAL SERVICE: See TENTATIVE LESSONS BULLETIN, NO. 25.

D. FOR ATTACKS AGAINST MODERN PERMANENT FORTIFICATIONS: See TENTATIVE LESSONS BULLETIN, NO. 28.

CONFIDENTIAL

CABLE

FROM: Commercial Attache Nicholson
Shanghai, China.

DATE: August 14, 1940

For the Secretary of the Treasury.

Shanghai market closed easy August 13th at 3-45/64 for
cash and August 3-11/16 for September for sterling 5-15/32
for cash and August 5-13/32 for September for U.S. dollars.
No market gold bars.

NICHOLSON

END MND 14 PM 15 15

TO THE SECRETARY
TREASURY DEPARTMENT
WASHINGTON
DATE OF PREP.

Copy of Letter from B. Mexico City, August 14, 1940.

We can now finally report that the readjustment of the Petroleum Industry has become a fact. The corresponding agreement has been signed before the Labor Board, and it provides for readjustment in men, wages, extra time, etc. The Management of the Oil Industry, which up to now was divided into three different branches, i.e. Petroleos Mexicanos, Distribuidora del Petroleo and Administracion Nacional del Petroleo, have all been fused into Petroleos Mexicanos, which will make the Management less complicated. Some one summed up the oil matter since the expropriation as follows: Final result a general dissatisfaction of all and everybody. The Government shows an admitted deficit of 70 million pesos which they have spent, which contrasts considerably with the profit that had been expected. The workmen dissatisfied because they are worse off than they were before the expropriation; the Managers dissatisfied because of inefficiency and lack of discipline on part of labor; the public dissatisfied because it knows that the deficit will have to be made up somewhere else. Decreased revenue for the Government from taxes. And the President should be the most disappointed of all Who has derived any benefit from this expropriation?

Politically, there has been nothing of outstanding importance, except a Radio Broadcast from Havana by Gen. Almazan on Monday night, in which he announced that he expects to fulfill the promises made to the Mexican people during his campaign, and announcing that he will take up his post in due time. What these statements mean is anybody's guess, and the general opinion is very expectant and somewhat concerned as to what will happen on or after September 1st. Opinions are very much divided, and while some people are optimistic and foresee a peaceful solution to the election entanglement, some are of the belief that there will be trouble. If we were to record all of the wild rumors going around, we would be short of time and space. So, it is best to await developments rather than to make unfounded predictions. What has been reported as a fact is that the P.R.M. (Official Party) will concentrate in this city for the 1st of September, thousands of "campesinos" (agrarian workers), for which purpose is not clear.

VOLUNTARY REPORT

(STRICTLY CONFIDENTIAL)

MEASURES TO PREVENT AN EXCHANGE CRISIS IN BRAZIL AND TO
FACILITATE INTER-AMERICAN TRADE

From

Walter J. Donnelly, Commercial AttacheAmerican Embassy,
Rio de Janeiro, Brazil.Date of Completion: August 14, 1940
Date of Mailing: August 14, 1940

- 1 -

The exchange situation in Brazil is becoming serious, and unless Brazil receives some relief shortly, the Government will be faced with an exchange crisis. Furthermore, it may be compelled to abandon the present favorable exchange regime. It is obvious that social and political problems would follow and that it would strengthen the position of the enemies of the good-neighbor policy. The Director of Exchange of the Bank of Brazil is greatly concerned and he desires to obtain the effective cooperation of our Government. His plans for avoiding a crisis will be discussed in this report.

The Director states that the sales of foreign exchange are now exceeding purchases of foreign exchange by approximately \$5,000,000 a month. This unfavorable trend is the result of the loss of foreign markets, the sharp decrease in commodity prices, the advance in ocean freight rates, the increasing practice of American exporters in demanding payment in the United States against shipping documents, and the fact that the trade balance between Brazil and the United States is now unfavorable to Brazil. The Director of Exchange estimates that Brazil has lost 40 per cent of its foreign outlets, and he says that as buyers in the markets that are still open, chiefly the United States, enjoy a virtual monopoly of Brazil's export trade in certain commodities, mainly coffee and cocoa, they are able to purchase these products at very low prices. The current quotations on coffee and cocoa are almost at an all-time low.

How

How Can This Situation Be Remedied ?

The Bank of Brazil, as agent of the Brazilian Government, has built up small reserves of foreign exchange and gold, both in Brazil and the United States, and the Bank will now begin to draw on these reserves. Obviously, this cannot continue indefinitely, because the reserves are relatively small, as illustrated by the following figures:

	<u>August 13, 1940</u>	<u>July 13, 1940</u>
Free exchange position in Brazil	\$6,686,000	\$15,908,000
Bank of Brazil's deposits in New York banks.....	\$9,000,000	
Gold on deposit in the Federal Reserve Bank of New York.....	\$23,000,000	
Government gold on deposit in Brazil.....	29 tons (28 tons must remain in Brazil by law)	

The Bank of Brazil enjoys a very good credit reputation abroad because it has always met its commitments, and the Bank is determined to maintain this standing even if it becomes necessary to suspend or stagger payments for imports.

One way to solve this problem would be to increase exports, but this is difficult owing to the contraction in foreign markets and the limitation of consumption of Brazilian products in the markets yet open. The expansion of Latin American markets is restricted by the shortage of exchange in these countries. Departments of the Brazilian Government are cooperating with
the

the Embassy in an effort to stimulate the exportation of non-competitive products to the United States. The Embassy has advanced such suggestions as the use of part of the surplus coffee crop for the manufacture of plastics in the United States, coffee for sale to the unemployed in the United States at low prices, the use of cocoa for the manufacture of stocks of chocolate, and a downward revision of ocean freight rates. The Minister of Transportation has instructed the Central do Brasil Railway to transport not less than 40,000 tons of manganese ore monthly, so as to meet the requirements of the National Defense Committee of the United States, and the Government is now acquiring rolling stock in the United States for the purpose of improving the transportation system in this country. Other plans are afoot to encourage the development and exportation of Brazilian products, such as manioc flour. The progress will be slow and the results will not come in time to arrest the downward trend of exchange.

Next in importance is the curtailment in Brazil's import trade with a view to limiting this business to a capacity to pay. The Bank of Brazil is opposed to plans to establish quotas and licenses for imports on the grounds that (1), the value of luxuries and non-essentials is very small; (2) the inability of Government departments to administer a uniform policy, and the conviction that such a plan would result in confusion; and, (3) that a restriction of imports could be accomplished by the Bank of Brazil through the allocation of exchange. The Bank of Brazil is now refusing to open irrevocable letters of credit for non-essentials such as high-priced automobiles, radios, refrigerators

tors, and other products, and it is refusing to sell exchange for consignment stocks.

The Director of Exchange believes that the problem should be adjusted by means of short term credits. Such credits would be used to maintain the present exchange regime and to stimulate trade with other countries in Latin America.

In view of the seriousness of the situation, the Director of Exchange recently submitted a memorandum to the Minister of Finance the text of which follows:

" The alarming decrease in our export trade is being manifested in our exchange position. The decline in importations has not been sufficient to offset this deficiency. It is sufficient to remember that the 'bought' position dropped from \$18,000,000 to \$8,500,000 at the end of July. (Note: This decline occurred within one month.) Government remittances alone in this period exceeded \$3,000,000.

" Our exchange position is still good and to it may be added the gold reserve that we have in the United States (12.5 tons) and the gold in Brazil (29 tons).

" Our accounts with bankers are in good condition, with a balance superior to our position.

" Notwithstanding, the outlook is bad and we are now feeling the first effects in our position, as we have reported.

" We come, then, to repeat to Your Excellency the prognostications that we have made in conversations.

" It is important to mention that our credit is very firm and that we should take whatever measures are necessary in order to avoid prejudicing this standing. We believe that from the standpoint of exchange, Brazil is in better condition than many countries today.

"In

" In view thereof, we should do everything possible not to defeat these accomplishments.

" To minimize the effects of the exchange crisis which now threatens us, we propose that we prepare the following measures at once:

- "1. It is expedient to issue to the Bank of Brazil the instructions necessary to utilize its own gold and that of the Government (8.86 and 12.5 tons, respectively) now on deposit in the Federal Reserve Bank of New York, in accordance with the provisions of the Souza Costa-Morgenthau agreement.
- "2. Authorize the Exchange Department of the Bank of Brazil to work out an accessible formula for the commerce between the Latin-American countries, to the effect that all transactions be made on account and credited in dollars. The balance of such accounts, which would not be compensated, would be paid out, as it became necessary, in two-year drafts issued by the official bank of the selling country against that of the buying country, discounted by the Export-Import Bank, while the Inter-American Bank is not in operation.

"This measure would develop trade between the countries, and would afford them sufficient time and the wherewithal for purchases in the United States. It would act as psychological factor.

- "3. Effect immediate negotiations with American authorities to create a regime which will permit a periodical adjustment of our trade, and, consequently, of our exchange position, by means of transactions, effected monthly.

" We do not propose, Mr. Minister, to adopt any restrictive measures to our present exchange policy, as it has proved satisfactory and has only been affected by a world calamity, to face which we have been equipped with a few reserves, and, even more, with a good credit standing.

" It would, therefore, be very painful that, by not availing ourselves of certain opportunities, we should go back to a regime of restrictions which so greatly affect the economic future of the country.

"It

" It is opportune to recall that the agreement with Great Britain, drawn up in such satisfactory form, has not been put in operation due, it seems, to the deficiency in maritime transportation.

" We have not, therefore, been able to sell to and obtain a balance in that country, and for this reason it is convenient that the Brazilian Government be prepared for an eventual suspension of payments to that country, and so inform the British Government, or, in other words, the Brazilian Government should make it clear that such payments will only be made as a result of the balances which may arise from British purchases in Brazil.

" We shall await, Mr. Minister, your instructions on the matter. "

A translation of the recommendations of the Director of Exchange follows:

"Exports to Brazil

"General Financing.

" It is a fact that the Export-Import Bank has favored exports of large bulk to Brazil, but it should also be noted that in general, American exporters have done nothing towards that end, and, relying on the contingency in which Brazil finds itself, of having to purchase certain articles exclusively from the United States, they always require payments at sight, and, sometimes, even in advance.

" Serious evils may originate from this practice. Thus, if it is continued, it is evident that Brazilian importers will prefer to purchase in Europe, as soon as it becomes possible to do so. On the other hand, if we consider that Brazil has lost perhaps 40 per cent of its export markets, the pressure of the American export trade will cause the weakening of Brazilian economy, which will soon cease to import.

" In addition to this, it must be noted that Brazilian purchasers will naturally make a comparison between the European trade methods and the American ones.

" It

- 7 -

" It is, therefore, necessary to organize a system which may serve the transitory conditions in which Brazil's foreign trade finds itself, there being expectations as to the results of the joint efforts which Brazil and the United States are making to increase exports.

" In the execution of this measure, one cannot, in the beginning, expect the acquiescence of American exporters, as it is a known fact that the trade has certain habits which are only slowly outgrown. Therefore, one can only expect results from the combined measures adopted by official organizations in Brazil and the United States.

" It is natural that if Brazil continues to keep up-to-date its commercial, financial and public debt payments, there will finally be created an atmosphere of more confidence. It is, however, understandable that, in this present period of difficulty in international commerce, Brazil, in spite of its efforts, may not be able to maintain the exchange policy that resulted from the conversations between Ambassador Oswaldo Aranha and American authorities, such as Messrs. Hull, Morgenthau, Welles and Caffery, if it does not possess the wherewithal to face certain difficulties which, fortunately, are of a temporary nature.

" This temporary support of Brazil's exchange situation might consist in a general financing system for its imports, operated between the Bank of Brazil and the Export-Import Bank, which would attenuate the system of American exporters, removing the difficulties between them and their Brazilian customers, in this way facilitating their commercial relations and making them permanent.

" We are under the impression that this could be obtained if the Bank of Brazil, each month for instance, would advise the Export-Import Bank that the payments for American imports during this period had amounted to X, already paid for at sight, requesting the Export-Import Bank to refrain from giving special consideration to each one of such transactions (which would be impossible, as they are many and unimportant)- and to finance the Bank of Brazil with a sum not to exceed 80 per cent of such payments, against promissory notes issued by the Bank for a period of six months.

" The maximum financing for each month would, naturally be established, as well as the maximum responsibility which the Bank of Brazil might have at any one time. It should be made clear that this business system is to last only until such time as normal international commerce is re-established, or, otherwise, if by force of habit there is created a better understanding between American exporters and the import trade in Brazil.

" For the development of trade between the American Republics, it would be interesting if by means of an agreement between themselves, a method of payment could be established as follows: Country X would sell to Country Y, but the amount, instead of being paid immediately, would be deposited in the official bank of the purchasing country for the credit of the official bank of the selling country, in dollars. With the interchange of purchase and sale, there would be two accounts which, however, would not compensate themselves. Whenever the selling country would be in need of currency of international use, it would be in a position to draw against the official bank of the purchasing country, up to the limit of the balance of its account, for a term not in excess of two years. Such notes representing legitimate transactions of international trade, made out in dollars and bearing the signature of two official banks, would be discontinued by the Export-Import Bank or the Inter-American Bank. It is evident that such a regime, which must last as long as international difficulties exist, would result in a great development of trade between the American countries, a friendly interdependence, a general easiness of currencies of international use, and the necessary balance to improve the trade with the United States of America. Naturally, the exchange responsibility of the selling country should be maintained in whole or in part, in accordance with the deserving credit and the position held by the purchasing country, and, therefore, drawee.

" To proceed with this proposal, it is advisable that it be brought to light by one or some of the American countries, once the opinion of the United States becomes confidentially known.

" We have, therefore, described a situation which is temporary, and also the manner in which a definite solution may be expected, and which represents, without doubt, an increase in Brazilian exports.

" If these measures are of great material importance to Brazil, it is certain that they will be of great psychological and even political effect on other countries, because they will prevent the continuation of criticisms regarding the manner of negotiating as employed by American exporters. The latter, in turn, acquiring more confidence, will, of their own will, be inclined to offer better terms to their buyers, it being possible that within a certain time the action of the Export-Import Bank may become only symbolical or potential.

"Brazil

- 9 -

" Brazil does not desire to modify its exchange policy, not even to introduce in its foreign trade the system of quotas or permits for its imports. It is true, however, that the Bank of Brazil has done everything in its power, by means of the Fiscalization Department, to spare its credit and its funds, and with that end in view, it does not permit the opening of credits except for merchandise that is absolutely indispensable.

" It should otherwise be noted that since the war started no credits were permitted to be opened for merchandise of European origin, which are only paid for when they arrive in Brazil."

The Bank of Brazil would contract with the Export-Import Bank for a monthly credit to make up the difference between the purchase and sale of dollar exchange. The credit would be for a period of six months and it would take the form of a promissory note of the Bank of Brazil subject to a reasonable rate of interest. The Director is of the opinion that the credit would not exceed \$5,000,000 a month and that the operation would continue for six months, at the end of which he hopes that the export trade will be substantially better. The banks would agree upon a plan for the gradual amortization of the credits.

This would not only enable the Bank of Brazil to continue the present exchange regime and to meet all payments in connection with the debt and other services, but it would also facilitate credit transactions between American exporters and Brazilian importers. For example, an American exporter of an essential product would demand cash in New York against documents, as contrasted with the

desire

desire of the importer to obtain terms ranging from 60 to 180 days. The Bank of Brazil would pay the exporter in the United States and extend reasonable terms to the importer, provided his credit standing is good. The credit operation would take the form of an internal transaction, and it would obviously put an end to the wave of objections in Brazil to the refusal of the great majority of our exporters to grant reasonable terms.

As stated above, the Bank of Brazil would continue to open irrevocable letters of credit in the United States for essentials, but for other products the Bank of Brazil would either agree to pay against the arrival of merchandise in Brazil, or 30 to 60 days later. The latter procedure would discourage the importation of unnecessary products, since exporters in the United States would be unwilling to ship against these conditions.

As regards inter-American trade, the idea of the Director of Exchange is to arrange with the Export-Import Bank, or the Inter-American Bank, to discount for a period of two years drafts drawn against the central bank or the government bank in each country. This point is very clearly covered in the above mentioned memorandum of the Director of Exchange.

The Director believes that if this plan could be put into operation, Brazil could increase exports by possibly 10 percent. This view is supported by manufacturers of products that find ready markets in Latin American countries, but which cannot be exported at the moment due to the shortage of foreign exchange in these markets. Several Latin American countries have suggested that

that trade with Brazil be placed on a compensation basis, but this is not possible owing to the fact that other countries in Latin America, with the exception of Argentina and Chile, produce commodities competitive with Brazil.

The Embassy has sounded out the National City Bank as to the possibility of a group of banks in New York opening acceptance credits for the Bank of Brazil. The supervisor of the City Bank has promised to take up this matter with the head office in New York. As far as the Bank of Brazil is concerned, it would prefer to reach an agreement with the Export-Import Bank. The Director of Exchange desires to point out that the Bank of Brazil's record with the Export-Import Bank has been perfect, and to assure the Export-Import Bank that the Bank of Brazil will not assume any obligations unless it is absolutely certain that it can amortize them within a reasonable period of time.

The Director of Exchange, like the great majority of Brazilians, is sympathetic to the United States, and he sincerely hopes that we will assist Brazil before it is too late. He is very familiar with the activities of the Germans to undermine our commercial relations with Brazil, and he fears that unless we do something at once, the Germans will win more followers. Some of the leading pro-American newspapers in Brazil have been publishing articles and editorials criticizing the cash-against-documents policy of the majority of our exporters, and the indifference of these exporters to the economic problems of this country.

Although

- 12 -

Although the recommendations of the Director of Exchange do not bear the endorsement of the Brazilian Government, we believe that Government officials will support him and that they will continue to give him a free hand in administering exchange matters. In appealing to the Embassy for assistance, the Director desires to ascertain the unofficial reaction of the Department and the Export-Import Bank to his plan, and to receive suggestions.

The Department will recall that the Embassy has repeatedly emphasized the danger of an exchange crisis in the closing months of 1940, therefore, the information contained in this report will not come as a surprise to the Department.

The Department will appreciate the importance of this matter and will, I am sure, study the proposals and communicate with the Embassy without delay.

File 851.51

WJD:KF.

C O P Y



CUSTOMS AGENCY SERVICE
OFFICE OF SUPERVISING CUSTOMS AGENT
EIGHTH CUSTOMS AGENCY DISTRICT
303 CUSTOMHOUSE

TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

272

DETROIT, MICH.

August 14, 1940

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

Subject: Report relative to the bombing of Calais, France, and a trip with military escort through the German lines in France, Belgium and Luxembourg to Paris via Germany and Switzerland.

Sir:

Since April 1, 1940, I had been conducting a general value investigation of lace in Calais with Treasury Representative Charles Schlager. I had seen considerable anti-aircraft activity against German reconnaissance planes. On the night of May 9/10 when the German invasion of Belgium and Holland started, there were air raid warnings at about 3:00 A.M. A few minutes later the German planes could be seen in the clear sky flying at about 5000 feet. This time the heavy anti-aircraft fire was punctuated by the obvious "whining boom" of bombs which were dropped around the Calais port. The raiders returned several times between 4:00 A.M. and 6:30 A.M. No planes were brought down by anti-aircraft fire. About 6:00 A.M. the first and only allied plane appeared. I was later told it was a little spitfire which had come over from England. This plane brought down one German bomber which I saw drop into the sea.

About 7:30 A.M. I drove to the port and examined the damage. One bomb had fallen in the center of the power house which operates the Calais Port locks, and one on the locks. Several had fallen on warehouses near the locks, and one on a small tug boat in the harbor. Others had fallen in the water or on barren land. Five or six bombs had fallen in the poor housing district around the port and one small bomb in the center of the Chamber of Commerce Building court yard. The explosion of this bomb had taken out all the doors and window casings in the three stories. The shrapnel had torn hundreds of holes in the building and the furniture. The concierge and his family who were sleeping near the explosion on the first floor were unharmed, although their beds were covered with glass and debris. The force of the explosion passed through their quarters, whereas, in the basement where they should have been, there was no outlet and the force of the explosion tossed cases and furniture around in such a manner that the

French and British military observers agreed that the family would probably have been killed if they had taken shelter in the basement.

Following the first bombing of Calais I returned to Paris to await developments. I talked with Mr. Wait on the telephone on May 13th and 16th, and advised him of my intention to return to Calais if there were no further bombings. He agreed but advised me not to take any chances. After conferring with the U. S. Consul and lace manufacturers in Calais and with the French military authorities in Paris, I returned to Calais on May 19th. On the advice of the French War Department, I had taken the road Paris, Dreux, Rouen, Abbeville in order to avoid as much of the traffic as possible. I, however, found these roads jammed with Belgian soldiers and refugees. Cars, trucks and tractors of every description filled even the small country secondary roads. It took me 45 minutes to go through Abbeville.

I arrived in Calais at 8:30 P.M. after driving for 11 hours, and learned that during the night of May 18/19 the second bombing had taken place. I discussed the matter with my associate, Treasury Representative Charles Schlager, and we decided to close our investigation on Monday and start back to Paris in the afternoon or evening.

That night the German planes returned and dropped a few bombs in the railroad yard near the Hotel de la Gare where we were staying. The explosions broke windows in our hotel and in the adjoining Hotel du Commerce where we took our meals.

The next morning I gathered some pieces of shrapnel for our military attache which indicated that the bombs used were of a larger dimension than those dropped in the first and second bombings.

I later called on several manufacturers in order to close pending investigations, and learned that the commission houses had refused to accept further deliveries on orders since no shipments by rail or water could be made from Calais. All manufacturers, therefore, were closing down and paying off the help, including their two weeks paid vacation. I packed my valises in the car and was ready to start back to Paris at 2:00 P.M. Mr. Carter, the American Consul in Calais, had requested that I drive him out to the Tuck Farm near Calais in the hope that he could find a station wagon which had been offered to him a few days before by one of Mr. Tuck's employees. When I arrived at the Consulate he was talking with Paris. Mr. Cross, the Administrative Officer, asked to talk with me, and informed me that the British Consulate in Lille had phoned the Embassy to the effect that two Americans were stranded in Lille with no means of transportation. Mr. Cross asked if I would drive to Lille and I agreed to leave at once.

I phoned the British Consulate in Lille and told them that I was coming, and asked that the Americans wait for me even if I did not arrive until night. I then called on the French military authorities, who advised me that it was impossible to go through St. Omer, due to the jam of refugees. They gave me a map and suggested that I try to swing up into Belgium and come into Lille

- 3 -

from the north. I followed this advice, but found the roads badly clogged. In France, all of the traffic was moving south or southeast. Cars, carts, trucks, tractors, threshing machines and every manner of hand carts, baby carriages, and wheelbarrows were mixed with motorcycles, bicycles, and thousands of people on foot. Cripples in wheelchairs and on stretchers added to the general confusion. In Belgium I found the roads filled with troops and military convoys, and as a result I did not reach Lille until 8:00 P.M.

The two following Americans were waiting for me at the British Consulate:

Father Harold A. Gonder
Vice Rector American College, Louvain, Belgium

George G. Cecalla
Salt Lake City, Utah
Student working for his doctor's degree at the University of Louvain.

We left Lille at once without dinner and returned to Calais on small roads via Cassell. As most of the refugees were camped for the night we were able to reach Calais at 10:30 P.M.

I found that the Railroad Station Hotel in which I was staying had been condemned by the military authorities and the garage in which I usually kept my car had been closed for the same reason. The proprietor of the hotel agreed that I could stay there, but he could not receive my two passengers. I took them to the Commerce Hotel and was refused rooms. We then went to the Pillet de Sole on the waterfront where we had a light dinner, and they were able to find beds without sheets. The laundries had been unable to keep up with the rush of refugees through Calais.

I went to two garages in the center of Calais, but would not leave my car when I found that it had to be left unlocked. Mr. Schlager had left his car in the Consul's garage, so I parked mine outside his house.

I arrived at my hotel about midnight and had just finished my bath when the air raid warning sounded. I arranged two mattresses in front of the window and watched the most colorful fireworks I have ever seen. The British had mounted some of their equipment and the sky was full of search lights which played on the planes. Tracer and lantern bullets kept a constant contact between the planes and the land batteries. On the second flight over the city the planes started their bombing. The length and intensity of the whistle was a perfect indicator of the bomb's proximity. When they were close, I took refuge behind my mattresses. Suddenly, and for the first time in Calais, a salvo of incendiary bombs were dropped over the yards of the gasoline storage tanks. I estimated about thirty of these bombs, but in less than one minute all of the blazes were out. The reason for this I learned the next morning.

- 4 -

A few minutes later another basket of incendiary bombs were dropped over the district in which the Consul's house was located. I ran into Schlager's room and told him to dress, as both our cars would probably be burned and we would be stranded in Calais. We dashed from the hotel. The flames were mounting over a hundred feet into the air. As we approached the Consul's house on the run it seemed certain that it was burning. It was only during the last two hundred yards that we were convinced that the fire was back of his house. There was, however, an incendiary bomb burning within 50 yards of my car and one explosive bomb had fallen within the same radius. The windows and lamp lenses of my car were smashed. We could not determine whether this was due to the explosion or to deliberate vandalizing by crazed people, who, seeing the reflection of the incendiary bombs in the car windows and lamps thought that it had been a signal to the Germans. I had witnessed several such cases of insane destruction.

After looking over the damage in his neighborhood, the Consul, who had hesitated to close the Consulate, decided to leave with us the next morning at 9:00 A.M.

We returned to our hotel in the car and had just arrived when a large bomb fell in the path we had just taken.

Early the next morning I went over the city to collect samples for the War and Navy Departments. Large warehouses and some homes on the port side had been burned to the ground. In the center of the city the Hotel de Commerce, which had refused rooms for my passengers, had been laid open by a bomb. One of the garages where I had considered leaving my car had been destroyed and twenty-seven cars burned. The streets were filled with glass and debris, as very large bombs had been used which broke windows within a radius of 250 yards or more.

I went to the gasoline storage yards to fill up, since all service stations were empty. When I told about seeing incendiary bombs fall in the yard and then being put out in less than a minute, the officer in charge explained that he had stationed men all over the yards with shovels, and although it was the first incendiary raid, he had been ready for it. When I said that I was interested in some samples for the U. S. War and Navy Departments, he went over the field with me and we found one incendiary bomb which had not exploded. One of his soldiers took it and unloaded it for me. I asked the officer what I should pay him, and he said not over 5 francs or you will spoil him. When I gave him 10 francs the soldier said "I wish I had a hundred of them to unload".

The two Americans from Lille, their baggage and some of the Consul's baggage went into my car. Mr. Schlager took the Consul and the balance of his hand luggage and one trunk. We left Calais about 9:30 with gas tanks loaded and a reserve of 80 liters each in five liter cans.

From Calais to Boulogne we followed the coast road and made very good time. At Boulogne we took the coast road to Etaples expecting that it might also be

- 5 -

comparatively free. It is a small narrow road hardly wide enough for two direction circulation. We found it literally teeming with every manner of traffic going in both directions. Soldiers, Army and Red Cross trucks, artillery and tanks were mixed with refugee cars, bicycles and horse carts moving in both directions. I spoke with soldiers and officers who said that they were retreating from the Somme region under orders and others who were advancing toward the Somme region under orders. Refugees returning toward Boulogne had fantastic tales of bridges blown out and roads which were impassable toward the south. None of them had seen these things, but had turned back with the hysteria of hearsay news. Old trucks, auto busses, moving vans and tractors loaded beyond their capacity with civilians and their belongings stalled on every hill and crashed into cars on the down grades. To make any progress it was often necessary to drive in the fields and over ditches and every manner of obstacles.

All food, gasoline, oil and bottled water had been cleared out by the thousands of fleeing Belgian and French refugees. We therefore, tightened our belts and forgot food. We moved at the rate of about 5 kilometers an hour until the early afternoon when German bombers started flying along the lines of traffic, dropping bombs and machine-gunning. This slowed down our progress with the result that we did not reach Etaples until about 7:30 P.M. Bombs had fallen in front and in back of us but had caused no damage to our cars. The greatest destruction came from insane driving which lined the road sides with wrecked and damaged cars.

One example of the hysteria which filled the roads occurred between Boulogne and Etaples. A young French boy in a small sedan ran out of gas and got out of his car to push it onto the side of the road. The man back of him, seeing that he was stalled, tried to push ahead and caught the boy's leg between the two cars. I jumped out of my car and tried to force the man to back up. He only screamed that he had his wife and children and had to get them to Boulogne as the Germans were coming. An English Colonel who was helping us through, got out of his car and drew his revolver. He told the man that if he did not back up he would shoot. The man's wife finally persuaded him back to reason. The boy was placed in an ambulance.

After one of the bombings on the Boulogne-Etaples road some French officers who were doctors in Paris that I knew, came to my car and said if we can't put some kind of order into this mess we are lost. I suggested that all refugees be forced to go out into the fields and park so that the roads would be free for the military. They asked me to set the example, so I drove out into a pine forest. Forty or fifty cars followed, but after about 45 minutes, one of the doctors came back and told me I had better get back on the road and fight for space with the rest. He was completely licked and could do nothing with the maddened mob.

We had been told that the bridge at Etaples had been blown up. We, however, found that like most rumors it was without foundation. I was able to get a little gas and oil at the Standard dealer in Etaples, due to the fact

- 6 -

that I was a friend of Mr. Crampton, the manager and Vice-President of Standard Oil.

From Etaples we took the road to Berck Plage, but were five kilometers from there when night fell. We drove out into a field to spend the night in our cars without supper. A few minutes later a dozen French army trucks decided to park in the same field, so we drove further in and parked between two sand dunes.

During the night a wild Frenchman saw some falling stars and came to each car yelling "Parachutes! Do you have your guns ready?"

About midnight it started to rain very hard. I was afraid we would mire down in the field, so we drove back to the road and crawled along without lights to Berck Plage and Rue and toward St. Valery. As we left Rue we started to see an unusual number of trucks and cars in the ditch. We were not sure of the road so we stopped several times to ask our way. All of the cars we approached were abandoned. A farm house we went to was abandoned with the table set and food on the cold stove. As we drove along we found large artillery abandoned on the side of the road, and burning trucks and cars. We held a council of war and decided it was folly to continue in the night when we might be machine-gunned without warning. We waited for daylight and then drove on until we came to such a tangle of burned, wrecked and abandoned cars that it was impossible to continue. I found a truck with 1000 liters of gas in 50 liter cans. While we were filling up the cars, Consul Carter continued down the road. Later I followed and saw one of the most appalling sights imagination can picture. The first man I saw was looking at his motor. I spoke to him, but he did not reply. I touched him and he fell over. He was dead. I saw four people in the next car. They were all dead. A little farther on, a man and a woman on the side of the road were completely burned by the heat of an explosion which had destroyed a farm house and about twenty cars and trucks. In the barrow pit at the side of the road were dead French soldiers and civilian refugees. These were undoubtedly killed by the bomb explosion as no evidence of wounds could be seen. The shatter proof glass in most of the cars was crystallized into little beads which fell apart when touched.

I went out into the field and saw dozens of refugees and many more soldiers. These had been machine-gunned. One man and his wife each holding a little girl's hands were lying on their faces with bullet wounds in their backs. There were dead French soldiers within five feet of them.

I continued down the road of horror for about two kilometers. Each car bore evidence of a new tragedy. Packards, Buicks, Chryslers, a Rolls-Royce and all the French makes were to be found in the grave yard. Some were undamaged but could not move. Beautiful luggage, blankets and in some cases, dogs were left in cars which had obviously been abandoned in a great hurry. I turned off eight or ten motors which were still running. Finally I came upon two German sentries stationed at a road junction and railroad crossing. They were directing the soldiers and refugees who came through the tangle of cars. Belgian and Dutch soldiers were told to put their arms down and return to Belgium or Holland. The few French who turned up were told to walk toward

- 7 -

toward Abbeville where they would be directed to prison camps. Refugees were advised to proceed cautiously back to their abandoned homes. When I asked if there was any way to get across the Somme, the sentries indicated that I should see their Commandant.

Mr. Carter who had walked on to the next village, returned a few minutes later with instructions as to how we could reach the commander.

We drove to a country estate and were received by a lieutenant. We requested permission to cross into the French lines in order to regain our posts at the Embassy at Paris. This was denied because of the danger. He suggested that the French would kill us and blame it on to the Germans. He further stated that it would be a week or more before a car could get through even though the French did not mine and destroy the roads on their side. He suggested that the only safe method would be to proceed up through the German lines under escort to Belgium, Luxembourg, Germany to Switzerland, and then back to Paris. He, however, wished his plan to be approved by his superior and sent us up to a small village. He suggested that we first take what supplies of food and blankets we would need from abandoned cars. I told him that my car was filled with baggage which I would throw out and replace with enough gasoline to take us through. He said, "Why leave your baggage? The German Army will give you all the gas you need. We have plenty".

We had breakfast at the village where we exchanged a little bread for some milk. While we were waiting for the commanding officer we chatted with some of the German lads in their tanks. They were like college boys - admired our cars, told us about their plans to encircle the French and English north armies. They listened to my radio and laughed at the news broadcast in German from the French stations. They said, "The French must think we are dumb". They praised the French soldiers and belittled the English. They said it was a shame to put them against unseasoned troops as they were old veterans of the Austrian, Czech and Polish campaigns. One boy said he had been only four days coming down from Sedan and had slept in his tank every night.

In my conversations with these young soldiers, I was particularly impressed by the following points:

1. They took great pride in their physical fitness.
2. They all agreed that they had worked hard for many years. Their attitude, however, was not one of forced labor but rather enthusiastic partners in the saving of Germany and the spread of the new Doctrine to the rest of Europe.
3. The crushing of England and the breaking up of the British Empire is the German's main objective. Until this is done, they argue, it will be impossible to establish the United States of Europe and bring peace and happiness to all the people.

The interview with the commandant was short. He said that the decision of the first officer was correct but that he would send us to Abbeville where there would be a high commandant.

We were conducted to Abbeville by a motorcycle with two soldiers. This little city through which I had passed on Sunday was completely wrecked and in flames. German supply trucks, artillery, tanks, motor units and soldiers were streaming in from four directions. At the Grand Place orders and maps were being distributed to each unit as it passed. The traffic which was probably heavier than it had been on Sunday when I had taken 45 minutes to pass through the city, was perfectly organized. When a truck unit stopped, signals were passed back along the line and the entire unit pulled off to the side of the road. A tank or motor unit would then swing past. There was no delay and no confusion.

We were taken to a Colonel who did not speak either French or English. A captain in his staff spoke perfect English and acted as translator. We told our story and the Colonel ordered a motorcycle to precede us and a car with an officer to follow us to the next commanding unit at St. Quentin. We were to be given gas and any other necessities.

The roads between Abbeville and St. Quentin were alive with Germans. Their inferior equipment which had been given such wide publicity by the Allies after the Austrian, Czech and Polish campaigns, was swinging down the roads at 80 kilometers an hour with practically no interruptions. Occasionally a truck, a car or a tank was on the side of the road being repaired by its driver and crew. All of the equipment was strictly army specially built for the purpose. There were no requisitioned units, all was uniform and appeared to be of unusually fine quality.

The most terrifying part of driving was when the big 70 or 90 ton tanks, which take over half of the road, came charging down at the same speed as the trucks and cars. I can well understand the bewilderment of the French and English soldiers I talked with who just said, "It was terrible! There was nothing we could do".

Amiens was badly destroyed, but the Cathedral towers were standing. St. Quentin was in fair condition. Here we met a very self-sure officer. He said, "I don't see the necessity of sending a military escort with you. This territory has been in German hands for several days and it is well organized. Just drive along and if you need anything, ask an officer and if you are stopped, show your passports". He ordered our cars filled with gas and wished us a bon-voyage.

By mistake, some truck gas was poured into Schlager's car and when we started out his carburetor refused to function properly. We limped along to a farm house not far from St. Quentin. The woman in the farm agreed to cook us a supper if we would furnish part of it. She had butter, milk and eggs, but no bread or canned goods. When we asked if we could sleep in the straw

- 9 -

shed, she said, "Well, I guess you have as much right here as we do. We came down from the Belgium frontier where we were working on a farm and we found this big place with twenty cows, chickens, horses, sheep etc. abandoned, so we settled down".

I later asked a German officer what would be done in such a case and he replied, "As long as they take good care of the place, they will be allowed to stay until the real owners return. We will buy supplies from them and treat them as the owners".

That night the Allies decided to raid the roads around St. Quentin. Our farm must have looked like a likely military objective as they flew over us several times and dropped some bombs a few hundred yards away.

The next morning Mr. Schlager's Chrysler raised new objections to the truck gas, so we decided to tow him. Whenever we stopped, German officers and men tried to be helpful with advice and suggestions relative to the disabled car. They would drive the Chrysler and pronounce it good, then we would tow it a little farther, to be the victims of more good intentions. The disgust on our faces must have been mistaken for hunger, as we were presented with several loaves of heavy German army bread and butter.

We went from St. Quentin to Guise, Hirson, and crossed the Belgium frontier near Rocroi. Here we ate lunch with a little old Belgian lady who said she had passed the last war with the Germans and was not going to take to her heels now. She said the Germans in the last war had been very kind to her, but this time they were even more careful not to offend.

At Couvin, Belgium, we found an abandoned garage with a service pit where we drained the gas out of the Chrysler. We put new gas in, but still the carburetor refused to function. I therefore, continued to tow Schlager's car.

At Givet we were stopped and taken to the commandant, who said the decision of the St. Quentin commandant was a little far fetched. True, the captured territory was well organized, but it was still war and it was not prudent to let us circulate without special protection. He sent a military escort with us to Dinant. Here we were graciously received by the commanding officer who had us served a simple, but much appreciated dinner, with good wine and white linens. He said he would try to find us beds, but at 9:30 an officer announced that we would be taken to Marche which was only about 45 minutes away. I objected since it was dark and I was towing another car. I knew the Dinant roads and had no desire to pick my way along the canyon walls at night. After some discussion it was evident that the commanding officer did not wish us to spend the night in or near Dinant. We started out with a motorcycle in front and a car behind us. We lost the motorcycle in the first kilometer and our escort commandeered another. We lost them in a few minutes when an air raid started. The Allies were giving Dinant and region a good drubbing, which probably

- 10 -

accounted for the commander's desire that we be out of the neighborhood. A flare almost fell on our cars, which was a little disconcerting since we knew there were planes overhead which were ready to bomb if the flare showed up anything interesting.

After the raid had passed we proceeded on in the blackness. Trucks and tanks whizzed past us in the obscurity. Their visibility without windshields was much better than ours. On a road which descended rather abruptly, I stopped my car, more from instinct than from sight. I got out and found my front bumper hanging over a big shell hole which had blown off half of the road. I could hear the river several hundred feet below. The officer in the car behind us came up and when he saw the hole he decided we were on a condemned road. It was no easy task to turn around on the grade.

We wandered around the Belgium countryside all night and finally reached Marche at 5:30 A.M. Instead of a bed we were graciously invited to breakfast with the staff. This consisted of coffee and a sort of Swedish rye crisp with butter. The officers consoled us by saying that they had not slept for three nights.

During breakfast one of the officers gave me a dissertation on the weakness of democracies. He particularly emphasized the difficulties of meeting a national emergency with labor unions blocking the way. I was too tired to make many observations.

At 7:00 A.M. we left with military escort for the headquarters camp at Bastogne. We found that the main road had been bombed the night before and we were forced to use the secondary roads. These were filled with foot troops and motor and horse drawn equipment. In spite of the bad roads there was no confusion and no jamming. We moved slowly but reached Bastogne at 11:30. Here we met our first general. He came out with his staff and when he had heard our story, gave the following orders:

1. Take these gentlemen to quarters where they can clean up and make themselves comfortable.
2. I regret that my duties will not permit me to lunch with you, but there are hundreds of thousands of troops moving through here and tens of thousands of prisoners coming in and time will not permit it. My Colonel, however, will be your host.
3. While they are lunching, have the disabled car repaired.
4. Give them gas and anything else they need which the German Army can supply.
5. When all is ready, send an escort in charge of a captain with them to Luxembourg where they are to be given over to the care of the commanding officer.

- 11 -

At lunch we were informed that under the new Hitler regime, the officers and men eat the same mess in the same hall. Each man who came in or left the hall clicked his heels and hailed Hitler. It was rather confusing.

After lunch the Chrysler was brought back by a Chrysler expert who had worked in Berlin. He said the car would run, but he could make a complete repair if we would spare another two hours. We agreed to this and while the others slept, I accepted an invitation to visit the prison camp with the Colonel. It was only a temporary camp and the 15,000 men were rather crowded. According to the military regulation I was not allowed to talk to the prisoners, but the Colonel talked for me. Many of the men complained that cliques among the prisoners were getting more than their share of the food. Most of them agreed that the German treatment was fair. All we spoke with felt that the modern warfare was terrible and they were glad to be partly out of it. The bombings and tanks had them jittery.

While I was with the Colonel he received word that the railroad lines were opened and a trainload of prisoners would leave that afternoon for Germany. He also received notice that 23,000 more prisoners were being sent to him that night and the next morning.

In Bastogne I discussed production with some officers who had been associated with the building of planes. In answer to my questions, they agreed that the German planes did not have the life or the safety factors of the best United States planes. They, however, contended that their planes had superior performance and that the design and production had been worked out to give the maximum output with the maximum performance. They recognized the fine organization of the American industries, but contended that it would take two years for the United States to build and tool up factories and reach the present German production.

They also mentioned the advantages of standardization in all army equipment and stated that it must be a big problem in the American Army to keep parts for all of the different makes of trucks used.

After a cheery goodbye our host said jokingly that we should hurry to Paris and Bordeaux or they would be there before us since we had to make a detour.

We left Bastogne at about 4:00 P.M. and arrived in Luxembourg at 7:30. There I met my good friend Consul George Waller, who had remained through the fight and was acting as charge-d'affairs for the French and British Legation in addition to his own duties. Not finding a hotel he had us sleep at the French Legation. This was our first bed and bath in four nights.

The next morning we were taken into Germany at Trier and turned over to the civil authorities. Not wishing to be outdone by the military, these gentlemen took us on a scenic tour and explained all of the beauties of Germany.

- 12 -

We saw young Germans in action at a military post in Trier. Two young grown shirts about 10 or 11 years old were directing traffic in and out of a narrow gate. While we were admiring their job, two new ones came up to relieve them. There was a clicking of heels and heiling of Hitler and two new traffic officers of 10 or 11 years took over the task.

We drove from Trier to Frankfort where we arrived late Saturday night. The Consul General received us and suggested we go on to Stuttgart the next morning since it was Sunday. He gave us gas and changed our money. The next morning, however, the Germans had another plan. They suggested that Swiss visas be obtained in Frankfort and then we could drive through to the Swiss frontier. We called the Swiss Consul and he agreed to meet us at noon. He sent the application blanks and when we found that pictures were needed, the German escorts took our passports and returned thirty minutes later with four photos each for our Swiss applications.

That afternoon we drove over the Reichautobahn to Heidelberg, Stuttgart and then up to Brims where we spent the night. The only traffic on these beautiful roads was military.

The next morning we crossed the Swiss frontier at St. Margareten.

I had the damage to my car repaired at the General Motors factory at Dienne and then returned to Paris where I learned that I had been transferred back to the United States.

I went to Bordeaux and sent my family on the SS WASHINGTON. I then returned to Paris to close my apartment and pack my things. It was too late. The Germans were just outside of Paris and all the packers had left. I returned to Bordeaux where I again waited for the German advance.

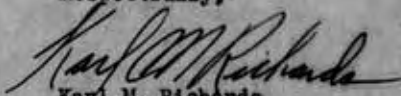
On June 25th I was surprised when coming out of a restaurant in Bordeaux to see a German army car with four officers. The French government had not yet left and the official occupation of Bordeaux had not yet commenced. One of the officers put out his head and called, "Hello Mr. Richards. Did you have a pleasant trip through Germany?" It was the officer who had directed us at Abbeville.

Realising that it might be months before normal conditions returned to Paris so that furniture could be packed and shipped, I decided to return to the United States via Lisbon. I drove from Bordeaux to Hendaye and on June 28th had arranged for all the formality to cross into Spain. I went to a gas station in Biarritz to fill my car and found it occupied by German soldiers. An attendant advised me that the station had been requisitioned by the Germans and he could not serve me. I asked for the officer in charge and when I had explained my situation he ordered my car filled with gas.

- 13 -

As I write this I am sitting in my hotel in Lisbon wondering if I will board the Clipper for America with a cheery "bon-voyage" from a German officer.

Respectfully,



Karl M. Richards
Treasury Representative

KMR/f