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April 24, 1940.

Dear Arthur:

Thanks so much for your letter of April 22d with enclosures which I have read with great interest. I am returning the enclosures for your files.

With kind regards.

Sincerely,

Henry

Mr. Arthur H. Sulzberger,
The New York Times,
Times Square,
New York, N. Y.

April 24, 1962.

Dear Arthur:

Thanks so much for your letter of April 22d with enclosures which I have read with great interest. I am returning the enclosures for your files.

With kind regards.

Sincerely,

Henry

Mr. Arthur H. Schlesinger,
The New York Times,
Times Square,
New York, N. Y.

The New York Times
Times Square

ARTHUR HAYS SULZBERGER
PUBLISHER

April 22, 1940

Dear Henry:

The piece requested from Matthews went through two editions and was then taken out because of the fact that it duplicated the regular financial article which we had from our financial man in Rome. On the chance that you may not have seen them, I enclose copies of both stories.

Faithfully yours,



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

AHS:H

Enclosures

April 22, 1940.

Mr. Jones

I received your note about the Italian market story. Matthews sent only what appears on the two attached pages and we used that story in the first two editions.

In the meantime, Mr. Lafferty on the Financial Desk as well as Mr. Bernstein on the Cable Desk had pointed out to me that Matthews' story was mostly a re-hash of what he wrote the other day and it also conflicted with our piece from our regular financial correspondent in Rome. There didn't seem to be anything else to do but to kill Matthews' piece.

If he is trying to bolster up his story of the other day, and that seems to be the reason for this piece, he certainly didn't do much of a job.

McCaw

from E. L. JAMES

MEMORANDUM for: Mr. Salinger

(1)

The attached material deals with the story you wanted from Matthews.

I think his story the other night about people in the knot selling their securities on the Italian exchanges does not stand up very well, and that is perhaps why we did not have the story from him we expected.

You will find attached a memo from the meticulous Mr. Lafferty which was written after Matthews' first story. In other words, Mr. Lafferty did not think the story stood up very well. And now, you will note Matthews' despatch saying the market ended the week where it began.

I have no doubt that this development would be just as interesting to Mr. Morgenthau as if things had gone the way Mr. Matthews thought they were going when he wrote his first despatch.

ELJ
E. L. J.

April 22, 1940/EA

Dear Mr. James,

When I showed the table below to Mr. Bernstein tonight, he suggested that I show it to you. In Mr. Matthews's Y-head story in the Thursday paper, page 1, he builds up his entire idea on the basis of supposed large declines in share prices on the Italian exchanges. These are supposed to show that the "big shots", who are all supposed to be selling out, probably because they "know something." But the table below, consisting of just the shares Mr. Matthews quotes, shows declines of only about the usual proportions--as you may verify by glancing through our Milan stock exchange tables for a few weeks or months back--and in general small proportions. I have translated the Italian quotations into dollars, so that they may be compared with day-to-day changes on the New York Stock Exchange. One final point may be noted: Pirelli, an important stock not mentioned by Mr. Matthews, declined 17 lire to the dollar he was quoting, but it went up 25 lire to the dollar the day after.

Finisider	474.15 lire	off 40 cents
or 474.15		
Eni	474.15 lire	off 40 cents
or 474.15		
Ansaldo	474.15 lire	off 40 cents
or 474.15		
Fiat	474.15 lire	off 40 cents
or 474.15		
Breda	474.15 lire	off 40 cents
or 474.15		
Terni	474.15 lire	off 40 cents
or 474.15		

TO OTHER WORDS, the Italian exchanges had a rather weak day.

James R. [Signature]

2/2 11:15 AM

undoubtedly due to misleadingly interpreted reports from this country the biggest activists are primarily well-informed about politics. The fact that they sold was almost as much that they knew something serious.

The guiding principle of the Italian market is to rise in proportion to Italy's possibilities of getting out of the war and to fall when the chances of getting involved become greater. Despite the recovery on Thursday and Friday, there was no real recovery on Saturday. Again there was a marked tendency toward weakness.

Obviously, investors are keeping watch on international events and this is likely to be a spectacular week. The normal tendency of the Italian markets would be to rise and given such realistic hopes of peace, they will do so. If they fall again, or they do in the middle of last week, it will be a bad sign.

1944 FEB 5.25

Long Decline on Rome Bourse Is Attributed More to Technical Factors Than to Politics

By MAXIMILIAN DE JOHANNIS

ROME, April 21.—The long decline of the Italian stock market, which has been going on for more than a year, is being attributed by many observers to technical factors rather than to political ones. The decline is said to have been caused by a combination of factors, including the long decline of the Italian stock market, which has been going on for more than a year, is being attributed by many observers to technical factors rather than to political ones. The decline is said to have been caused by a combination of factors, including the long decline of the Italian stock market, which has been going on for more than a year, is being attributed by many observers to technical factors rather than to political ones.

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STOCK MARKETS END HECTIC WEEK IN ITALY

Securities, Financier, Register
Gain After Wide Decline

By Associated Press Staff Writers
ROME, April 21.—The Italian stock markets today ended a hectic week at their lowest point since the war, but a slight recovery was noted in the closing hours. The week was marked by a general decline in the stock market, with many stocks falling to their lowest points since the war. The decline was attributed to technical factors rather than to political ones.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 24, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Railroad freight movement for export.

Receipts of export freight slightly lower

Export freight receipts at North Atlantic ports continue well sustained, though the average so far in April has been slightly below the March average. For the week ended April 20, receipts at New York were 176 cars higher than in the previous week, but this was more than offset by a decline of 309 cars in receipts at nine other North Atlantic ports. (See Chart 1 and table attached).

Export shipments decline sharply

The volume of freight exported from New York, as indicated by reported data, declined sharply during the week ended April 20, following the invasion of Denmark and Norway. (See Chart 2)

As a result of the slowed-up export movement, freight has again begun to accumulate at New York. During the week ended April 20, lighterage freight in storage and on hand for unloading in New York harbor increased by 434 cars, the first increase since February. (See Chart 3)

It may be of interest that the port of New York in 1939 handled 40.7 per cent of our total exports, a larger percentage than in any year back at least as far as 1929, according to figures made public Saturday by the Merchants' Association of New York. The value of exports through the port of New York in 1939 are given as \$1,294,013,000.

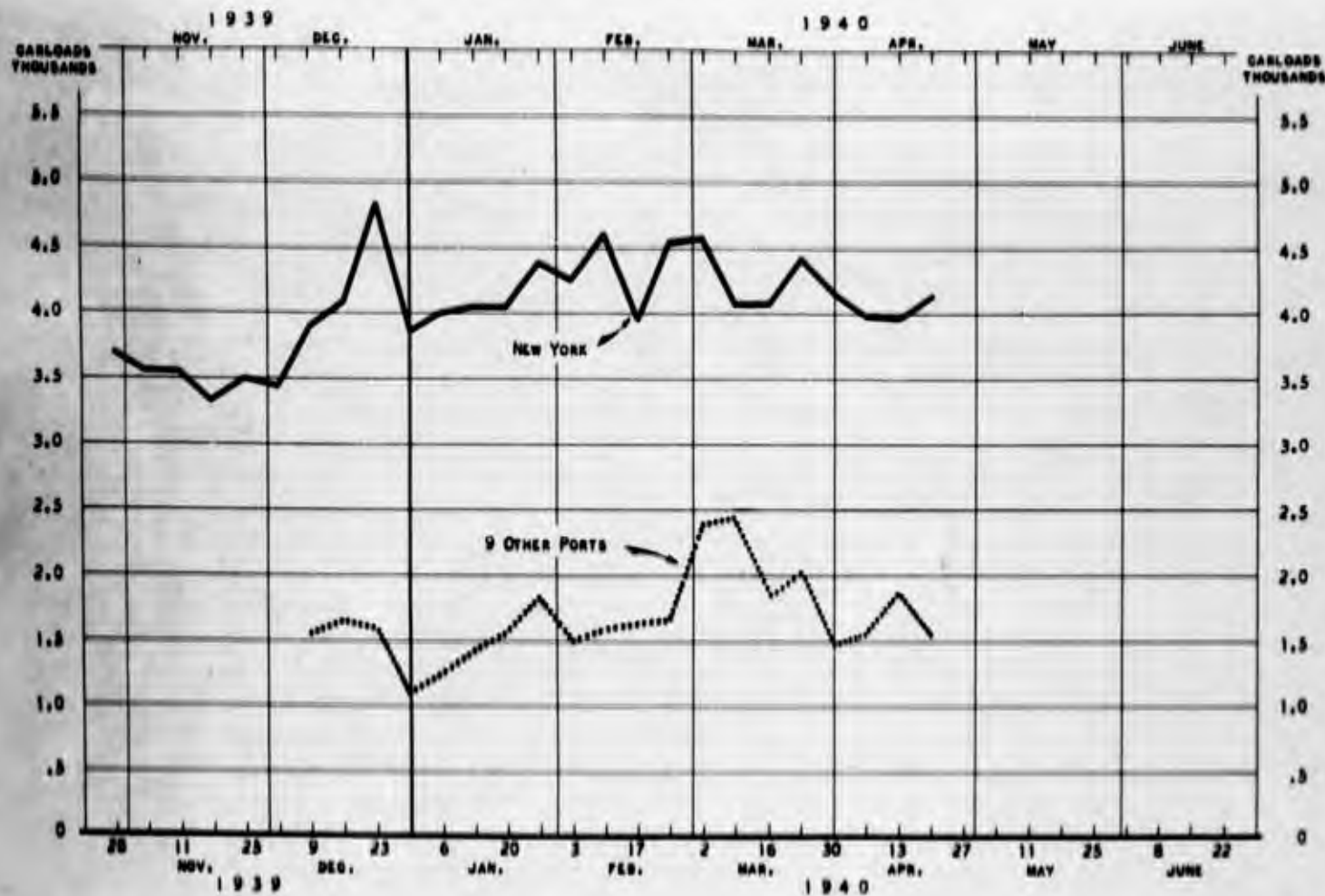
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT NINE OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York ^{1/} (In carloads)	Nine other North Atlantic ports ^{2/}
October 28	3,707	
November 4	3,562	
November 11	3,547	
November 18	3,334	
November 25	3,497	
December 2	3,435	
December 9	3,922	1,548
December 16	4,088	1,658
December 23	4,848	1,602
December 30	3,856	1,104
January 6	4,000	1,251
January 13	4,056	1,433
January 20	4,060	1,557
January 27	4,389	1,825
February 3	4,274	1,498
February 10	4,617	1,590
February 17	3,974	1,637
February 24	4,550	1,667
March 2	4,577	2,388
March 9	4,059	2,448
March 16	4,072	1,845
March 23	4,424	2,033
March 30	4,150	1,492
April 6	3,979	1,551
April 13	3,957	1,866
April 20	4,133	1,557

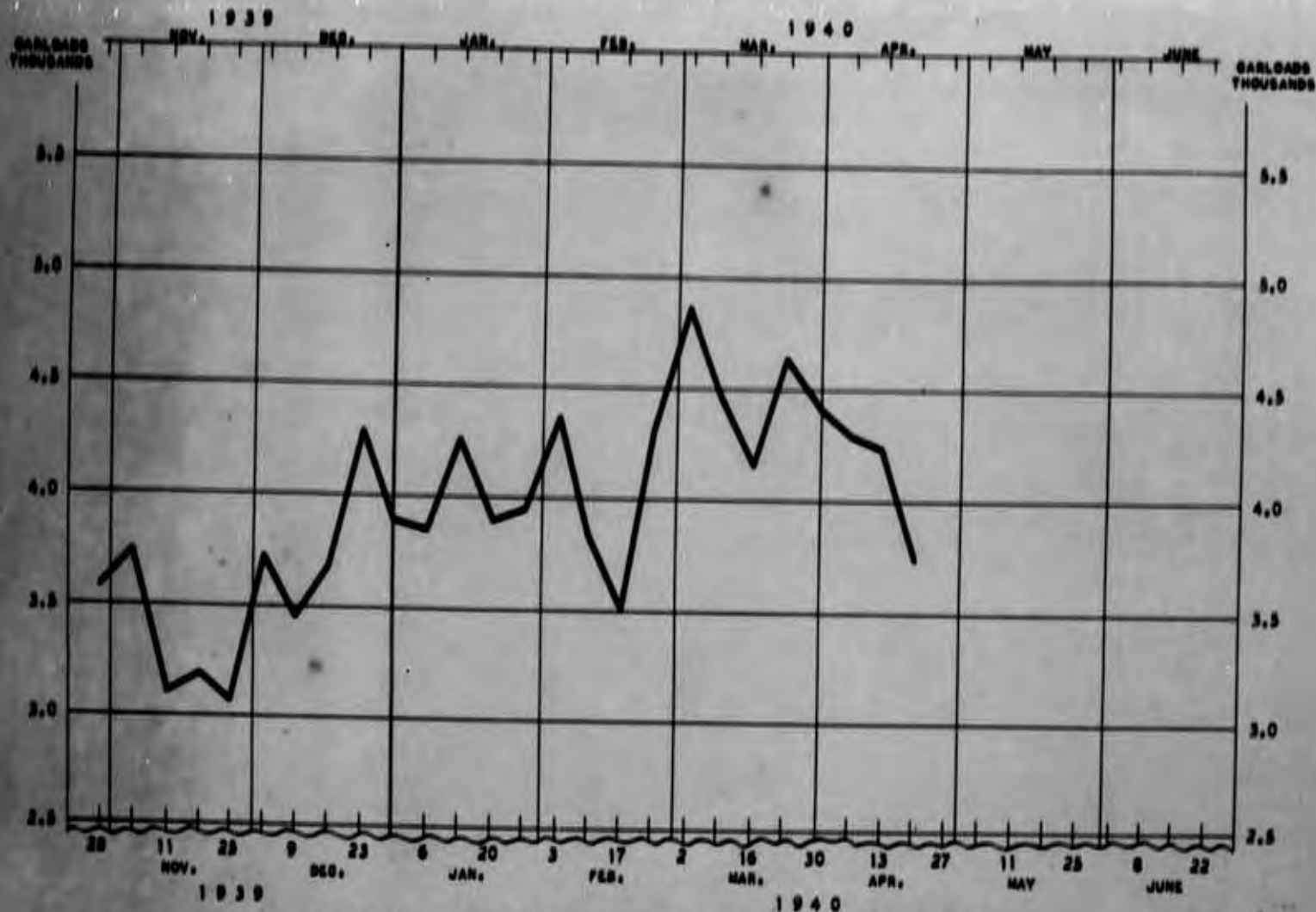
^{1/} Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

^{2/} Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement. Includes Seaport, Portland, Boston, Providence, Philadelphia, Chester, Wilmington, Del., Baltimore, and Norfolk (or Hampton Roads).

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK AND AT 9 OTHER NORTH ATLANTIC PORTS



CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *



* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

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

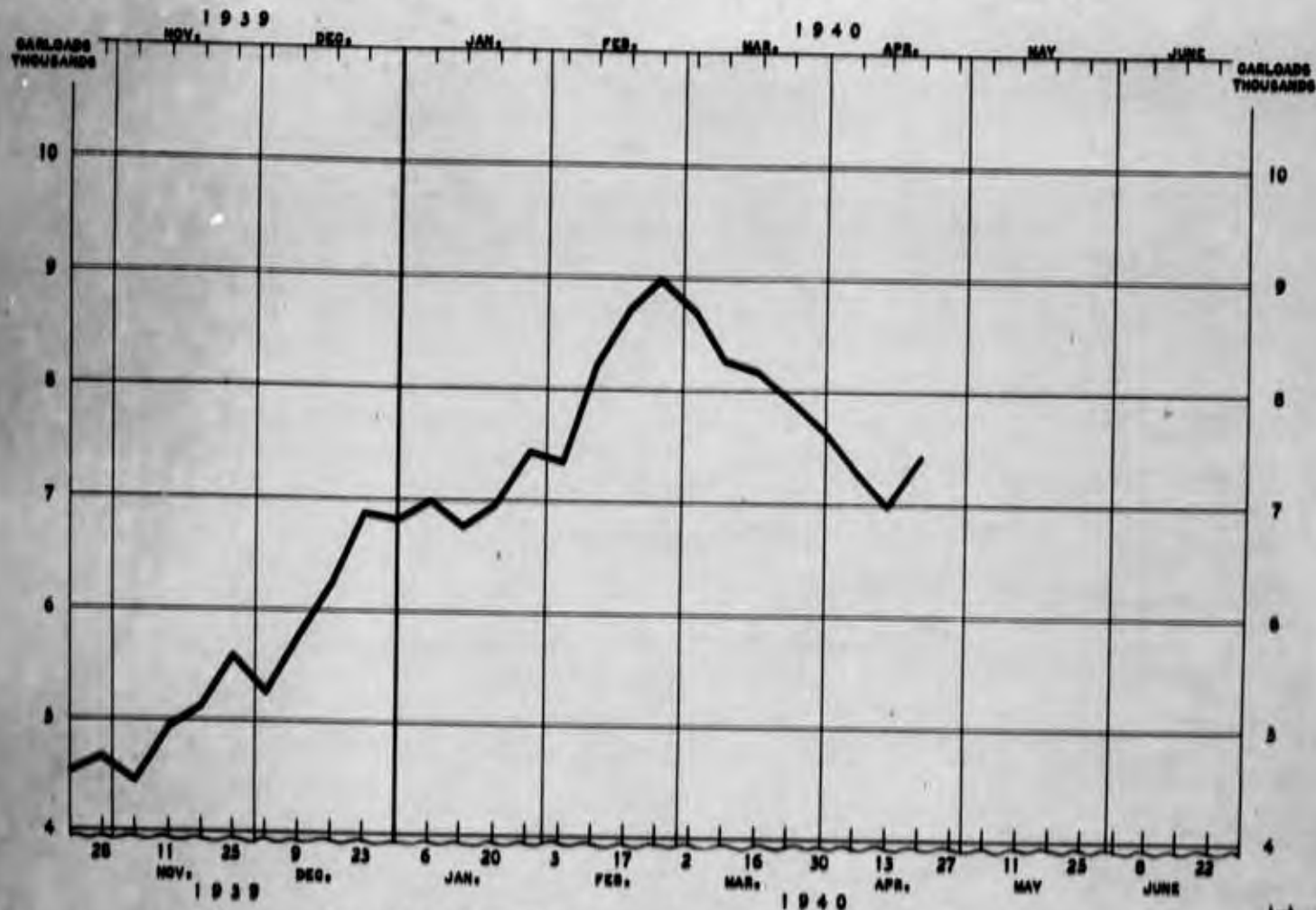
Chart 2

12

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Regraded Unclassified

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR *



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

* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL
AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

Chart 3

Regraded Unclassified

April 24, 1949

Mr. Liversy

Mr. Michrich

Will you please send the following cablegram to Paris, attention

Rothmans:

"Rue 511. The reason that there is only one rate for the conversion of the franc is that up to the present time the Federal Reserve Bank of New York certifies to the Treasury for Customs purposes only the open market rate for the franc."

(init.) T. D.

Rothmans 4/24/49

MA

TELEGRAM SENT

GRAY

April 24, 1940

noon.

AMEMBASSY

PARIS (FRANCE)

307.

FOR MATTHEWS FROM TREASURY.

Your 511. The reason that there is only one rate for the conversion of the franc is that up to the present time the Federal Reserve Bank of New York certifies to the Treasury for Customs purposes only the open market rate for the franc.

HULL

(HF)

EA:FL:LWT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Tehran, Iran

NO.: 84

DATE: April 24, 1940

We have received an informal inquiry from the Norwegian Consul and the Danish Chargé d'Affaires as to the rules covering the withdrawal from depositaries in the United States of funds belonging to Norwegian and Danish nationals for the support of Scandinavian families residing in Iran.

ENGERT

KA:KB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 24, 1940, 10 a.m.

NO.: 522

FOR THE TREASURY DEPARTMENT. FROM MATTHEWS.

Last evening I called on Governor Fournier of the Bank of France to see him before I leave. He was relatively optimistic as usual and was in quite an expansive mood.

He said, with regard to the French internal financial situation, that it was far better than anyone last September had thought would be possible. After the flurry of the last days of August and early September, there has been a very moderate increase in note circulation, with a gradual rise. The Governor expects the rise to continue at a very slow pace, indicating that the "closed capital circuit" is functioning much more smoothly than had been anticipated by the most optimistic.

The rate of expenditure of the Government is about 300 billion francs a year. The Governor is convinced that taxation and borrowing alone will not be sufficient to make up this sum. However, he thinks that the amount to be covered by "inflation" will for the current year not exceed five or six percent, which he finds quite satisfactory. Reference: telegram of April 19, No. 502 from the Embassy. The Governor too confirmed that price levels are stationary at the present time. The rise during last winter was caused, he believes, in part by agricultural factors,

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factors, which normally show a decreasing trend at this season of the year, and in part by the dislocating effect of the war on transportation. The latter factor is demonstrated by the sharp discrepancies in the prices of similar products as between small localities and Paris and other large centers.

Governor Fournier made reference to the recent tightening of price controls. Reference: telegram of April 10, No. 452 from the Embassy, on prohibition of any increases for the next three months. The Governor thought that perhaps for another six months prices could be held at about this level. I asked about pressure for increases in wages, and he said that a month ago there had been some but just now the pressure was much less marked. Labor elements in general showed real understanding, once the situation and the inflationary results of increases had been explained. The Bank of France employees, for example, had asked him for increases in wages; they promptly withdrew their request when he explained its implications.

I asked the Governor whether he felt, from the internal point of view, that the present satisfactory outlook would be altered materially by a change in the character and rhythm of the war.

END SECTIONS ONE, TWO AND THREE.

BULLITT.

EA:LMV

PARAPHRASE OF SECTION FOUR, TELEGRAM NO. 522
OF APRIL 24, 1940 FROM PARIS

It was difficult to forecast, but the Governor said he did not believe it would. France is now producing at somewhere near its maximum rate, under the circumstances, he said, and there should not be a material change in matters because of an active military phase, unless of course there were destruction of an important part of her industries.

In commenting on France's external situation, the Governor remarked that expenditures abroad were "high". They might be considered as in effect limited to what was being spent in the United States, so far as concerned France's resources of gold and foreign exchange. Under the December agreement, France has of course "unlimited credit" in most of the British Empire. The Governor anticipated no difficulties regarding such purchases for "well over a year from now", and I was told the same by others here with whom I have discussed the question.

END SECTION FOUR.

BULLITT.

PARAPHRASE, SECTIONS FIVE, SIX AND SEVEN, TELEGRAM NO. 522
OF APRIL 24, 1940 FROM PARIS

It had been possible, he said, for the French to increase by more than double the percentage of their purchases in the British Empire, and they are steadily making progress to this end. Exports are meeting a very small part of France's expenditures abroad, amounting all told to only some two billion francs each month. He said that there is literally nothing that can be done to increase exports to any appreciable extent, that on a price basis France could easily compete on many markets but it could just not produce for export in view of the fact that well over five million of its labor out of a very maximum total of ten million have been taken from the nation's economy and only partly replaced by women. The difficulties of course were increased by transportation problems. He smilingly made reference at this point to the recent ruling of the United States with regard to conversion of pounds at the official rate for customs purposes. He remarked that we certainly had no reason for fearing competition from France on our market from any price advantage involved in a franc drop, and he could assure us that neither France nor Great Britain want to see the franc and sterling drop. Furthermore, he said, competition from the British with our industry is bound to decrease as the British war effort inevitably grows. He did not advocate inaction, but said that it was difficult to see really what should be done about the pound by the British.

- 2 -

Consideration had even been given to cutting the franc loose from the pound, for he was convinced that the franc would not have depreciated far from the official rate had it not been for its tie to the pound. The British desire not to block foreign sterling balances he could very well understand, also that they would not want to give gold or hard currencies for those who wished to withdraw them. To think that foreign capital would come to France or any other country which was at war was silly, and the trend would be toward a diminution of those balances of necessity - his rough estimate for such balances in France was 18 billions. Whether the British like it or not, he believes that there will be an inevitable tendency as time goes on to invoice the British imports in foreign currencies though before this develops the British are of course endeavoring to extend their system of clearing agreements as far as they can.

END SECTIONS FIVE, SIX AND SEVEN.

BULLITT.

PARAPHRASE, SECTIONS EIGHT AND NINE, TELEGRAM NO. 522
OF APRIL 24, 1940 FROM PARIS

He said in reply to my question about the forthcoming requisitioning of privately held French foreign exchange balances that he had for some time been in favor of the move. Of course, he said, in the early days of the war, and before voluntary repatriation was completed, it could not have been done. Reference, telegram of April 12, No. 467 from the Embassy. As for the recent measures he remarked that he had had to act quickly to stop arbitrage operations as between foreign currencies, when signs of expansion in the movement were apparent - reference: telegram of April 8, No. 437 from the Embassy - and also to prevent traffic via Belgium and Switzerland in foreign (dollar) bank notes. He said there is now leisure to draft more carefully prepared rules for requisitioning foreign exchange, once the foregoing move had been taken and restrictions on the importation of both French and foreign currencies and securities imposed - reference, telegram of April 12, No. 467 from the Embassy. They would work out the rules as well as they could, in order to provide for exceptions, such as necessary revolving funds of French concerns and complicated questions of administration. After such action, would come the question of gold and of foreign securities, because, he said, they would have to make the maximum effort to get all there is before the war is over. He said that he and his colleagues had been most reluctant to make a quick move in this in

- 2 -

view of the large quantity of gold in small amounts held by the peasantry and the similar substantial volume of securities which the French bourgeois held. Perhaps we did not realize, he said, how much had been suffered by the latter after the franc devaluation following the World War. As a last protection of what little capital remains, many have clung to a few shares of foreign securities; there is no question that it would be a real blow to them to deprive them of these remaining savings.

END SECTIONS EIGHT AND NINE.

BULLITT.

EA:LNV

PARAPHRASE OF SECTION TEN OF TELEGRAM
NO. 522, APRIL 24, 1940, FROM PARIS

He was not unmindful of the fact that Hitlerism had been brought on by the ruination of the German middle class following the World War. However, he was not worried about the long-term social aspects because it was his feeling that loss of capital on the part of these small and middle bourgeois would make them exert after the war that energy and industry and which is the great source of strength of the French Republic. Nevertheless, the problem of requisitioning of gold and securities was not one to be approached lightly. I was assured by him, as I had been assured by others, that close consultation with us would precede the marketing of any requisitioned American securities. He also assured me that it would be necessary to take an "inventory" before any such marketing was done.

BULLITT

EA:KB

PARAPHRASE, SECTION ELEVEN, TELEGRAM NO. 522
OF APRIL 24, 1940 FROM PARIS.

There would be much interest in the United States in the picture of a post-war Europe, I told him, and he smiled and remarked that much would depend on the war's duration and on its character. He said that no great harm would be done if the war should end this year, but he seriously doubts that it will. If it lasts longer than that and French supplies of gold and foreign exchange are exhausted, a policy of self-sufficiency for France and the British Empire is inevitable, however reluctant they might be to follow it. This autarchic tendency is automatically developing as a war necessity as the war goes on. France and England will have to live on themselves as far as they can after the war is over, at least for a few years, unless the United States should decide to help in its own interest.

END SECTION ELEVEN.

BULLITT.

PARAPHRASE, SECTIONS TWELVE, THIRTEEN AND
FOURTEEN, TELEGRAM NO. 522 OF APRIL 24, 1940
FROM PARIS

Reference, telegram of February 23, No. 253 from the Embassy. He made reference to his conversation with me on February 22, and said again that there was no other way out unless we adopt measures to extend credits in gold and later to accept reimbursement of those credits in merchandise. Argument as to methods might be put up, but there is no alternative as to objectives. He expressed some optimism, however, that public opinion in the United States would come to realize the self interest for us of such a policy. In this connection he mentioned the reaction of our tobacco growers to the drastic reduction in purchases by the Allies. He feels that a serious post-war crisis will be suffered by our own economy unless we do realize it.

He expressed the belief that the earnest desire of France and all Europe, even Germany, is to escape from autarchy, exchange control, and so on, if possible - he could certainly see that every day in France. He said that restrictions could be relaxed as French production slowly resumed its previous condition little by little. Autarchy would not endure in the long run.

I had a visit from the Bank of Italy representative, Pennachio. He was visibly depressed, and eager for news,
saying

- 2 -

saying that frankly he had avoided all conversation with his French friends, except on such small technical matters as were essential, in view of the recent hostile attitude of the Italian press toward the Allies - he claimed however that his reading of Italian journals convinced him that the hostile tone therein was deliberately exaggerated by the French, even of such extremists as the writer Farinacci.

Pennachio said if he asks his ^{French} friends about finances, they immediately want to talk politics, and on the subject of Italy they are most outspoken. He made an attempt to impress on me that no important move is being planned by Italy. He cited the fact that the Bank of Italy has done nothing to withdraw rather substantial balances from Paris as evidence of this.

Pennachio made reference to our recent ruling on pound conversion for customs purposes. He remarked that he imagined something in the nature of a "retaliation" was the purpose. Of course, he said, the tripartite agreement called for consultation. He imagined the export measures of the British which had been the cause of the recent fall of the pound were taken "without consultation". I told him I did not have any information to indicate that the Treasury ruling was motivated by this.

I am sailing on the liner REX, since Clipper passage is not available and departures are not certain.

END OF MESSAGE.

EA:LWF

BULLITT.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 24, 1940, 6 p.m.

No.: 526

FOR THE TREASURY DEPARTMENT. FROM MATTHEWS.

This afternoon I called on Rueff to say good-bye to him. I found that his views on the financial situation of France, both internal and external, were very much the same as those of Governor Fournier of the Bank of France, as reported in telegram of April 24, No. 522 from the Embassy. However, I did gather from Rueff that they are giving more serious consideration than had seemed likely from the remarks of the Governor to the question of possibly cutting the franc loose from the pound as far as the free markets are concerned. Incidentally, Rueff mentioned that he would be interested to know the actual volume of franc transactions on the free market in New York.

Rueff told me, in reply to my question, that as nearly as he could remember offhand there has been an increase of approximately 50 billion francs in the French short term debt since the beginning of the war, that is, exclusive of Bank of France advances. The last figures published for the total debt of the French Republic were as of August 31, when it was put at approximately 446 billion francs. We get a total public debt today of 526,400,000,000 francs, if we add to the aforementioned 446 billion francs the 50 billion increase, plus advances from the Bank of

France

- 2 -

France of 20,900,000,000 francs and 30 billion francs in Treasury bills paid the Bank of France for the recent gold cession, less repayment of the 1938 Bank of France advance of 20,500,000,000.

An important factor, Rueff said, in the fifty billion short term debt increase since the outbreak of the war were the three months Treasury bills, in addition to the heavy subscriptions to armament bonds. At the time he left the Mouvement General des Fonds when the war broke out, such Treasury bills amounted to ten billion, as nearly as he could remember. The present total, most of which is held by banks, is 22 billion. Rueff indicated, with regard to expenditures for the current year, that they might not be as much as 500 billion francs, as is generally thought. Of course some portion of that, he said, was accounted for through relinquishment of French gold resources for purchases in the United States.

He said, on the subject of the burden of French foreign purchases, that they could only be well satisfied when they considered that at the time Raymond came to the Finance Ministry in October 1938, the stabilization fund had had only some 5 billion francs whereas today the fund, exclusive of the 30 billion gold cession recently made, is materially in excess of the figure in October, 1938,

over

- 3 -

even after almost eight months of war.

The trend on the securities market was downward today; yesterday there had been a more cheerful tendency resulting in a general rise of 2 to 3 percent. Today Scandinavian issues in particular were lower. There were fractional gains and losses in rentes.

END OF MESSAGE.

BULLITT.

TELEGRAM SENT

JR

GRAY

April 24, 1940

Roon

AMERICAN CONSUL,

MILAN.

15.

Supplementing Department's 14, April 19, 3 p.m., the Treasury requests that in addition to the total volume of transactions on the Milan stock exchange there be supplied each day a report on closing prices that day of the following stocks traded on the Milan exchange:

Adriatic Electric, Edison Electric, Fiat, Italcable, Meridionale Electric, Montecatini, Pirelli Italian, S I P, Terni Electric.

It is further requested that there be added also comments regarding factors affecting the trend of prices, particularly if any unusual movement or volume develops. It is desired that the information be cabled promptly after the close of the market each day, beginning April 24, 1940.

HUFL
(HF)

EA:FL:EB

JR

PLAIN

London

Dated April 24, 1940

Rec'd 12:03 p.m.

Secretary of State,
Washington.

1042, April 24.

FOR TREASURY FROM BUTTERWORTH.

Yesterday's budget has received neither a particularly good nor a particularly bad press. Its most ardent proponents such as the DAILY TELEGRAPH and the FINANCIAL TIMES welcome the series of measures which constitutes the budget and find each good and in balance with the next. Its most ardent critics such as the MANCHESTER GUARDIAN and the FINANCIAL NEWS look at the budget as a whole regarding it as the test not only of the British Government's financial policy but its whole economic war effort and find it inadequate. The DAILY TELEGRAPH, for example, commends the heavy increases in taxation and the fact that the taxes were "few and simple" and is convinced that it will have "a strong appeal to the public as an imaginative effort to grapple with a tremendous problem." The TIMES is only slightly less well disposed but interjects that "the only word of warning necessary at this stage is that the figure of expenditure is admittedly provisional, that the gap to be filled by borrowing may become larger, and that

-2- #1042, April 24, from London.

that it must be filled however large it becomes". On the other hand the MANCHESTER GUARDIAN begins its editorial as follows: "The Chancellor's courage has failed him. The second war budget is drastic but it is far less drastic than was expected and it is certainly far less drastic than the situation warrants". It concludes: "Probably in these matters most of our judgments are subjective but the budget must leave many of us with the uncomfortable feeling that it will succeed in doing neither of the things it sets out to do—rigidly restrict the will to spend and vastly increase the will to lend. And half success will be something like failure." The FINANCIAL NEWS takes much the same view emphasizing: "If the figures have to be taken at their face value and if they alone are the whole story then inflation seems inevitable."

The city has in the given circumstances found the budget to its liking and British Government securities have been strong today on the Chancellor's assurance that the current rates of interest will be maintained. Dealings in equity shares have been complicated by the unknown character of the proposed sales tax and by the limitation of dividends proposal.

RENEWED

KLP

MA

GRAY

Paris

Dated April 24, 1940

Rec'd 12:15 p.m.

Secretary of State

Washington

523, April 24, 1 p.m.

FROM MATTHEWS.

Please hold mail.

BULLITT

DDM

PS

GRAY

Milan

Dated April 24, 1940

Rec'd 12:40 p.m.

Secretary of State,
Washington.

12, April 24, 5 p.m.

FOR TREASURY DEPARTMENT.

Tuesday stock exchange volume 71,700 today's
volume 66,800 trading listless, prices little changed.

CIB

SFOLES

GROUP MEETING

April 24, 1940.
9:50 A.M.

Present:

Mr. Ball
Mr. Sullivan
Mr. Foley
Mr. Young
Mr. Thompson
Mr. Farrell
Mr. Graves
Mr. Haas
Mr. Cotton
Mr. Schenck
Mr. Pfeiffer
Mr. Barton
Mr. White
Mrs. Platz

H.M.Jr: George, these figures that come out of Milan --

Haas: Yes, I want to talk to you about these.

H.M.Jr: Now, the Milan stock market is supposed to close at 5:00, which is 10:00 o'clock over time. When will we get those, today?

Haas: Yes. They come in in the afternoon.

H.M.Jr: Today's?

Haas: Today's market, but here is the kind of a cable they send. What you have got on the chart - I couldn't chart what was on the table. It says the market is weaker. So those prices I got out of the New York Times that are on that chart.

White: Draw the line fainter.

Haas: It is a little weaker than yesterday.

H.M.Jr: Well, do we get a daily picture out of the New York Times?

Haas: In the New York Times this morning, yesterday's prices for ten stocks are there and I arranged them and made that index, but if you want it, Mr. Secretary, the same day, I think we ought to ask the Council for prices, say, of these ten issues.

- 2 -

H.M.Jr: I tell you what you do, George. Give the fellow the shock of his life and call him up on the telephone and tell him what you want, see.

Haas: All right.

H.M.Jr: Have an hour glass on the phone so you don't talk more than three minutes and then tell him whether we can get that off every afternoon. I don't know how long it takes to get a straight cable from Milan and I don't see why they can't send it right here to you.

Haas: It could go anyway - it came in promptly enough yesterday.

H.M.Jr: Did it?

Haas: Yes.

H.M.Jr: What time did you get it yesterday?

Haas: Oh, I have forgotten. It was in the afternoon not long after lunch. I don't remember just what time.

H.M.Jr: All right, call them up on the telephone and tell them what you want, will you, George?

Haas: Be glad to.

H.M.Jr: Can't they route that directly to the Treasury instead of going through the State Department?

Haas: Well, that would - I don't know. You see, he would be confused if I called him directly because he would have to check with the State Department probably what he would do about it, from my experience, having been over there some years ago.

H.M.Jr: George, get it today. This is something I want to know now, every afternoon. I don't want to wait until next day.

Haas: I think a cable instruction probably would get to him today.

- 3 -

H.M.Jr: Do it today, will you?

Haas: I will do it right away.

H.M.Jr: I spoke to Berle last night and told him to keep his shirt on and take the pressure off us until we got this legislation through. Well, he started to talk about this sovereignty of Norway. Did you know the Minister of Finance and somebody else went into our Minister there and signed this thing in his presence?

Bell: We have a copy of it.

H.M.Jr: What monies do they want, Dan?

Bell: Well, it is a very broad power. The power covers the Government funds, the National Bank - Central Bank fund and any other Norwegian institution, it read, didn't it, Ed? Something like that. Very broad. We really don't know just how far it goes.

H.M.Jr: The Minister of Norway here can draw on the Central Bank of Norway?

Bell: Yes.

H.M.Jr: Have they approved that as a government?

Bell: Yes, and the Central Bank of Norway is not on the document, but the Minister of Foreign Affairs and the Minister of Finance had signed it, so I think that is a real legal question.

H.M.Jr: I tell you what I would like you to do and I think you (Foley) would be very happy to do this, because the pressure is going to be - I would like to ask Mr. Henry Stimson to advise us on this, see. I am sure you would be glad to do that, wouldn't you, Ed?

Foley: Yes. I think that in so far as our function here is concerned, it is more or less confined to the question of policy involved; so far as what the Bank in New York has to have by way of authorization to permit withdrawals from those accounts by the Norwegian Minister is a matter for the Bank, not for us.

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H.M.Jr: The Bank in New York?

Foley: Yes. I don't think we have to assume that responsibility.

H.M.Jr: That makes it easier, then. I will call up George Harrison when I come back, if you will remind me, Mrs. Klotz, and I will ask them to engage Stimson and they can pay him \$5,000 to advise us on this thing, see.

Foley: Right.

H.M.Jr: Because he was swell on this Spanish thing. I don't know what he charged. This is new territory and if you will remind me, I will call up George Harrison and tell him that on this Norwegian thing I want all the documents given to Mr. Stimson and I am not going to move until he tells me what it is all about. Don't you think that is good? Because I don't - I am not satisfied.

White: I don't see what legitimate reason they would have for drawing more than a moderate amount.

Foley: I think they are afraid of the statement the Secretary made that this money might be accumulated here to be used as an offset. That would --

White: I know what is troubling them, but I mean from our point of view.

Cotton: The Belgians are worried about that, too.

H.M.Jr: The other thing, Berle got silly. He said the sovereignty is at stake and this will encourage the Germans, and so forth and so on. Well, I told him I wouldn't do anything until I got the legislation through and I wouldn't do anything until I had a chance to talk to the President.

Incidentally, when are you going to be able to tell me what has happened to the bonds of the - of Austria, Czechoslovakia and Poland?

Cotton: Well, I thought we would get out some preliminary thing as quickly as we can and then --

- 5 -

H.M.Jr: Isn't that just a factual matter, what has happened to them?

Cotton: Well, it is a question of how far you want to dig into it.

H.M.Jr: No, I mean what has happened to the external debt of Austria since Germany has gone in there. Have they recognized it or haven't they?

Cotton: No, not the State - the State Department has had some negotiations.

H.M.Jr: And Czechoslovakia?

Cotton: They haven't done anything about Czechoslovakia.

H.M.Jr: Couldn't we hurry those three countries up, Czechoslovakia and Austria and Poland?

Bell: Didn't the State Department hold Germany was responsible for the Austrian debt?

Cotton: Yes.

H.M.Jr: But what have they done about it?

Did you get a copy of the thing, a photostat for those men?

Schwarz: It is all photostated.

H.M.Jr: Let me see it before I hand it around. Get it now, please.

Schwarz: It is in Mr. Bell's office.

H.M.Jr: I have got to leave in five minutes. Is there anything important?

Bell: There is one question I would like to ask, but it is not important this morning. I think we should cover this payment in Finland. We are still holding it in suspense.

H.M.Jr: What else?

- 6 -

Bell: That is all.

H.M.Jr: Harold?

Harry? You got everything cleaned up yesterday afternoon?

White: Everything but the inside of the folio.

H.M.Jr: Basil?

Harris: I would just like to get your initial on this narcotic thing I spoke to you about. It is on the question of seizures of ships. It gives us a little more leeway in taking precautions.

I am going over to New York tomorrow and I think I will stay on the rest of the week.

H.M.Jr: I read in Pearson and Allen's column this morning that - gentlemen, I read so much about Foley's doorman, McDuffy, got a job with the Treasury because he wants a place that is permanent. He is the President's ex-valet. They lost the main part of the story. The President's ex-valet now looks after Foley. That is a story, believe me.

Chick, the President's ex-valet looks after Foley.

White: They are getting Ed in proper trim. By the time he gets to the White House, he will know what to do.

Schwarz: I can get that printed.

H.M.Jr: He has been a bachelor long enough.

Schwarz: Was that in Arthur Krock's crystal ball?

H.M.Jr: George, after you have talked to Milan --

Hans: I just have a routine report. It comes in once a week, you know.

H.M.Jr: Incidentally, where is my exchange control fellow? Here, take a look at that and see if that is something smart and France keeps writing over,

- 7 -

why don't we do something about their two-price system.

Bell: The financial attache asked that, too. I take it we have only got one certification from New York. Is that the answer?

H.M.Jr: Why not tell that to the people? Get off a cable, will you, Frank?

Dietrich: Yes.

H.M.Jr: Phil?

Young: Nothing.

H.M.Jr: Sell any airplanes yesterday?

Young: Still looking around.

H.M.Jr: That was all right. Just an inside story, Louis Johnson came here and leaned over the desk and he says, "Now, what would you advise, would you advise General Arnold go up alone or should I go with him?" That is all right. After very careful cogitation, I said, "You know, Louis, I think it would be better to let him go alone." He said, "I think so. He can always hold me in reserve." Arnold did swell.

Bell: I suppose that was along the lines of the Harrison dinner.

H.M.Jr: Yes.

Bell: By the way, we are not going to have the support of the Federal Reserve Board.

H.M.Jr: No? The longer I am here, the more I think the Treasury is the only New Deal financial agency in Washington, and I don't mean maybe.

White: Oh.

H.M.Jr: All right, who else?

White: Well, I wouldn't want to name them. If the Treasury is the only New Deal agency, it is very tough for the New Deal.

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H.M.Jr: I object to that. I said financial.

White: Excuse me.

H.M.Jr: I said the only New Deal financial agency.

White: I said the only New Deal agency.

H.M.Jr: All right, come on, name another one.

White: Well, let me withdraw the remark for reasons of expediency.

H.M.Jr: I will not only let you withdraw your remark, I will let you withdraw. You think that one over.

White: Which one, the latter one or the first one?

H.M.Jr: You think over any other agency in Washington that has finance that will go down the line for the President. I am serious.

White: Oh, on some things they go down the line and on some things we go down the line.

H.M.Jr: But in a pinch, we always go down the line.

Frank, are you going to raise any tomatoes this year?

Dietrich: No, I am raising tulips instead, Mr. Secretary.

H.M.Jr: Suppose I get some of those.

Dietrich: You can't throw tulips at me next Christmas.

H.M.Jr: I waited all summer for one of Frank's tomatoes. They always were green.

John?

Sullivan: Nothing.

H.M.Jr: Have you got any new stories about the new baby?

- 9 -

Sullivan: I thought you had a meeting at 10:00, sir. You had better get started.

H.M.Jr: Oh, it is that kind of a story?
Ed, you are coming with me.

Foley: Those letters to Campbell and Klaus --

H.M.Jr: Oh yes, I sent telegrams.
Mrs. Klotz, I want to write a letter to the man who made the case, Elmer Irey.

Gaston: You noticed Elmer was there in court yesterday.

H.M.Jr: Yes. Incidentally, we are supposed to release this statement of how the Treasury made the case and the fellows were found guilty. Have you?

Schwarz: Yes, sir.

H.M.Jr: When?

Schwarz: We made it available yesterday.

H.M.Jr: Did you really?

Schwarz: Yes.

H.M.Jr: Fine. Did you really?

Schwarz: Oh, yes. It wouldn't be used. The story was the pleas of guilty yesterday, but it will be used in the next few days.

H.M.Jr: All right.

Schwarz: In magazines.

White: You had better be careful, Chick, the Secretary is in awfully good form this morning.

H.M.Jr: I ought to be something. Since 2:00 this morning I have been awake with one of the foulest headaches I ever had, so I have to put on some kind of a show.

- 10 -

Harris: I guess we will be hearing from Mr. Guffey this morning, won't we, Herbert?

Gaston: No, I think the necessity has passed.

H.M.Jr: O. K., gentlemen, if you will get your coats on I will meet you.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 24, 1940.

TO Secretary Morgenthau
FROM Mr. Dietrich

Growing apprehension over the Swedish position had a depressing effect upon the sterling rate this morning. In Amsterdam, sterling declined to 3.51-1/4 prior to the New York opening. The first rate quoted here was also 3.51-1/4. It moved off steadily to touch a low of 3.49 in the mid-morning. During a quiet afternoon session, sterling regained part of its earlier loss, and closed at 3.50-1/2.

Sales of spot sterling by the six reporting banks totaled £ 459,000, from the following sources:

By commercial concerns.....	£ 229,000
By foreign banks (Far East, Europe and South America)...	£ 230,000
Total.....	£ 459,000

Purchases of spot sterling amount to £ 435,000, as indicated below:

By commercial concerns.....	£ 194,000
By foreign banks (Europe, Far East and South America)...	£ 241,000
Total.....	£ 435,000

The following reporting banks sold cotton bills totaling £ 25,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 15,000 by the Bankers Trust Company
6,000 by the Guaranty Trust Company
<u>1,000 by the National City Bank</u>
£ 25,000 Total

The upward movement in the belga, which began yesterday, continued today. That currency closed at the day's high of .1687.

The other important currencies closed as follows:

French francs	.0196-3/4
Guilders	.5308-1/2
Swiss francs	.2282-1/2
Canadian dollars	15-11/16¢ discount

The rate for the Swedish krona, which has been quoted in the past few days in the neighborhood of .2370, fell to a low of .2340 at the close. It was reported that very little business was done in that currency.

- 2 -

We sold \$680,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

We purchased the following amounts of gold from the banks indicated:

\$10,000,000	from the Swiss National Bank
<u>1,500,000</u>	from the Netherlands Bank
\$11,500,000	Total

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

\$1,500,000	from England, shipped by the Chase National Bank, London, to the Federal Reserve Bank, for account of the Central Bank of Bolivia. While the exact disposition of this shipment is unknown at present, we understand that part of the gold will be earmarked for the Bolivian Bank's account.
883,000	from India, shipped by the National City Bank, Bombay, to the head office at New York, for sale to the U. S. Assay Office.
<u>\$2,383,000</u>	Total

The State Department forwarded to us a cable stating that the following gold shipments would be made from England, all of which will be sold to the U. S. Assay Office at New York:

\$1,030,000	shipped by B. W. Elydenstein, London, to the Chase National Bank, New York.
583,000	shipped by Sharps and Wilkins, London, to the National City Bank, New York.
14,000	shipped by S. Japhet and Co., London, to the Chase National Bank, New York.
14,000	shipped by the Westminster Bank, London, to the Guaranty Trust Company, New York.
<u>\$1,641,000</u>	Total

The Bombay silver quotation improved slightly to an equivalent of 41.01¢.

The price fixed for spot silver in London advanced 1/16d to 21d. The forward quotation was unchanged at 20-7/8d. The U. S. equivalents were 33.26¢ and 32.83¢.

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 six purchases of silver totaling 574,500 ounces under the Silver Purchase Act. Of this amount, 450,000 ounces represented sales from inventory, and the remaining 124,500 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

April 24, 1940
2:12 p.m.

H.M.Jr: Hello.

William
Bullitt: Hello. Hello, Henry. How are you?

H.M.Jr: How are you?

B: Fine. Glad to hear your voice.

H.M.Jr: Bill, I think it'd be worthwhile for Matthews to go across the water and see Walton.

B: Just a minute, I didn't hear that.

H.M.Jr: I think Matthews ought to see Walton before he comes back.

B: Ought to see.....

H.M.Jr:Walton. Hello?

B: Hello?

H.M.Jr: He ought to see Butterworth. Hello?

B: Shall I tell him to go over to London?

H.M.Jr: To see Butterworth.

B: Yes. All right, I'll send him over to London.

H.M.Jr: Now, listen Bill.

B: Yes.

H.M.Jr: You know you and I have got a favorite brand of brandy that we drink.

B: Yes.

H.M.Jr: You know.

B: Yes, I know.

H.M.Jr: We like a certain kind of brandy.

- 2 -

B: Yes, all right. Fine.

H.M.Jr: And the trouble with that brandy is that the orders for it go through Canada.

B: Yes.

H.M.Jr: And it takes too long.

B: Yes.

H.M.Jr: Now, while Matthews is over there.....

B: Yes.

H.M.Jr:if he would see the sales manager for that brandy.....

B: Yes.

H.M.Jr:and tell them that they're slowing things up terribly by handling all of the orders for it through Canada.

B: Yes, I understand.

H.M.Jr: And up in Canada they've got just a lot of old-fashioned champagne salesmen.

B: Yes, I understand perfectly.

H.M.Jr: And I think that they'd get much better results if they'd cut out those champagne salesmen up in Canada.

B: I understand perfectly, Henry.

H.M.Jr: O. K.

B: That's fine.

H.M.Jr: And it really -- it slows things up awfully.

B: That's all right. That's fine. I'll attend to that right away.

H.M.Jr: If that's too big for Matthews you may want to tell -- handle that yourself.

- 3 -

B: No, no, I can do that easily.

H.M.Jr: Thank you.

B: Henry.....

H.M.Jr: Yes.

B:I want to ask you what happened in the Pennsylvania primary. Was Guffey elected or defeated?

H.M.Jr: Well, the last I saw he carried it by 50,000 votes.

B: He carried it by 50,000?

H.M.Jr: Yes.

B: How are you, Henry? In good shape?

H.M.Jr: Yes, I'm all right.

B: And how is all the family?

H.M.Jr: Well, Elinor had to go to the hospital for a minor operation.

B: I'm terribly sorry.

H.M.Jr: But she's getting along nicely.

B: I'm terribly sorry.

H.M.Jr: And otherwise everything is fine and fairly busy.

B: I should think so.

H.M.Jr: How are things with you?

B: Fine, perfectly fine. Top of the waves.

H.M.Jr: All right.

B: Couldn't be better.

H.M.Jr: All right.

B: Good luck to you.

H.M.Jr: Goodbye.

B: Goodbye.

April 24, 1948.

Dear Mr. Chase

I want to acknowledge your letter of April 23rd. I was interested to know that you had called on Mr. Purvis.

With cordial regards and all good wishes,

Sincerely,

(Signed) H. Maguire, Jr.

Mr. E. P. Chase,
Room 1814,
610 Fifth Avenue,
New York, New York.

107/48

766 So 1040

Handwritten: *White Paper*

KWANG PU CHEN
ROOM 1808
630 FIFTH AVENUE
New York

52

April 22, 1940

Dear Mr. Secretary:

I called on Mr. Arthur Purvis and Monsieur Bloch L'Aine at the office of the Anglo-French Purchasing Mission this morning, with Mr. S. D. Rem, Executive Vice President of Universal Trading Corporation, in regard to the subject of tungsten which you spoke to me about last Friday.

Mr. Purvis wanted to know what would be the production of tungsten in China during 1940 and what portion of it would be available for sale. I explained to the two gentlemen that my information on tungsten is rather out of date and offered to cable to China for the latest information if they so desired. I also told them that probably the matter of securing Chinese tungsten has been taken up by the British and French representatives at Chungking with my Government and they should have the latest information. Mr. Purvis and Monsieur L'Aine thought that cabling to China at the present time may not secure the fullest information and perhaps might disturb the negotiations at Chungking.

They asked me to look into this matter when I arrive at Chungking, which will be sometime in July, and they feel that the time is not late for their purpose. In the meantime if they wish to contact me again and I am not here they will get in touch with Mr. Rem at Universal Trading Corporation.

With kindest personal regards,

Sincerely yours,



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

-- FOREIGN FROZEN ASSETS LEGISLATION

WASHN - THE HOUSE BANKING COMMITTEE UNANIMOUSLY RECOMMENDED LEGISLATION TO CLARIFY THE PRESIDENT-S POWER TO REQUIRE LICENSING OF TRANSACTIONS IN SECURITIES OF FOREIGN GOVERNMENTS AND THEIR NATIONALS ACCORDING TO ASSOCIATED PRESS

CHAIRMAN STEAGALL -DEM ALA- SAID THE LEGISLATION WAS REQUESTED AFTER NEW YORK ATTORNEYS QUESTIONED THE PRESIDENT-S AUTHORITY TO IMPOSE THE LICENSING REQUIREMENT WITH REFERENCE TO STOCKS AND BONDS OWNED BY DANISH AND NORWEGIAN NATIONALS - PRESIDENT ROOSEVELT ISSUED AN EXECUTIVE ORDER ON APRIL 10 FREEZING NORWEGIAN AND DANISH ASSETS IN THIS COUNTRY AND REQUIRING LICENSES FOR FUTURE TRANSACTIONS AFFECTING THEM

THE SENATE BANKING COMMITTEE ALSO SEEKING TO EXPEDITE THE LEGISLATION ARRANGED MEANWHILE TO CONSIDER IT AT A MIDAFTERNOON MEETING

SENATOR GLASS -DEM VA- A COMMITTEE MEMBER SAID HE HAD CONFERRED WITH SECTY MORGENTHAU REGARDING THE PROPOSAL - HE ADDED

-I AM ONE OF THOSE IMPOSSIBLE PERSONS WHO BELIEVES THAT WE SHOULD KEEP GERMANY FROM GETTING ANY OF THE PROPERTY OF THOSE INVADDED COUNTRIES -- DO IT RIGHT IF WE CAN DO IT WRONG IF WE MUST-

-0-

1.20

HSM

PLAIN

Stockholm

Dated April 24, 1940

Rec'd 12:55 a.m., 25th

Secretary of State,
Washington.

378, Twenty-fourth.

FROM COMMERCIAL ATTACHE.

Sweden's largest loan, five year defense loan, 500 million crowns, on market May 1st, bears 4 percent interest, issued direct to public at par, redeemable November 1st 1945, will bring Sweden's domestic loans since December to 757.5 million crowns. Swedish shipping on east coast of Denmark and Borge east and west coasts of Norway now reported permitted to proceed to Swedish ports. German trade delegation arrived Stockholm 23rd to discuss current trade matters. Expropriation of all lubricants effective April 24, rationing and state control of all sales instituted. Probable gasoline to private car users harshly rationed after mid-May.

Inform Commerce.

STERLING

HSM
REP

APR 24 1940

My dear Senators:

At the direction of the Secretary of the Treasury, this office has investigated the claim discussed in the enclosed memorandum which you submitted to the Secretary about April 11, 1940. There is nothing in the files of this Department relative to the interest of Basine College in the Charles Durkee estate, but our investigation discloses that in so far as that institution's claim is based upon the so-called "Durkee estate claim" to an alleged deposit in the Treasury Department of Pacific Railroad Paramount Lien Bonds, it is entirely without foundation.

The Treasury Department has received many inquiries from time to time during the past thirty years or more with regard to the alleged claim of the Durkee estate referred to in your memorandum. The claim was fully investigated some years ago. A summary of that investigation is contained in the enclosed press release of the Department, dated January 26, 1914. In addition to the information contained in that press release, you will be interested to know that the "Durkee claim" has been before different courts on three occasions. In each instance the claimants failed. United States Court of Claims,

- 2 -

Term of 1895-96, Case No. 12,025; Supreme Court of the District
of Columbia, 1911, Case No. 22,296; *Highland v. Union Pacific
Railroad Company* (U.S.A. 8th, 1906) 149 Fed. 619.

Very truly yours,

(Signed) E. H. Foley, Jr.

General Counsel.

Hon. Joseph F. Gaffey,
United States Senate.

Enclosure.

20712-10000 4-11-20 - 4-12-20

2445. *[Handwritten signature]* NY 100

RESOLUTION
RESPECTING CLAIM OF PACIFIC COLLEGE
TO PROCEEDS OF PACIFIC RAILROAD
PASSED JUNE 28, 1896

Pacific College, an Episcopal Institution of Learning in Pacific, Wisconsin, is the present claimant by reason of the following resolutions: Charles Purtee, the sole assignee of the Permanent Loan Bonds under the circumstances set forth hereinafter, died in 1870 leaving a Will in which he devised his entire estate to his wife, Caroline Purtee, for her life. A controversy having arisen as to the residuary estate it was judicially determined that the wife also had power of disposition of that residuary estate. She died in 1912 leaving a Will in which her estate was devised to Pacific College and her power of disposition of her husband's estate was exercised in favor of Pacific College.

The Permanent Loan Bonds were issued under the following circumstances: In 1862 Congress enacted legislation creating the Union Pacific Railroad Company and authorizing it to join with five other railroad companies to construct a transcontinental railroad. The legislation provided liberally for land grants and concessions and also for the issuance by these Companies of Government Bonds, designated as "Subsidy Bonds" at so much per mile of completed construction, these bonds to be secured by a mortgage on the railroad properties. It was realized that private investment, as well as Government aid would be necessary but such private investment was not forthcoming because of the Government's first lien on the properties. In 1864 this situation was met by an Act authorizing the respective Companies to issue their own thirty-year 6% Bonds in an

2.

amount identical with the Government Subsidy Bonds and the Act also provided that such Company Bonds should be secured by a first mortgage, paramount in lien to the mortgage securing the Government Subsidy Bonds.

Thereafter the work of construction proceeded but not as rapidly as had been expected and in order to avert possible foreclosure of the mortgage securing the Paramount Lien Bonds because of a default in payment of interest, the Government, by Executive Order of President Johnson, subsequently ratified by Congress, required the Paramount Lien Bonds to be deposited with the Treasury as security for completion of construction, and the Treasury records indicate that a substantial amount of such bonds were so deposited.

These Railroads issued altogether \$64,623,512 face amount of Paramount Lien Bonds. The ownership of these bonds for the most part was concentrated in two companies engaged in the construction work, and this fact undoubtedly facilitated the deposit of the Bonds with the Government. Charles Burke, United States Senator from Wisconsin, had had a part in the enactment of the Pacific Railroad legislation and he became an important factor in financing and constructing the railroad. President Johnson appointed him Governor of the Territory of Utah in 1865, where he remained until 1869, in which year the railroad was certified by the President's Commission to have been completed. Following the President's Order requiring deposit of the Bonds, Charles Burke became sole assignee thereof and as such arranged for their deposit with the Treasury pursuant to the Executive Order. Upon the satisfaction of the condition of their deposit, viz., the completion of the railroad, Burke was entitled to a return of

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the Bonds, and apparently he started to Washington for that purpose, but died en route on January 17, 1870.

The lapse of seventy years from Durkee's death creates an inference unfriendly to the claim, but whatever of evidence, certain or uncertain, exists at this date, one fact stands out letter clear, viz., no accounting has ever been rendered to any lawfully authorized representative of Durkee for the Paramount Lien Bonds or their proceeds, which Bonds unquestionably were deposited with the Treasury. The purpose of this application for leave to examine the Government records is to establish once and for all, whether or not the claim is valid. Representatives of the Durkee Estate have devoted a tremendous amount of time and effort in research and are convinced of the merits of the claim. They seek now to have their information confirmed by the Government records. It is not contended that the archives of the Government should be open to every person who conceives that he has a claim, but in addition to the foregoing facts there are the following facts and circumstances which tend to establish a sufficiently definite claim to warrant an inspection of the records.

On April 22, 1884, a meeting took place in the Treasury Department, at which were present, among others, the Secretary of State, Theodore Tilton, the Secretary of the Treasury, C. J. Folger, the Attorney General, Benjamin R. Brewster, and the first Comptroller, William Lawrence. One Leonard C. Maindell, representing the heirs of the Durkee Estate was present, the meeting having been called at his instance. Folger, the Secretary of the Treasury, stated: "We have here all of the first mortgage prior lien bonds of the Union Pacific and Central Pacific Railroads in round

figures amounting to \$64,000,000.00, and they are all assigned to one sole assignee-Charles Burke * * * Ica (Judge Lawrence) will make a complete record of the transactions of this meeting and deliver to Mr. Blaisdell a perfect record thereof. In addition thereto you will issue to Mr. Blaisdell an instrument setting forth that the United States Government guarantees the payment of the principal of these first mortgage bonds and as much interest as shall be due up to and including December 31, 1884.² The fact of this meeting and the matters that transpired at the meeting are the subject of a certificate by the then Secretary of State, Theodore Frelinghuysen, under the seal of the United States and dated January 19, 1885.

The Railroads had issued their bonds, designated as "Call Bonds" in lieu of payment of interest. These Call Bonds were the subject of discussion at the aforesaid meeting of April 22, 1884, and the Railroads were declared to be in default. Shortly thereafter, a call was issued, viz., on May 12, 1884 for payment on or before January 1, 1885. The records indicate that the Comptroller received the sum of \$64,627,512.20 on January 5, 1885, as a result of the call, and this sum was entered as held by the "Treasurer of the United States, Custodian for the Secretary of the Treasury, Trustee." The amount produced by the call is identical with the principal amount of the outstanding bonds and was either to cover the principal of the bonds, or partly to redeem the Call Bonds and partly the principal of the Paramount Lien Bonds. There is no evidence as to the subsequent disposition of this custodian account except the Government records themselves.

5.

From 1894 to 1896 the Paramount Lien Bonds matured and there is evidence by affidavit of employees of the Treasury to the effect that these bonds were taken from Washington to the sub-treasury in New York and there redeemed. No account of the proceeds, however, has ever been made to the estate of the sole assignee, Charles Burke.

Several abortive attempts have been made to establish the claim. There has, however, been no determination judicially or otherwise as to its merits. No authorized representative of the true claimant has ever prosecuted the claim in a Court of law. Unfortunately, certain unauthorized persons have collected funds misrepresenting their authority, and these persons have been prosecuted and convicted. Such matter, however, should not deprive the true claimant of a hearing.

In 1911 or 1912, an application was made to examine the Treasury records. The then Secretary of the Treasury, Franklin McVeagh, at first declined. He was then persuaded to read a book by J. J. Soudar, respecting the history of the Pacific Railroads, in which all of the foregoing matter is set forth in much greater detail. Thereupon, he reversed his decision and permitted Soudar to enter the Treasury for the purpose of examining the records. McVeagh's term as Secretary of the Treasury ended in March, 1913, several months after the investigation started, and the new Secretary of the Treasury revoked the permission. Since that time permission has been consistently refused.

Assuming that the facts set forth in this memorandum are accurate, and an attempt has been made to state only such as can be substantiated, it

6.

is submitted that the claim of Racine College warrants a complete investigation. If permission therefor is granted, every assurance will be given that the Government Departments involved will not be subjected to undue inconvenience and that any expense involved will be defrayed by the claimant. The research of the claimant's duly authorized representatives has been so extensive, that it is believed investigation can be greatly expedited by permitting that representative to conduct the same under proper supervision of Government Officials.

G.H.Y.Br.

TREASURY DEPARTMENT

Washington

FOR THE PRESS

January 26, 1914.

Information has reached the Department that certain persons are endeavoring, in various parts of the country, to sell shares or interests in an alleged claim of the estate of Charles Burke, deceased, against the United States.

This claim, briefly stated, is that Charles Burke was the owner of the entire issue of "first mortgage" or "paramount lien" bonds of the several Pacific railroad companies which received aid from the Government, such issue amounting, in round numbers, to \$64,000,000; that he deposited these bonds with the Treasury Department to secure the completion of the Pacific railroads; and that, on the completion of such roads, the Government, instead of returning the bonds to the said Burke or his estate, sold them, and now holds the proceeds (\$64,000,000, with interest) as trustee for the said estate.

The Department is informed that the promoters of the alleged "claim" are representing that the justice thereof was admitted by the late Secretary of the Treasury, Franklin MacVeagh, and that he was about to direct payment of the same to be left the Department.

The records of the Department show that there is no foundation whatever for the alleged claim; and that the statement as to the admission made by, and the proposed action of, the late Secretary is false. No bonds whatever have been deposited with any branch of the Government by any of the Pacific railroads, except those deposited in pursuance of the joint resolution of Congress, April 10, 1869 (16 Stat., 56), which authorized the President to require from the companies security for the completion of the roads. The bonds so deposited, amounting to \$5,600,000, were returned to the companies on the completion of the roads. (Finance Report, Vol. 25, page 237, and Vol. 29, page 197.)

The act of May 7, 1878 (20 Stat., 58), and the act of March 3, 1867, Sec. 5 (24 Stat., 488), provided that a sinking fund should be established in the Treasury of the United States for the satisfaction of the indebtedness of those companies to the United States on account of aid extended them in the construction of their roads, the said fund to be invested in the United States bonds or first-mortgage bonds of said companies. The bonds for that fund were purchased in the open market, and when the railroads paid their said indebtedness to the Government (represented by "publicly bonds"), the said fund was closed and the bonds then to its credit were disposed of in accordance with the terms of the debt settlement agreed upon between the Government and the representatives of the railroad companies.

Other than as above set forth there have been no deposits of bonds of any kind with the Government on account of any of the Pacific railroads.

All persons are warned that money paid for a share or interest in this so-called claim will be money thrown away.

TREASURY DEPARTMENT

Washington

FOR THE PRESS

January 26, 1934.

Information has reached the Department that certain persons are endeavoring, in various parts of the country, to sell shares or interests in an alleged claim of the estate of Charles Barker, deceased, against the United States.

This claim, briefly stated, is that Charles Barker was the owner of the entire issue of "first mortgage" or "juniorment lien" bonds of the several Pacific railroad companies which resulted aid from the Government, such issue amounting, in round numbers, to \$64,000,000; that he deposited these bonds with the Treasury Department to secure the completion of the Pacific railroads; and that, on the completion of such roads, the Government, instead of returning the bonds to the said Barker or his estate, sold them, and now holds the proceeds (\$64,000,000, with interest) as trustee for the said estate.

The Department is informed that the promoters of the alleged "claim" are representing that the Justice thereof was admitted by the late Secretary of the Treasury, Franklin D. Roosevelt, and that he was about to direct payment of the same to be left the Department.

The records of the Department show that there is no foundation whatever for the alleged claim; and that the statement as to the admission made by, and the proposed action of, the late Secretary is false. No bonds whatever have been deposited with any branch of the Government by any of the Pacific railroads, except those deposited in pursuance of the joint resolution of Congress, April 19, 1869 (16 Stat., 56), which authorized the President to require from the companies security for the completion of the roads. The bonds so deposited, amounting to \$9,600,000, were returned to the companies on the completion of the roads. (Princeton Treaty, Vol. 26, page 277, and Vol. 29, page 293.)

The act of May 7, 1890 (26 Stat., 58), and the act of March 3, 1897, Sec. 5 (24 Stat., 488), provided that a sinking fund should be established in the Treasury of the United States for the satisfaction of the indebtedness of those companies to the United States on account of aid extended them in the construction of their roads, the said fund to be invested in the United States bonds or first-mortgage bonds of said companies. The bonds for that fund were purchased in the open market, and when the railroads paid their said indebtedness to the Government (represented by "subsidy bonds"), the said fund was closed and the bonds then to its credit were disposed of in accordance with the terms of the debt settlement agreed upon between the Government and the representatives of the railroad companies.

Other than as above set forth there have been no deposits of bonds of any kind with the Government on account of any of the Pacific railroads.

All persons are warned that money paid for a share or interest in this so-called claim will be money thrown away.

TREASURY DEPARTMENT

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Washington

January 26, 1914.

FOR THE PRESS

Information has reached the Department that certain persons are endeavoring, in various parts of the country, to sell shares or interests in an alleged claim of the estate of Charles Durkee, deceased, against the United States.

This claim, briefly stated, is that Charles Durkee was the owner of the entire issue of "first mortgage" or "paramount lien" bonds of the several Pacific railroad companies which received aid from the Government, such issue amounting, in round numbers, to \$64,000,000; that he deposited these bonds with the Treasury Department to secure the completion of the Pacific railroads; and that, on the completion of such roads, the Government, instead of returning the bonds to the said Durkee or his estate, sold them, and now holds the proceeds (\$64,000,000, with interest) as trustee for the said estate.

The Department is informed that the promoters of the alleged "claim" are representing that the justice thereof was admitted by the late Secretary of the Treasury, Franklin MacVeagh, and that he was about to direct payment of the same when he left the Department.

The records of the Department show that there is no foundation whatever for the alleged claim; and that the statement as to the admission made by, and the proposed action of, the late Secretary is false. No bonds whatever have been deposited with any branch of the Government by any of the Pacific railroads, except those deposited in pursuance of the joint resolution of Congress, April 10, 1869 (16 Stat., 56), which authorized the President to require from the companies security for the completion of the roads. The bonds so deposited, amounting to \$5,600,000, were returned to the companies on the completion of the roads. (Finance Report, Vol. 28, page 237, and Vol. 29, page 193.)

The act of May 7, 1878 (20 Stat., 58), and the act of March 3, 1897, Sec. 5 (24 Stat., 488), provided that a sinking fund should be established in the Treasury of the United States for the satisfaction of the indebtedness of those companies to the United States on account of aid extended them in the construction of their roads, the said fund to be invested in the United States bonds or first-mortgage bonds of said companies. The bonds for that fund were purchased in the open market, and when the railroads paid their said indebtedness to the Government (represented by "subsidy bonds"), the said fund was closed and the bonds then to its credit were disposed of in accordance with the terms of the debt settlement agreed upon between the Government and the representatives of the railroad companies.

Other than as above set forth there have been no deposits of bonds of any kind with the Government on account of any of the Pacific railroads.

All persons are warned that money paid for a share or interest in this so-called claim will be money thrown away.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 24, 1940

to Secretary Morgenthau
from Mr. Foley

For your information -

Pursuant to your request, I have had prepared and attach a chronological digest showing the course of Treasury Department policy re wire tapping since January 1, 1937.

Every item is substantiated by documents in the files of the Legislative Section. To make the source material readily available we have tabbed each supporting document in the files and given it a number which corresponds to the number of the item of the digest for which it forms the basis.

in-fh

CHRONOLOGICAL DIGEST* OF HISTORY SHOWING COURSE
OF TREASURY DEPARTMENT POLICY RE WIRE
TAPPING SINCE JANUARY 1, 1937.

1937

1. January 13, Wire tapping was discussed at the meeting of the Co-ordination Group. Mr. Graves stated that it is a dangerous weapon, that its use should be carefully supervised, and that the Alcohol Tax Unit and Intelligence Unit had for years required their field offices to get prior approval from Washington before installing wire taps. He requested Mr. Corman, Mr. Anslinger, and Mr. Wilson to find out from Mr. Avis how it was handled and follow the same procedure in their services. He requested also that they submit a report on the telephones then under supervision.
2. December 20, The Supreme Court handed down its decision in the first Nardone Case holding that Federal law-enforcement officers were forbidden to intercept interstate communications.

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3. January 5, At the meeting of the Coordination Group, there was considerable discussion of the effect of the Nardone decision. Mr. Avis and Mr. Shanhart stated that they had issued instructions to their personnel forbidding the interception or recording of interstate conversations pending a further study of the decision. Mr. Irey stated that instructions should be issued by all Treasury enforcement agencies to that effect. Mr. Avis suggested that legislation amending the Communications Act of 1934 so as to overcome the effect of the Nardone decision, so far as it applied to Federal officers, be presented to Congress immediately.
4. February 3, Mr. Irey submitted a memorandum to Mr. McReynolds outlining the arguments for and against Treasury sponsorship of a wire tap bill.
5. February 7, Mr. McReynolds transmitted Mr. Irey's memorandum of February 3rd to Mr. Oliphant and stated that "it is my opinion we should try to get law changed".
6. March 1, The Legal Division, after considerable study (Mr. Oliphant personally taking part) completed a draft of the wire tap bill and submitted it to Mr. McReynolds with a covering explanatory memorandum. Mr. McReynolds returned the bill and memorandum to Mr. Oliphant and expressed the opinion

* The number of each item corresponds to a number placed on a tab attached to the document in the files of the Legislative Section containing the source material on which the item is based.

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that the bill seemed to solve the problem. He stated that he thought Mr. Easter should handle the matter informally.

7. March 16, The bill was discussed informally with Mr. Lea of California, Chairman of the Committee on Interstate and Foreign Commerce of the House, and he was furnished with a draft of the bill and a memorandum explaining it. He thereupon introduced the bill on this date as H. R. 9898.
8. March 24, General Strong of the War Department called the Legislative Section by telephone and recommended that the wire tap bill (H.R. 9898) be amended in several respects in order to insure noninterference with certain activities of the War and Navy Departments.
9. March 30, The bill was discussed informally with Senator Wheeler, Chairman of the Senate Interstate Commerce Committee, and he was furnished with a draft of the bill, the memorandum explaining it, mimeographed copies of all pertinent wire tap court decisions, and a copy of H.R. 9898. Senator Wheeler introduced the bill on this date as S. 3756.
10. April 19, The Department, pursuant to the request of the House Interstate and Foreign Commerce Committee of March 17, 1938, submitted a report on H. R. 9898 in which were set forth a discussion of the state of the law, the effect of the decisions in various court cases, and the difficulties of adequate law-enforcement without wire tapping. The Department's report recommended enactment of the bill.
11. May 12, The Department prepared and informally submitted to the Clerk of the Senate Interstate Commerce Committee a draft of the committee report on S. 3756 which was printed as Senate Report No. 1790.
12. May 18, The wire tap bill (S. 3756), with a minor Committee amendment was passed by the Senate without discussion.
13. June 5, The Department, having been informally furnished with copies of the reports of the War and Navy Departments dated April 23rd and April 27th, respectively, which recommended certain amendments (see 8) to H. R. 9898, arranged and attended a conference with those Departments on this date. The Department of Justice was also represented by Mr. Carter Barron. The purpose of the conference was to request the War and Navy Departments to withdraw their proposed amendments for the time being in order not to jeopardize the passage of the bill. The War and Navy Departments agreed to this, with the understanding that the Treasury and Justice Departments would

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cooperate with them at the following session in the preparation of a separate bill which would cover their situation. General Strong thereupon telephoned the Clerk of the House Committee on Interstate and Foreign Commerce and advised him of the understanding reached and requested that the Committee disregard their recommended amendments.

14. June 6, The Department received from the Department of Justice a copy of a letter addressed to the War Department confirming the understanding reached at the conference the day before.
15. June 7, At the informal request of Chairman Lea, representatives of the Treasury and Justice Department (Mr. Barron) were present when H. R. 8756 and H. R. 8696 were considered by the House Committee on Interstate and Foreign Commerce. During the meeting of the Committee Chairman Lea advised such representatives that the Committee was willing to report the Senate bill and if an amendment (providing certain penalties for wire tapping by Federal officers in violation of the provisions of the bill) was prepared immediately. This was done on the spot and the Committee agreed to report the bill. The Treasury representatives prepared the report of the Committee and transmitted it informally to the Clerk.
16. June 8, The bill (H. R. 8756) was reported out by the House Committee on Interstate and Foreign Commerce (House Rept. No. 3556) with the amendment mentioned above.
17. June 10, The bill (H. R. 8756) was reached on the Consent calendar in the House, and, at the request of Congressman O'Malley of Wisconsin, was passed over without prejudice. (The following day, representatives of the Department discussed the matter with Mr. O'Malley in order to apprise him of the various safeguards in the bill and the necessity for its enactment. Mr. O'Malley agreed to lend his support to the bill the next time it was considered.)
18. June 14, Mr. Whigham prepared a memorandum for the file stating that he had seen the Secretary that day and informed him that he did not want to take responsibility for proceeding further with the wire tap bill without being assured that the Secretary understood exactly what the bill proposed and its possible ramifications, particularly in the light of the fact that the New York State Constitutional Convention was then debating the wire tap question. Mr. Whigham told the Secretary that the pending bill took a position midway between that taken by Mr. Dewey (pro wire tapping) on the one hand and Governor Lehman (con) on the other. Mr. Whigham's

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memorandum concluded with the statement that the Secretary had said that "no further efforts should be made to secure the passage of this bill; that if, without any activity on the part of the Treasury, members of Congress wholly and independently secured its enactment, we would interpose no objection, but that from this moment forward nothing whatever should be done to secure the passage of this legislation."

19. June 15,

The bill (S. 3756) was again reached on the House Consent calendar and was passed with the minor amendment proposed by the House Interstate and Foreign Commerce Committee.

20. June 16,

The bill (S. 3756) as amended and passed by the House was returned to the Senate for Senate approval or disapproval of the House amendment. Mr. Oliphant informed the Secretary by memorandum that Senator Wagner had called him on the telephone and expressed concern over the bill. The Senator referred to the dispute in the New York Convention and said that he personally felt that there should be no wire tapping without a court order in advance of such tapping. Mr. Oliphant told Senator Wagner that the Department was "standing aside" in view of the importance the subject had assumed. Senator Wagner conveyed this message to Senator Wheeler who was handling the bill, and Senator Wheeler also called Mr. Oliphant. Mr. Oliphant repeated to him that the Department was "standing aside". Senator Wheeler said that he would not push the bill under the circumstances.

21. June 16,

Mr. Wolcott of Michigan attempted, without success, to have the House recall the bill from the Senate in order that the House could reconsider its favorable action of the day before. However, since the Senate failed to act on the House amendment the bill died with the adjournment of the 75th Congress on that day.

22. June 21,

Mr. McReynolds advised Mr. Graves during Mr. Irey's absence on account of illness, that "the Secretary directs that after July 1st, (1938) no supervision of telephone or other communication lines be undertaken by any Treasury personnel under any circumstances except with his personal approval". Mr. Graves communicated this instruction orally to the heads of all Treasury enforcement agencies.

23. December 9,

A memorandum, prepared by Mr. Irey for Mr. McReynolds which reviewed the wire tap situation and recommended that the Department again sponsor the wire tap bill, was referred to Mr. Oliphant by Mr. McReynolds for use in connection with new legislative proposals.

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24. January 18,

Mr. Foley and Mr. Bernard held a conference with the new Attorney General (Murphy) and left with him for his study and comment, a copy of the wire tap bill.

25. January 30,

The Department received from the Department of Justice a memorandum dated January 26, 1939, prepared for the Attorney General by Mr. Brian Kishner, Assistant Attorney General, which reviewed the arguments for and against wire tapping, and without making any recommendation on the question of policy, concluded as follows:

"If the policy be approved, the proposed bill represents a worthy effort to resolve this sharp conflict by regulating away the evils of wire tapping before the Supreme Court on constitutional grounds removes the subject from legislative discretion. If Congress wishes to preserve the benefits of this investigative device by attempting to eliminate its abuses, the proposed bill offers a suitable method."

26. March 15,

The Secretary of War, by letter dated March 14, 1939, advised the Secretary that the War Department did not desire that its standards be inserted in the wire tap bill by this Department until it had had an opportunity to reconsider.

27. March 21,

The Acting Secretary advised the Secretary of War that the Treasury Department would confer with the War Department before any steps were taken to include its standards (see 6) in any legislation which the Department may propose.

28. March 29,

Representatives of the Department, together with a representative of the Department of Justice (Mr. Bernard), attended a conference on the wire tap bill held by the War and Navy Departments. General Strong was advised that in keeping with our promise of the year before, the Department was perfectly willing to include the War Department standards in the bill and that it was a matter solely for his determination. The General stated that he did not wish to urge their inclusion in our bill, but indicated that his Department's position would be more favorable if they were accepted. The General was assured that the standards would be included in the wire tap bill should the Treasury Department again sponsor it.

29. May 8,

Senator Wheeler was asked informally if he would be willing to handle the wire tap bill during the 76th Congress. He refused, for "personal" reasons, to do so.

30. May 11,

Mr. Foley advised Mr. Bernard that the proposed new wire tap bill and letters of transmittal were presented to the

Secretary for approval, but that the Secretary refused to sponsor the bill and expressed himself as being opposed to wire tapping and that he would like to go on record to that effect. Accordingly, the Legal Division's file on the matter was closed.

31. December 11,

The Supreme Court handed down its decisions in the second Burdette Case and the Heiss Case, holding that Federal law-enforcement officers were forbidden to intercept interstate (as well as interstate) communications.

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32. January 26,

Mr. Irey directed a memorandum to the heads of all Treasury law-enforcement agencies requesting that they secure a statement from their supervisory field officers to the effect that they understand that wire taps are not to be used and that no such installations are in use or authorized by them.

33. February 1,

Senator Green explained to the Senate the resolution (S. Res. 224) introduced by him that day, which authorized and directed the Senate Committee on Interstate Commerce to investigate instances of the use of wire taps, dictographs and similar devices by or against officers and employees of the Federal, State, and local governments.

34. March 4,

S. Res. 224 was reported out by the Senate Interstate Commerce Committee (Senate Rept. No. 1304).

35. March 15,

Mr. Irey advised Mr. Gaston by memorandum that responses to his memorandum of January 26, 1940 had been received from all enforcement agencies of the Department to the effect that it was understood that wire tap installations are not to be made and that there are no such installations in use. This memorandum further stated that Mr. Irey's inquiry of January 26th antedated by 5 days Senator Green's resolution calling for a wire tap investigation by the Senate Interstate Commerce Committee.

36. March 20,

S. Res. 224 was agreed to by the Senate.

37. April 9,

The Department of Justice, in a press release, discusses its investigation of wire tapping in Rhode Island, and restates the policy of the Department of Justice with respect to wire tapping. In such release the Attorney General said that he did not feel that persons who had engaged in interstate wire-tapping prior to December 11, 1939 (see 31) should be prosecuted since the Department of Justice itself had engaged in the practice prior to that time and regarded it as legal. He also indicated, however, that all future cases of wire tapping will be prosecuted.

COPY

BSM

PLAIN

Cable

Dated April 24, 1940

Rec'd 12:55 a. m., 25th

Secretary of State,

Washington.

214, Twenty-fourth.

FROM COK.

Following occupation German authorities and troops have paid purchases with Reichskreditkassen scheine valued one point sixty-six and two-thirds krona equal one mark. Banks required redeem scheine with krona and former enjoys legal tender status. Previous temporary monetary regulations limited individual bank withdrawals five hundred krona weekly supplanted by new administrative council order, effective April 22nd, limiting individual withdrawals for period April 10th-May 9th to four hundred krona. Funds supplied for business operations upon proof necessity while new deposits free from restrictions. Utilization bank credits restricted.

Foreign exchange situation unclarified in absence

- 2 -

quotations and issuance new regulations although sales have been reported when buyer guarantees bank against loss.

Coffee rations now eighty grams and sugar 250 grams weekly while other food conservation measures announced.

HARRIMAN

HSM
REP

TO THE SECRETARY
OF THE ARMY
WASHINGTON, D. C.
JAN 10 1942

RECEIVED
JAN 10 1942
U. S. ARMY
HEADQUARTERS
WASHINGTON, D. C.

April 24, 1940

76

To Secretary Morgenthau

From Joseph P. Cotton, Jr.

Preliminary memorandum re status of Austrians,
Czech and Polish dollar bonds.

To confirm what I told you this morning, the German Government, vis-a-vis American holders, has not assumed any obligation as regards the governmental dollar bonds or afforded any transfer facilities for payment of non-governmental dollar obligations of these countries.

The case of Austria is, however, different from that of Poland and Czechoslovakia. Germany discriminated against the United States and its nationals, and the United States took a different diplomatic position in the case of the Austrian as distinguished from Polish and Czechoslovakian indebtedness.

So far as I am aware, the German Government has not assumed any obligation or afforded any transfer facilities with respect to any external indebtedness of Poland and Czechoslovakia. In the case of Austria prior to the outbreak of the war, on the other hand, various European countries, due to their superior bargaining position based upon their adverse trade balances with Germany, were able to force Germany in effect to recognize and do something about the Austrian private and governmental indebtedness. The United States Government made diplomatic representations to Germany in regard to the Austrian indebtedness and certain negotiations were carried on. These negotiations, supplemented by the efforts of the Bondholders' Protective Council and of paying agents in this country, did not bring any concrete result prior to the outbreak of the war. It should be noted in this connection that the discrimination against the United States and its nationals in the matter of the Austrian indebtedness was to be expected in view of our inferior bargaining position due to our favorable trade balance with Germany and in the light of the history of discriminatory treatment in connection with the Reich governmental and non-governmental dollar indebtedness proper.

The fact that the United States entered into negotiations with Germany as regards the Austrian indebtedness in a sense implied recognition of the absorption of Austria by Germany which the United States was not prepared to risk in the case of Czechoslovakia and Poland. No diplomatic representations were ever made to Germany as regards the indebtedness of these two countries or their nationals.

18.44.

CONFIDENTIAL

April 25, 1940

To: The Secretary ✓
 Mr. White
 Mr. Haas

From: Mr. Young

There is attached herewith a memorandum,
received from Mr. C. T. Ballantyne April 24, 1940,
relating to deposits of cryolite in Greenland and its
importation by the Pennsylvania Salt Manufacturing
Company.

P.Y.

April 24, 1940.

Memorandum re Cryolite and Pennsylvania Salt Manufacturing Co.

Approximately 50 years ago Pennsylvania Salt Limited made an agreement with the Danish Company operating the deposits of cryolite in Greenland. Under that agreement this company became the sole distributing agent for the United States and Canada. At the time the company used a large amount of cryolite in the manufacture of caustic soda and alumina and obtained these rights for that purpose.

About 1900 the company changed its method of production to the electrolytic process and is believed not to have used cryolite since. About the same time the aluminium companies became substantial consumers of cryolite and customers of Pennsylvania Salt Limited. Pennsylvania Salt also resells cryolite to producers of enamel and of insecticide.

The Greenland cryolite mines are the only known workable cryolite deposits in the world. Up to the end of 1939 the concession was held by the Danish Co., the Creolite Mining and Trading Co., while the refining was done in Denmark by the Oresund Kemiske Fabrikker Co. The concessionaires ship the crude cryolite to only two customers, i.e. Danish refiners and Pennsylvania Salt Co. The Danish Co. has the sole refining rights for the entire world with the exception of United States and Canada which have been held by the American Co.

Several years ago it was agreed that when the mining concession, then in force, expired at the end of 1939 it would not be renewed but the industry would be reorganized and consolidated into a stock company controlled jointly by

the state and the private interests concerned. The merger and the formation of the new company, Oresund Cryolite Co. Inc., has been approved and was to have gone into effect from January 1, 1940. It is understood that this reorganization would not alter existing world marketing arrangements and that the agreement with the American concern would be renewed.

As no refining is done in Greenland and stocks there have been held permanently in the neighborhood of 15,000 tons, shipments of the crude cryolite from Greenland approximate annual production. Exports of cryolite from Greenland jumped from 17,410 tons in 1936 to 51,000 tons in 1937, but decreased to around 44,000 tons in 1938. A record figure of more than 56,000 tons will be reached in 1939.

In 1939 about 41,000 tons were loaded for Denmark and about 15,500 tons for the American distributor (2,880 tons of which were destined for Canada). Production statistics of refined cryolite are not published, nor are the destinations of the Danish shipments revealed. It is known, however, that apart from stocks, practically the entire production is exported, and the principal customers of the Danish firm are the big aluminum manufacturing companies of the world, with the exception of the United States and Canada. It is understood that considerable stocks of refined cryolite are held by the agents of the Danish company in the principal European distributing centers.

There are two automatic checks on the continued expansion of the Greenland cryolite deposits, first, the present volume of extraction has just about reached the limits of the mining and loading facilities at Ivigtut,

3.

and second, the economic self-sufficiency programs of European countries have encouraged production of a synthetic substitute in the individual consuming markets and raised obstacles to the increased sale of the Danish natural cryolite in the form of import and currency restrictions. The synthetic product is also competitive on the price side and may be expected to attract an increasing share of the market.

C.T.B.

TREASURY DEPARTMENT
OFFICE OF PHILIP YOUNG

APR 24 1940

April 24, 1940
3:37 p.m.

H.M.Jr: Hello.

Operator: Assistant Secretary Johnson. There you are.

H.M.Jr: Hello.

Louis
Johnson: Hello, Mr. Secretary.

H.M.Jr: Hello, Louis.

J: How are you?

H.M.Jr: Say, Arnold did all right, didn't he?

J: Yeah, we had a -- we had a three-hour coaching session here.....

H.M.Jr: Well.....

J:the afternoon before. I then talked to Dick Russell and some more members of the committee after I was sure he had come through and got them to agree that they'd protect him and that I needn't show up.

H.M.Jr: Well, I was a little worried after you asked my advice should he go up alone or not, but.....

J: Well, I followed your advice on that, but I confirmed it by men like Russell and even went and talked to Tydings and Senator Hale, who are Republican members in effect; Tydings is Democrat in name, and they agreed to protect him and protect the policy. So Hale is pretty potent on that committee, Republican from Maine. They were for it.

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

J: Actually the whole committee turns out to be for it on our check except Hiram Johnson.

H.M.Jr: Well, that's all right.

J: And Arnold -- Arnold stuck to his story that the thing originated in the War Department. Johnson went back at it again and again but he couldn't budge that.

- 2 -

H.M.Jr: All right. Louis, I've got the powder.....

J: Give him a pat on the back, Mr. Secretary, when you see him, will you?

H.M.Jr: I'll do that. I've got the powder story and the Allies are coming in at eleven, and I wondered -- I'm going to -- whether you, and I'm calling up the Navy, couldn't come to see me tomorrow morning at nine-fifteen.

J: Nine-fifteen.

H.M.Jr: Now, who is your man on powder?

J: Burns.

H.M.Jr: Well, could you and Burns.....

J: Burns handled the powder situation in the World War.

H.M.Jr: Well, I think it's important enough that you better come on the first blush yourself.

J: All right. I'll have Burns and I may bring Harris, our manufacturing powder man along too.

H.M.Jr: Well They're asking for certain equipment. They want to borrow certain equipment, you see, and certain technicians. So whoever really knows how to manufacture powder, I'd bring them along. Hello?

J: Yes.

H.M.Jr: See?

J: Yeah, all right we'll do it.

H.M.Jr: Nine-fifteen.

J: Nine-fifteen, your office.

H.M.Jr: If you please.

J: Fine.

H.M.Jr: Thank you.

J: Goodbye.

April 24, 1940
3:42 p.m.

H.M.Jr: Hello.

Operator: Mr. Compton is acting in Secretary Edison's absence.

H.M.Jr: Thank you.

C: Yes, sir. Go ahead.

H.M.Jr: Hello.

Lewis
Compton: Hello, Mr. Secretary.

H.M.Jr: How are you?

C: Fine, thank you, sir.

H.M.Jr: Compton, I now have what the Allies want in the way of powder.

C: Yes. Oh, fine.

H.M.Jr: It's quite complicated.

C: Yes, sir.

H.M.Jr: And I've asked Louis Johnson if he'd come over and bring somebody with him who knows how to manufacture powder. And I wondered whether you wouldn't care to come also at nine-fifteen tomorrow morning.

C: Nine-fifteen. I'll be there, Mr. Secretary.

H.M.Jr: And will you bring somebody who knows how to manufacture powder?

C: I will, yes, sir.

H.M.Jr: They're not.....

C: I'll get somebody from the Bureau of Ordnance to come with me.

H.M.Jr: Pardon me?

C: I'll get somebody from our Bureau of Ordnance who will have full technical knowledge with me.

- 2 -

H.W.Jr: That's right, and then I -- want to get it straightened out in the family, so to speak, and then I'm going to see them at eleven.

C: All right, then, Mr. Secretary. I'll be there at nine-fifteen, sir, your office.

H.W.Jr: If you please.

C: All right. Thank you for calling. Goodbye.

83-
BRITISH SUPPLY BOARD,

385 Wellington Street,

Ottawa.

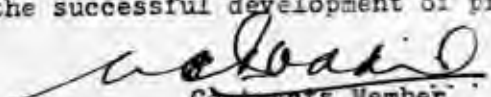
To: The Chairman,
Anglo-French Purchasing Commission.

From: The Controller General,
British Supply Board.

As you are aware Canada has no experience of the manufacture of Nitrocellulose (Smokeless) Powder. Accordingly I am to request you to be good enough to ascertain whether, in the event that it is decided to proceed with the development of capacity for the production of Smokeless Powder in Canada, the United States Government would be prepared to authorize those United States manufacturers who have the essential experience, to supply to Canadian Contractors accredited by the Minister of Munitions and Supply, Ottawa, and by this Board, such information and the like as may be necessary to enable the work to be undertaken.

It is important not so to restrict our request at this stage as to prejudice such later developments as may arise, but it is at present contemplated that the assistance of only one United States manufacturer to one Canadian manufacturer would be required, and in connection with such a scheme presently under consideration the type and scale of information required is as follows:

1. Design and full detailed plans of a plant capable of producing 1,000 tons of N.C.T. per month.
2. All information relative to the manufacturing processes and operation of plant.
3. The loan to the Canadian Contractor of 10 Technicians for a period of three months.
4. The training by the United States Manufacturer of ten Canadian Technicians for a period of three months.
5. Such information as to sources of supply of special machinery and appliances, and such assistance in its procurements as may be possible.
6. Such continuing liaison between the United States Manufacturers and the Canadian Contractor as may be necessary for the successful development of production.


Contracts Member
British Supply Board.
For Controller General.

April 23rd, 1940.

CONFIDENTIAL

April 24, 1940

To: The Secretary
From: Mr. Young

Attached herewith is a covering letter and a memorandum with respect to the transfer of an ammonia oxidation unit for the manufacture of nitric acid, which you requested of Mr. Parvis at the conference on April 18, 1940.

I am forwarding a copy of this material to Captain Collins with the suggestion that he send you a report.

I am also sending a copy to Mr. Egan as it involves a potential purchase.

fy.

CONFIDENTIAL

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ANGLO-FRENCH PURCHASING BOARD

NEW YORK:
15 BROAD STREET

WASHINGTON:
705 15th ST., N. W.

This letter from Washington, D.C.

April 23, 1940.

Honourable Henry Morgenthau
Secretary to the Treasury
Washington, D.C.

Dear Mr. Secretary,

At the request of Mr. Purvis, I send you herewith a memorandum setting out the facts with regard to the application made by the Atlas Powder Company to the Chief of Ordnance, asking for the transfer of an ammonia oxidation unit presently at Picatinny Arsenal.

This is one of the matters of which Mr. Purvis spoke to you at his last meeting with you. He asked me to say to you again for him how anxious we are to obtain any assistance which may be appropriate and available in overcoming the technical difficulty which has arisen.

I am,

Yours very truly,

C.T. Ballentyne

Charles T. Ballentyne,
Secretary-General.

Received 4:10 P.M.

4-23-40

Bj

Atlas Powder Company is engaged in the construction of plants to supply T.N.T. under two Allied Government contracts.

The principal item of which the company is unable to obtain prompt delivery is ammonia oxidation equipment for the manufacture of nitric acid. It estimates that the delay in obtaining this equipment will make a difference in production of T.N.T. during the months of October, November and December of from 250 to 300 tons per month.

The War Department has spare ammonia oxidation equipment at Picatinny Arsenal and the company made application upon March 8th, 1940 for the transfer of this equipment with the following understanding:

1. It agreed to pay all costs of packing and shipping the equipment from Picatinny Arsenal to Atlas Mo.
2. It agreed to immediately place an order for exactly similar equipment to be delivered at its expense to Picatinny Arsenal.
3. It agreed that representatives of the Government should inspect the new equipment prior to shipment to Picatinny Arsenal, the cost of such inspection to be borne by it.

At the time that this application was made it was understood that it was favoured by the Ordnance Department but that there existed certain legal difficulties which might prevent it from being agreed to.

Upon receipt of the application it was referred to the Department of the Judge Advocate General. I have been informed that in his opinion there existed only two methods by which the transfer could be made, i.e. by lease or by sale. In the former case, the law requires

the return of the identical article which formed the object of the lease less reasonable allowance for wear and tear depreciation. This is possible for many articles such as lathes but would not be possible in this case as the ammonia oxidation equipment has to be incorporated in the building of which it subsequently forms part. In the latter case, sales of Government equipment require to be made by competitive bid but it was the decision of the Department that such a sale could not be justified before Congress.

We subsequently asked for consideration to be given to the possible transfer or sale of this equipment to some other Department or Government agency which might not be so strictly and technically bound in its disposition of the equipment. This was considered and we were informed that the suggestion could not be acted upon.

We have asked the President's Liaison Committee not to inform us officially that the application of the Atlas Powder Company could not be accepted.

C.T.B.

April 23, 1940

Regraded Unclassified



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 24, 1940.

MEMORANDUM FOR THE SECRETARY

As a matter of information there is attached hereto copy of a confidential memorandum addressed by Admiral Towers to General Arnold concerning the Navy's understanding of the policy approved for the sale of airplanes to foreign Governments.

H. E. Fowler

81^c o p y

NAVY DEPARTMENT
BUREAU OF AERONAUTICS
WASHINGTON

Aer-M-12
L11-4(2)
L4-3(1)

APR 15 1940

MEMORANDUM

CONFIDENTIAL

To: Major General H. H. Arnold, Chief of Air Corps, U.S.A.

SUBJECT: Aircraft Foreign Sales - Allocation of Cost of Improved Types.

1. Based upon discussions, I conclude that, in numerous instances, the Air Corps will require extensive changes in airplanes manufactured under its contracts as well as the design and construction of additional experimental aircraft in connection with the release of its most modern types of aircraft for foreign sale. It is my understanding that the manufacturers' immediate reimbursement for changes and for design and construction of additional experimental aircraft is to be found in the prices charged to foreign customers - these prices being increased for the specific purpose.

2. I would appreciate being advised of the contractual, administrative and accounting procedures the Air Corps proposes to follow, in order to insure that no part of the cost of changes or of the design and construction of additional experimental models may be set up as a loss to the manufacturer or a deficiency in profits for ultimate consideration under the profit limitation clauses of the Vinson-Trammell Act and its amendments.

J. E. TOWERS
Rear Admiral, U.S.N.,
Chief of the Bureau of Aeronautics

COPY



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 24, 1940.

MEMORANDUM FOR THE SECRETARY

A copy of a letter addressed by the Acting Secretary of the Navy to the Secretary of State, which has just been received, indicates that the Navy and War Departments have released certain motors manufactured by the Allison Engineering Company to Sweden.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 28, 1940.

MEMORANDUM FOR THE SECRETARY

Mr. John Rogers, Vice President of Douglas, phoned me this morning and stated that while in New York yesterday he heard that Germany is planning to send a representative to this country the middle of May for the purpose of buying one or two of each of the types of planes released to England and France; that he felt we should know this and that as far as his company was concerned they would advise any such representative that their output was contracted for through 1941 and that, therefore, they could not deliver any planes to the Germans.

H. J. Folger

4
The Secretary

Purvis told the boys the contract with Bell had been signed, making a present total of three types of planes, two engine contracts and the Pratt & Whitney contract about to be signed. He avoided actual numerical figures for bargaining reasons but turned to Fleven when the boys asked for a current overall figure and Fleven calculated that present contracts call for \$200,000,000 expenditure. Fleven also said that the mission was financing new plant expansion for the engine people but declined to give floor space or dollar value on the ground that many experts from that information could readily figure capacity.

(C)

From: MR. SCHAGE

ing to Percy
at his home

4/25
origin of Betel by Sect

attached to
meeting of 4/25
3:15 PM

WOLFRAM

There has been little change in the Wolfram situation during the last three months. The French Government however now hope to conclude their negotiations for stocks in Indo-China shortly.

The control of further production both in China and the lesser producing countries, such as Bolivia and Thailand remains to be settled. An approximate estimate of world's production is as follows:

China approximately	14,000 metric tons
Korea	2,200
Siam	500
South America	4,100
Burma	5,700
British Empire	3,500
French	1,100
Portuguese	3,000
U.S.A. and others .	3,500

Total..... 37,600 metric tons

Estimated requirements of the Allies are:

French	6,000 metric tons
British	8,000
and it is thought	
that the U.S. will	
require some	6,000

Thus out of 37,600 there is an assured safe destination for 22,000 tons. Therefore, assuming that Japan consumes the production of Korea, there remains open on the world market something under 14,000 tons, which is the approximate equivalent of one year of Chinese production. China therefore remains the key to the problem. To the best of our knowledge none of the Chinese producing areas have fallen into the hands of the Japanese whose requirements are said to be 5,000 tons for 1940.

As you will remember the question of preemptive purchase of Chinese wolfram was discussed at the beginning of the year at which time the U.S. were reported to be negotiating a loan with the Chinese Government for \$20,000,000, and it was thought possible that wolfram might be used as a security. I understand however that wolfram has not yet been mentioned in this connection by the U.S. Government.

In order that we may decide our course of action in China, I would appreciate -

First, your views on the likely requirements both of the American Government and of commercial consumers, and

Secondly, your opinion on the possibilities of the American Government using wolfram as a security for the loans to China.

This might be very helpful to us provided -

- a) a real control is established on the wolfram given as security so as to prevent it reaching dangerous destinations, and

- (b) an arrangement be reached between the U. S. Government and the Allied Governments so as to provide opportunity for latter(s') purchase of the whole, or part of, this wolfram as the need may arise.

One of the principal difficulties in this problem is that China has been obtaining arms from Russia in exchange for about 400 tons monthly of wolfram and wishes to continue to do so and that consequently any deal in order to be accepted by the Chinese Government must allow that Government to obtain arms at least for part of their wolfram. At present we are stopping shipment by sea to Russia and we doubt whether more than 100 tons could be transported overland. You may find it useful to point out, in your discussions, that the plans outlined above, if effective, would deny Chinese wolfram to Japan and Russia as well as Germany.

Chrome

There are three significant producers from whom Germany can obtain supplies over land namely, Turkey, Greece and Yugoslavia.

Cables shows following action to have been taken.

Turkey. The British and French Governments have concluded an agreement with the Turkish Government whereby the Allies have the right to purchase the total Turkish production (limited to 250,000 tons per annum) excluding sales to the U.S. Other neutrals can buy only with consent of Allies.

Greece. British Government has purchased practically whole 1940 production in return for which Greek Government has undertaken to prohibit imports to Germany and to restrict imports to neutrals to normal levels.

Yugoslavia - By reason of British ownership of principal mining company and by acquiring control of other properties it is hoped that the amount available for Germany will not be more than about 16,000 tons in 1940 and 9,000 tons in 1941.

The only remaining gaps are:

- (a) possible shipments of Philippine or Cuban ore via Russia
- (b) possible re-export via Russia of chrome or ferro-chrome from the U.S. U.S. annual imports 450,000 tons so that re-export of even a small percentage would be serious gap.

Cobalt

Cartel annual capacity 4,300 tons.

By July Cartel refining capacity will be about 4,000 tons including about 350 tons in the U.S.A.

Annual consumption (excluding Germany) about 2,500 tons.

Cables show following situation:

- a. Exports from France prohibited.
- b. Exports from U.K. and Canada subject to license and have been small.
- c. Exports from Belgium, limited to 41.5 tons to belligerents and exports to neutrals subject to guarantee against re-export to belligerents.
- d. Supply of metal to Japan limited to 400 tons over 1940 and supply of oxide on 3 year average deliveries between 100 and 120 tons. This includes consideration stocks in U.S.A. and elsewhere as well as new production.
- e. *Finnish(?) production understood to be suspended.*

Union Miniere believed to have 500 tons in U.S.A. and are shipping for refining here. While we have no evidence of possible dangerous re-exports, it would be helpful if trade in metal or alloy form could be watched by U.S. authorities, with a view to preventing excessive re-export.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

From: American Embassy, Berlin

Date: April 25, 1940; 7 p.m.

No: 1117.

The German press announced today that a German trade commission has arrived in Stockholm for the usual quarterly consultation on Swedish-German trade provided for by the current clearing and payments agreement.

Because of the doubtful international situation, Swedish groups in Berlin who are in touch with proceedings claim that Sweden will not make any outstanding changes in current trade arrangements with Germany. It is stated by these groups that although Sweden will shortly resume exporting iron ore to Germany as Lulea and the southern ports will shortly be free of ice, if not already, it is not expected that there will be any material increase in shipments over last year from these ports as their loading and transportation capacities will not permit it. A heavy decrease in Germany's imports of ore from Sweden is expected because of Narvik being closed to German shipping. It is further believed in Swedish circles that Trondhjem will also be under English and Norwegian control which will make overseas shipments again possible for Sweden.

KIRK

NK
JHL

EA-FEC

RE SMOKELESS POWDER

April 25, 1940
9:15 a.m.

Present: Mr. Johnson
Colonel Burns
General Weason
Mr. Gumpston
Admiral Purlong
Mr. Collins
Mr. Young
Mrs. Elster

H.W.Jr:

The reason that I asked you gentlemen to come over here is that the Anglo-French Purchasing Board are interested in procuring powder here and in Canada and I have three documents here. I think the easiest way is for Phil to distribute one to each of these gentlemen.

What I thought I would do was to read mine out loud and then we could stop and discuss the thing as we go along, see. There is stuff here that you gentlemen may be familiar with, but I won't. I am reading this one of April 22.

"Trinitrotoluol and smokeless powder orders totalling 19,000 tons have already been placed in the United States by the Allied Governments (acting jointly) in accordance with the attached sheet.

"Additional orders have been placed in Canada for the erection of plants having an annual capacity of:

"12,000 tons per annum of Trinitrotoluol --"

Have you got an abbreviation for that?

Burns:

T.N.T.

H.W.Jr:

"15,000 tons per annum of Cordite (the British propellant powder corresponding to the 'smokeless' powder used in the United States).

"The balance of the Anglo-French programme requires North American plants with a capacity of:

"12,000 tons per annum of Trinitrotoluol

- 2 -

*32,400 tons per annum of Smokeless Cannon Powder

*The latter figure is understood to be a minimum; the capacity required may be as high as 48,000 tons per annum.

*Negotiations have been proceeding during the last three months to ascertain what is the cheapest (from a construction and operating viewpoint) and the most effective means (from a delivery viewpoint) of establishing new plants in Canada and/or the United States for these further quantities. No capacity at present exists in either country to take care of this demand.

*The Anglo-French Purchasing Board is not yet able to make a final decision in regard to the 12,000 additional tons per annum of Trinitrotoluol: quotations have been received from United States producers (Atlas and DuPont) but we are still awaiting quotations from the British Supply Board, Ottawa, for Canadian production.

*Quotations have been received from United States producers for plants with a capacity of 30,000 tons per annum of Smokeless Cannon Powder. At the moment the most promising immediate offer would seem to be that made recently by DuPont to build a new Smokeless Powder plant, but an alternative has been considered whereby the Hercules Powder Company would erect two plants to manufacture the nitrocellulose (gun cotton), and DuPont would fabricate the same into Smokeless Cannon Powder.

*An expenditure for plant construction of some \$20,000,000 would be required for either method of procedure.

*It would be helpful to the Allies, however, if a portion (say at least 12,000 tons) of this Smokeless Powder could be made in Canada, since, amongst other reasons, it would tend to spread the risks. Before a Canadian contractor can quote, it is necessary, if deliveries are to be brought into the realm of practicality, for plant designs, which DuPont or Hercules could supply, to be made available for such a Canadian

- 3 -

plant, and possibly technical assistance also. It is the application for this which last week got into the wrong channels. The exact information desired is shown in the attached memorandum made up by the Ministry of Munitions in Canada and endorsed by the British Supply Board. (The British Supply Board at Ottawa, working through the Canadian Ministry of Munitions, do the buying for the British in Canada, and also act as buying agents for the French Purchasing Commission in that country).

"It should be noted that at this juncture it is only contemplated that about one half of our present requirements of Smokeless Cannon Powder would be met from the proposed Canadian factory. The balance would be made in the United States and the DuPont proposal at the moment appears to be the most favourable.

"Any assistance which can be given in securing promptly the required design and technical information for Canada will be greatly appreciated."

And then they give you the lists which, for the first time, we have found out what they have been doing. I might say that we were very much surprised to learn how much money they had given to Hercules, particularly the \$435,000 for the income tax. Were you gentlemen aware of these orders?

Compton: I am not, no, Mr. Secretary. We had no knowledge of all that.

H.M.Jr: Did you know about this, Admiral?

Furlong: No, sir, but I did hear that they were setting up a plant for Hercules, that the British were setting up one for Hercules and were talking to the point about it, but never consummated it.

Johnson: Did you know about it, Colonel Burns?

Burns: Well, I am quite sure that our liaison committee knew about it. Some of them, I recognise. Take

- 4 -

that Atlas Powder, T.N.T.

Johnson: I recognize that much, but that bottom one, Hercules Powder, five million --

Burns: Well, we know about that.

H.M.Jr: You did?

Burns: Oh, yes.

H.M.Jr: O. K. Well, anyway, it is all set down on one page, which is useful.

Furlong: A lot of that is T.N.T. on the upper part there, that thing where it says Atlas.

Burns: I have no doubt but what our liaison committee has complete information about all this.

H.M.Jr: Good.

Now, I have this letter here from the British Supply Board which I will read next.

"As you are aware Canada has no experience of the manufacture of Nitrocellulose (Smokeless) Powder. Accordingly I am to request you to be good enough to ascertain whether, in the event that it is decided to proceed with the development of capacity for the production of Smokeless Powder in Canada, the United States Government would be prepared to authorize those United States manufacturers who have the essential experience, to supply to Canadian Contractors accredited by the Minister of Munitions and Supply, Ottawa, and by this Board, such information and the like as may be necessary to enable the work to be undertaken.

"It is important not so to restrict our request at this stage as to prejudice such later developments as may arise, but it is at present contemplated that the assistance of only one United States manufacturer to one Canadian manufacturer would be required, and in connection with such a scheme presently under consideration the type and scale of information required is as follows:"

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And then he lists the stuff there, one to six. Now, the way this divides itself is this, this is the first request that I would like to have your advice on. What I found out is this, to give you the low-down, first. These people want to get a bid from the Canadian manufacturer.

Johnson: Who is that?

H.M.Jr: The English. They can't get a bid from a Canadian manufacturer until they get this technical assistance. He has been very frank about it. He is also very frank that he would like to place part of the order in Canada, but the Canadians are stumped until they get the technical assistance.

Johnson: Doesn't he go farther than that? Being frank, Purvis has got to go further than this printed document. We don't have in this country sufficient capacity for our own protective mobilization program and we know our manufacturers are opposed to what Purvis here seeks in this machinery and engineering skill, because he seeks to build - Purvis seeks to build the Canadian facilities which will compete with our own and make it all the more impossible for this country ever to have adequate national defense in powder. That is why we have proposed it. This third memorandum about the Army turning over some of its equipment, Mr. Secretary, we have answered that in the regular way and said it can't be done and I want to add to what has been said that suppose it were done, war or no war, in any way whatsoever, it would be the greatest disservice that could be done to the Allied cause, because I know nothing that would cause greater furor or criticism of the Army and Navy.

H.M.Jr: If you gave the ammonia oxidation equipment?

Johnson: Yes.

Burns: I don't think you can afford to let that go out of the hands of the Army. That issue has been up many times.

H.M.Jr: I am not pleading here, you understand. If that is out, that is out.

Barnes:

H.E.Jr:

It is against the law, to start with.
Far be it from me to break the law, as a law enforcement officer.

Now, getting down to this question --

Johnson:

The memorandum that comes to you from Mr. Ballen-
types, in the light of my jumping on it as I did,
I did want to say I think it is fair in the
memorandum in which he says, "In the latter case,
sales of Government equipment require to be made
by competitive bids but it was the decision of
the Department that such a sale could not be
justified before Congress."

H.E.Jr:

I also think they have been fair to tell me that
the Canadian manufacturers couldn't bid until
they got the technical assistance. He has told
me that quite frankly. He said until they get
the technical assistance, they are in no position
to bid.

Johnson:

Mr. Secretary, I don't know that Mr. Cumpson has
ever seen the memorandum that you have there and
which I signed, which is the Army's position. I
would like for them to see that.

H.E.Jr:

Which is that?

Johnson:

The original memorandum that starts all this thing.

H.E.Jr:

Mr. Klotz, that is Mr. Johnson's memorandum to
the President.

Johnson:

Mr. Secretary, there are things that I don't
want these officers to have taken down here.

(Discussion off the record)

H.E.Jr:

That would you fellows like, what is good for
the Army and Navy, as far as this powder busi-
ness goes?

Cumpson:

Mr. Secretary, as far as the Navy is concerned,
as I understood it, if we increase our personnel
down there at Inchon, we can probably meet
our requirements except for a rather relatively

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small amount of some special types of powder that we would still have to buy commercially. Of course, if we did that, that would release almost all of what we are now getting from DuPont.

Furlong: Yes, sir. We require three million pounds a year and we can give up two and a half million of it, keep a little less than 360,000 pounds from DuPont and they could have all the rest by our starting a plant at Indianhead.

H.M.Jr: They are not doing - yes, they are. They are getting 300 tons now of Smokeless.

Furlong: That is that 600,000 pounds.

H.M.Jr: Very well. What would you do, go on three shifts down there?

Furlong: No, we would hire some more men, 175 more men.

H.M.Jr: And how much could you give up?

Furlong: Two and a half million pounds.

H.M.Jr: The Navy could give up two and a half million pounds from DuPont.

Furlong: Of this powder.

H.M.Jr: From DuPont.

Compton: That is right, commercial powder.

H.M.Jr: What is that, T.N.T.?

Furlong: No, this is powder, this is the stuff they want to establish in Canada.

H.M.Jr: Are you running nights now down there?

Compton: No.

H.M.Jr: Because I want to go down there and go through the plant and in very simple language you could show me how it is done. Two and a half million pounds from the Department could be released, is that right?

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Furlong: That is right, of our requirements on DuPont.

H.M.Jr: If you added 175 men.

Furlong: Yes.

H.M.Jr: And you have the money and the authority?

Furlong: Yes.

H.M.Jr: But you also told me at that time you didn't want to do it.

Furlong: Well, I would rather do that than have a plant established in Canada.

H.M.Jr: Well now --

Furlong: That gives the stuff right here in our own country --

H.M.Jr: Well, let me get this thing. They say they want between 30 and 48,000 tons, as I get this thing. As I understand it, they would like to have 12,000 tons in Canada and the rest here and also as I get it, reading between the lines, they say, "We will give you this order for 18,000 tons and spend 20 million dollars in the United States if you will help us build twelve up there." Now, supposing I said, "Well now, gentlemen, no, I have just asked the advice of the Army and Navy and they say we are very sorry, no technical assistance, you have got to do it all here," and then they get their backs up and say, "Well, if that is the way you feel about it, we will just have to do it all in Canada and release the amount --"

Furlong: They can't do the smokeless in Canada.

H.M.Jr: I want to go through this thing. I want help and advice. I mean, this is a big poker game and I don't want to bluff, I want to hold the cards, and at the same time I would like to be fair, but I mean, supposing I say to them when they come at 11:00, "Very sorry, gentlemen, the Army and Navy say no technical assistance to the Canadian powder companies."

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Burns: I would like to make a suggestion --

H.M.Jr: I just wonder if that is wise. Is that wise?
Now, I am just raising the question.

Johnson: Let me take issue with the Navy here. The Navy says, Mr. Secretary, they can give them so much powder, that is immediate production.

H.M.Jr: It helps, but still it is a flea bite.

Johnson: It doesn't meet the picture that we are worried about and that is America's productive capacity.

H.M.Jr: The new plant capacity.

Johnson: Yes. All they are doing is running their machinery and wearing it out full steam, but it doesn't meet the fundamental question here.

Furlong: We agree with that, Mr. Secretary.

Compton: Oh no, not at all.

H.M.Jr: Well, it helps for the 90-day picture of three or four months.

Compton: The immediate situation, and that is all.

H.M.Jr: But just let's go back again. Here is a chance to get - I think if I read it right, 20 million dollars worth of investment in powder factories in return for giving them certain technical assistance. Now, I just ask, is it wise, is it good poker to say, "Very sorry, gentlemen, we won't help you out," provided they first agree to give us a capacity here.

Burns: Could I make a suggestion, Mr. Secretary, because it seems to me that the argument you are making now dovetails in exactly with the recommendation of the War Department. Let me read this recommendation.

"It would seem that the sound compromise to this problem is as follows. If and when the British and French Purchasing Commission place firm and

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substantial orders, requiring additional smokeless powder capacity in the United States, then for both the DuPont and Hercules companies or any others involved that there is no objection to their participation with Canadian companies in the creation and operation of powder plants in Canada." Did you follow out this --

Johnson: That is the original memorandum on this thing, that this thing starts from.

Burns: That is right, and based on this - you see, you are arguing the same way this paper argues. It is just a question of whether the creation of apparently 20,000 tons in the United States --

H.W.Jr: But that isn't spitting in their eye.

Burns: In other words, they are showing us in this paper --

Johnson: That is my original memorandum. We aren't asking to spit in their eye. We are saying what they don't want to do, and that is first you contract in America so that we build up in the interest of our own national defense sufficient productive capacity and after you have done this, we will help you in Canada and not before.

Burns: As I understand it, they are willing to place orders in America for 20,000 tons.

H.W.Jr: What?

Burns: 20,000 tons, that is what I gather, because they say they want to buy 32,000 tons and they want to put 12,000 tons of that in Canada and 20,000 tons in the United States. I want to speak my own point of view and I think that is a fair compromise.

Wesson: I think so, too. I think it is entirely sound.

Burns: In other words, if they are willing to give us 20,000 tons capacity in the United States, we ought to be willing to help them build 12,000 tons in Canada.

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H.M.Jr: That sounds reasonable.

Purlong: There is one thing, though, that you want to keep in mind. These British purchasing people have come to me for many things here since the war started and they use large figures like this of what they are going to buy and try to make me think they are going to buy a lot of things. They wanted a great number of guns and they wanted a lot of mines and they yet have not asked for any of them and you will have to be very careful and do the thing Secretary Johnson says, namely, that they build the thing up first in this country, because you will find that they don't want this much in the end.

Compton: Want to see the color of their money, Mr. Secretary.

H.M.Jr: Look, I said in the room here, until the English told me that they really wanted to buy the planes, I wouldn't make up my mind they really wanted to fight, and let me tell you a little story. I was down to Sea Island and Mr. Purvis called me up on April first or second and said, "I have got great news for you. I have just been authorized to go ahead with the plane purchase," but he said, "If you don't mind, before you give out the publicity, would you mind letting us see it?" So I said, "Well, Mr. Purvis, if you don't mind, unless you want to be made the laughing stock, and myself included, to announce that you have now made up your mind after having talked about it for three months, would just be a joke. Everybody has taken it for granted that you meant business for three months."

Purlong: That is a very --

H.M.Jr: I said, "For three months they have taken it for granted you really meant business."

Johnson: And then they drove and drove to get these things done and we haven't yet gotten those letters from the Ambassadors that are holding the whole thing up.

H.M.Jr: Phil, will you take that on?

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Young: They are all prepared.

Johnson: Well, the contracts aren't going to be cleared in the War Department until we have those signed letters from the Ambassadors, because we told Congress in the President's program, we deviated to be sensible about this thing. They pressed for speed and now we are sitting tight forever until we get those contracts.

Young: Mr. Purvis now has a draft that is satisfactory, I understand, to both Ambassadors. They will probably bring it in this morning.

H.M.Jr: You had better make a note --

Johnson: You want to let the Army and Navy check on that program before it is promulgated, because it is going to comply with this or the War Department will never move.

H.M.Jr: Get that word to him before he comes over at 11:00, will you, Phil? Get that word to him.

Furlong: With reference to this powder that - as the powder makers call it, the "Know How" is to be given to the Canadians. The Army probably has much later word than what I have gotten from the DuPont powder man, but when we were talking about giving up the 600,000 pounds a month or so ago, he said the British then wanted him to help them establish a plant in Canada. This was quite some time ago, a couple of months ago. He said that it was against the policy of the DuPont people to set up competitors in Canada and so maybe you found out that they have changed their minds probably since the last month.

Wesson: My understanding of the DuPont situation --

Furlong: And he always said - I heard the other day they were going to establish a large plant themselves, the DuPonts, down at Hopewell, Virginia. Now, whether the Board has finally decided to do that, I don't know, but that would give them a lot more capacity and it might be possible to get what the British actually do want to buy in this country without setting them up in Canada.

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- Johnson: As I understand the attitude of DuPont and Hercules, neither of them - I will ask Colonel Burns to elaborate on this. Neither of them favor the establishment of this competitive plant in Canada. My deduction is that they will not do it except upon the insistence of the War Department. Is that about the way they put it, Colonel Burns?
- Burns: Well, substantially so. I am quite sure that the Hercules Company and the DuPont Company both subscribed to that letter that we just read the last paragraph of and I think they subscribed to that policy, that if a substantial capacity is created in America they will be willing to help the Canadians establish a capacity in Canada.
- Johnson: You mean my letter of April 8 to the President?
- Burns: Yes, sir.
- H.M.Jr: Now, let's see if the Army and Navy are together on this. If I say to them this, that it is the Government's policy that before we teach anybody else how to make powder we want our own plant capacity for smokeless powder built up to 20,000 tons in this country --
- Johnson: No --
- Furlong: Yes, that is what you said.
- Burns: I think it would be better to put it substantially, Mr. Secretary, because I do believe there is going to be some more horse trading before you get through, but if we get a substantial increase --
- Johnson: Not that, necessarily. We are talking of this amount they are going to buy. We want this increase of 20,000 tons in this country, not be built up - you say built up. That takes in what we have got now and they will immediately jump in and say the difference between what we have got now - they will buy enough new to go to 20,000.
- H.M.Jr: No, new plant capacity.

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Johnson: That is what I want you to say, if you will.

H.M.Jr: New plant capacity.

Johnson: Capacity over and above that which we now have.

H.M.Jr: New plant capacity, brick and mortar.

Furlong: That is right.

Wesson: 20,000 tons, then they can go as far as they want in Canada and our people will help them out and the Hercules and DuPont people will go along on that basis.

H.M.Jr: Can you deliver them on that basis?

Wesson: I think so.

Johnson: They agree to this recommendation on the end of that letter.

H.M.Jr: I have got that and then in order to make it, I think, a little more attractive, if they agree to this program, then also the Navy will release two and a half million pounds that they have on DuPont, but I would kind of make it part and parcel of the same thing. Is that all right?

Compton: That is right.

H.M.Jr: Instead of saying, "You can have two and a half million if you agree to increase the plant capacity for smokeless powder 20,000," we will do two things, one, we will release the two and a half million pounds, two, we will give you all the technical assistance, but we cannot give you this machinery.

Johnson: It is none of my business, but what you are releasing would meet their requirements? You know we ran into that on the Army situation. Are we doing something that would mean something, in other words?

Furlong: What we are doing, it would go along two and a half million pounds here and they asked, say, for 1200 tons in Canada. Two twelves is 24,

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that is just about the Canadian production.

Burns: No, they are talking about 12,000 tons.

Furlong: 12,000, yes, but when they say this 12,000 tons and 32,000 tons, that may be spread over a great number of years.

Wesson: Per year.

Johnson: That is annually.

Furlong: I don't see how they could use it up.

Johnson: I don't think they will ever build in Canada if you do this.

Burns: Admiral Furlong, it says here that the capacity may be as high as 48,000 tons per annum and the figures that you gave me during the World War --

H.M.Jr: You said 900 - 9 million pounds.

Burns: That is the capacity we built up to in 1918, 900 million pounds per year. That is 450,000 tons.

H.M.Jr: This is only ten percent of that.

Burns: That is right, and when we entered the World War, the Allied capacity was 500,000 pounds per year, roughly 250,000 tons. If they get to killing over there, they are going to shoot powder, there is nothing about that.

H.M.Jr: He says what about the - what we have done for Atlas and Hercules. Does that count?

Johnson: No, sir.

Burns: We haven't made very much anyway.

H.M.Jr: Well, they have spent a million four hundred thousand on Atlas and a little over two million on Hercules.

Burns: That is production cost, there is very little but production cost there.

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H.E.Jr: No, excuse me, it says here for Atlas, new unit with capacity of 4500 tons per annum, \$450,000. New unit with capacity of 500,000 tons --

Burns: But those money figures include production as well as enlargements.

H.E.Jr: And then down at --

Wasson: Three million dollars worth of capital, it says there.

H.E.Jr: Well, you fellows don't want this included over and above?

Johnson: Over and above. Everything up to the time we are talking now.

H.E.Jr: All right, tough boys.

Johnson: No, we are not being tough, but we need it.

Burns: We are only taking their own figures, Mr. Secretary, because they said they only wanted to put 12,000 tons in Canada and they wanted to buy 32,000 tons and we say all right, "You put the 20,000 tons in the United States and we will help you on the twelve."

Johnson: We prided ourselves on being liberal and decent and fair in that compromise suggested in the original letter and I think it is, the more it checks in, the more it is the right thing.

H.E.Jr: Who has the capacity? Could I have a memorandum for my own confidential use as to powder capacity, the way it is now?

Wasson: About 13 million pounds.

H.E.Jr: Army and Navy and everything?

Wasson: Army and Navy.

H.E.Jr: Not very big, is it?

Wasson: I have a memorandum here. No, it is very small.

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That is why we are so anxious to have it increased.

Johnson: It is disgustingly small.

Wesson: The net annual capacity available for the Army is 13,500,000. That does not include Indianhead.

H.M.Jr: Navy says they can go to three million pounds.

Burns: About twice what he said.

H.M.Jr: Navy said if you add 175 men, you go to three million pounds, is that right?

Purlong: No. If we add 175 men we --

H.M.Jr: You go to three million?

Purlong: We have already three million pounds at DuPont and if we go to 175 men, we can give up two and a half --

H.M.Jr: But when you are through, your own production will be three million?

Purlong: No, two and a half, and we still have to get some from DuPont.

Wesson: Here is what we said on the capacity.

"Excluding the Navy plant, the annual productive capacity is 13½ million pounds. By some plant rearrangement and working additional days, this capacity could be increased to 15½ million pounds. Under present conditions, the Navy, in addition to using the capacity of its own at the Indianhead plant, is buying approximately two million pounds per year from the DuPont Company. The remainder of the existing capacity is now being utilized for Army orders."

Purlong: DuPont has capacity for ten million pounds. We use three of them in the Navy and we can give up two and a half of them.

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Johnson: Can we get at it the other way? General Wesson gave you the figures, exclusive of the Navy, of 13,500,000 pounds. Now, what is the Navy? Add it to that and you have got the total production.

E.M.Jr: What is it?

Wesson: That that can be raised to 15 by additional men and some equipment.

E.M.Jr: But what --

Furlong: We have at the -- we now have at the Indianhead, we make $3\frac{1}{2}$ million pounds a year and with these 175 men, we will bring it up to six million, Indianhead.

E.M.Jr: Would you say that again, please?

Furlong: We make now at Indianhead $3\frac{1}{2}$ million pounds a year and if we take on 175 more men, we will increase the production $2\frac{1}{2}$ million, making a total of six million at Indianhead.

E.M.Jr: Do you add six and thirteen?

Wesson: Yes. That can be stretched a little bit by plant rearrangement and working additional days. where that capacity could be increased to 15, so I would stretch the imagination and call it 20 million pounds.

E.M.Jr: And we are asking them --

Furlong: Divide that by two.

Wesson: That is five thousand tons per year.

E.M.Jr: And we are asking them to give us 20,000 tons or to --

Johnson: Four times.

E.M.Jr: Roughly, we have 20,000 tons now and we are asking them to give us 20,000 tons more capacity, so in the end we would have 25,000 tons. That

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would be quite a jump. It is worth being nice to them for.

Johnson: If there aren't too many niggers in their woodpile.

H.M.Jr: That is my job, to look for them. It has been pretty good so far.

Johnson: What has been pretty good?

H.M.Jr: We have been able to get the niggers out so far.

Furlong: I would like to see when they place the orders.

Burns: I do think it is important that you have a firm agreement with them for the creation of American productive capacity before we turn loose our help in Canada.

H.M.Jr: I will insist on that and I won't offer, if it is agreeable to Mr. Compton, this additional release from DuPont. I will just use that as bait. Is that all right?

Compton: Yes, that is all right with us.

H.M.Jr: Use that as bait.

Johnson: Haven't you got a housing problem down there?

Furlong: Yes, it is in the country. But nowadays with good roads we think we can absorb 175 people.

Johnson: When you do that, our emergency production --

Burns: We have made --

Furlong: No.

Burns: 20 million pounds at 10,000 tons - that would be 5,000 tons.

Wesson: It is 10,000 tons.

H.M.Jr: That is all right. None of you had a slide rule in your pocket. 10,000 tons and we are asking for 20?

- 20 -

Wesson: But they want 48 and ultimately we are asking them to put less than half of their requirements here.

H.M.Jr: I have got the story and I will let you know, and also, Phil, you tell them no release until they get those letters from the Ambassadors and I take it up to now you haven't asked for any - anything out of these Allies in the way of planes.

Compton: In the way of planes, no.

H.M.Jr: So you are all right.

Compton: Yes, sir, we are all right.

(Discussion off the record)

H.M.Jr: Thank you all. I will let you know. I am very much obliged.

CONFIDENTIAL

ANGLO-FRENCH PURCHASING BOARD

NEW YORK:
15 BROAD STREET

WASHINGTON
795 15th ST., N. W.

This letter from Washington, D.C.

April 22, 1940.

Philip Young, Esq.
Treasury Department
Washington, D.C.

Dear Mr. Young,

Mr. Purvis asked that the enclosed memorandum be forwarded to Mr. Morgenthau in advance of their Wednesday talk so that he may have prompt information on the question raised.

The statement of the exact information desired by the British Supply Board in Canada has not yet been received, but will be sent on immediately it reaches us.

Yours sincerely,

C. T. Ballantyne

Charles T. Ballantyne,
Secretary-General.

2 4/10 4/22/40
J. J.

EXPANDED

Trinitrotoluol and smokeless powder orders totalling 19,000 tons have already been placed in the United States by the Allied Governments (acting jointly) in accordance with the attached sheet.

Additional orders have been placed in Canada for the erection of plants having an annual capacity of:

12,000 tons per annum of Trinitrotoluol

15,000 " " " " " Smokeless (the British propellant powder corresponding to the "smokeless" powder used in the United States).

The balance of the Anglo-French programme requires North American plants with a capacity of:

12,000 tons per annum of Trinitrotoluol

32,400 " " " " " Smokeless Cannon Powder

The latter figure is understood to be a minimum: the capacity required may be as high as 48,000 tons per annum.

Negotiations have been proceeding during the last three months to ascertain what is the cheapest (from a construction and operating viewpoint) and the most effective means (from a delivery viewpoint) of establishing new plants in Canada and/or the United States for these further quantities. No capacity at present exists in either country to take care of this demand.

The Anglo-French Purchasing Board is not yet able to make a final decision in regard to the 12,000 additional tons per annum of Trinitrotoluol: quotations have been received from United States producers (Atlas and DuPont) but we are still awaiting quotations from the British Supply Board, Ottawa, for Canadian production.

/Quotations...

Quotations have been received from United States producers for plants with a capacity of 30,000 tons per annum of Smokeless Cannon Powder. At the moment the most promising immediate offer would seem to be that made recently by DuPont to build a new Smokeless Powder plant, but an alternative has been considered whereby the Hercules Powder Company would erect two plants to manufacture the nitrocellulose (smokeless), and DuPont would fabricate the same into Smokeless Cannon Powder.

An expenditure for plant construction of some \$20,000,000 would be required for either method of procedure.

It would be helpful to the Allies, however, if a portion (say at least 12,000 tons) of this Smokeless Powder could be made in Canada, since, amongst other reasons, it would tend to spread the risk. Before a Canadian quotation can come, it is necessary, if deliveries are to be brought into the realm of practicality, for plant designs, which DuPont or Hercules could supply, to be made available for such a Canadian plant, and possibly technical assistance also. It is the application for this which last week got into the wrong channels. The exact information desired is shown in the attached memorandum made up by the Ministry of Munitions in Canada and endorsed by the British Supply Board. The British Supply Board at Ottawa, working through the Canadian Ministry of Munitions, do the buying for the British in Canada, and also act as buying agents for the French Purchasing Commission in that country.

It should...

It should be noted that at this juncture it is only contemplated that about one half of our present requirements of Smokeless Cannon Powder would be met from the proposed Canadian factory. The balance would be made in the United States and the DuPont proposal at the moment appears to be the most favourable.

Any assistance which can be given in securing promptly the required design and technical information for Canada will be greatly appreciated.

A.E.P.

Washington

April 18, 1943

BRITISH SUPPLY BOARD,

385 Wellington Street,

Ottawa.

The Chairman,
Anglo-French Purchasing Commission.

From: The Controller General,
British Supply Board.

As you are aware Canada has no experience of the manufacture of Nitrocellulose (Smokeless) Powder. Accordingly I am to request you to be good enough to ascertain whether, in the event that it is decided to proceed with the development of capacity for the production of Smokeless Powder in Canada, the United States Government would be prepared to authorize those United States manufacturers who have the essential experience, to supply to Canadian Contractors accredited by the Minister of Munitions and Supply, Ottawa, and by this Board, such information and the like as may be necessary to enable the work to be undertaken.

It is important not so to restrict our request at this stage as to prejudice such later developments as may arise, but it is at present contemplated that the assistance of only one United States manufacturer to one Canadian manufacturer would be required, and in connection with such a scheme presently under consideration the type and scale of information required is as follows:

1. Design and full detailed plans of a plant capable of producing 1,000 tons of N.C.P. per month.
2. All information relative to the manufacturing processes and operation of plant.
3. The loan to the Canadian Contractor of 10 Technicians for a period of three months.
4. The training by the United States Manufacturer of ten Canadian Technicians for a period of three months.
5. Such information as to sources of supply of special machinery and appliances, and such assistance in its procurements as may be possible.
6. Such continuing liaison between the United States Manufacturers and the Canadian Contractor as may be necessary for the successful development of production.

W. A. L. L.
Contracts Member
British Supply Board.
For Controller General.

April 23rd, 1943.

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EXPLOSIVES ORDERS PLACED IN THE UNITED STATES

<u>Quantity</u>	<u>Date</u>	<u>Contractor</u>	<u>Quantity</u>	<u>Approximate Value</u>	<u>Deliveries</u>	<u>Capital Assistance</u>	<u>Remarks</u>
TNT	✓ Jan. 12, 1940	Atlas Powder Co.	1,000 tons	\$ 400,000	March 1940 to January 1941	Nil	Deliveries from an ex plant at Atlas, Mo. with capacity of 4500 tons annum.
TNT	✓ Jan. 12, 1940	Atlas Powder Co.	1,000 tons	\$ 320,000	Starting on completion of previous order	Nil	Allied option in connection with the January 1940 contract.
TNT	Feb. 1, 1940	Atlas Powder Co.	6,250 tons	\$2,000,000	August 1, 1940 to January 31, 1942	\$ 667,000	New unit with a capacity of 4500 tons per annum at Atlas, Mo.
TNT	Feb. 23, 1940	Atlas Powder Co.	6,250 tons	\$2,000,000	October 20, 1940 to April 20, 1942	\$ 760,000	New unit with a capacity of 4500 tons per annum at Atlas, Missouri.
Smokeless Cannon Powder	Mar 26, 1940	Hercules Powder Co.	600 tons	\$ 612,000	May to August, 1940	Nil	U.S. Army release of output of Kenvil plant with a capacity of 2700 tons per annum.
Smokeless Cannon Powder	Apr. 8, 1940	E.I. du Pont de Nemour & Co.	300 tons	\$ 288,000	Before September 30, 1940	Nil	U.S. Navy release of output of Carney's Point, N.J. plant with capacity of 4200 tons annum.
Smokeless Cannon Powder	Apr. 3, 1940	Hercules Powder Co.	3,600 tons	\$5,780,000	300 tons monthly November 1940 to November 1941	\$2,175,800	Enlargement of Kenvil plant. (Capital assistance item includes so \$435,000 for U.S. income tax thereon, due to refusal of supplier to accept U.S. loan proceeds)
			<u>19,000 tons</u>				

CONFIDENTIAL

ANGLO-FRENCH PURCHASING BOARD

NEW YORK:
15 BROAD STREET

WASHINGTON:
1515 H ST., N. W.

The above to Washington, D.C.

April 23, 1944.

Honorable Henry Morgenthau
Secretary to the Treasury
Washington, D.C.

Dear Mr. Secretary,

At the request of Mr. Purvis, I send you herewith a memorandum setting out the facts with regard to the application made by the Atlas Powder Company to the Chief of Ordnance, asking for the transfer of an ammonia oxidant unit presently at Picardine Arsenal.

This is one of the matters of which Mr. Purvis spoke to you at his last meeting with you. He asked me to say to you again that his anxious we are to obtain any assistance which may be appropriate and available in overcoming the technical difficulty which has arisen.

I am,

Yours very truly,

C. T. Ballentine

Charles T. Ballentine,
Secretary-General.

Memorandum re Ammonia Oxidation Equipment

Atlas Powder Company is engaged in the construction of plants to supply U.S.A. under two War Government contracts.

The principal item of which the company is unable to obtain prompt delivery is ammonia oxidation equipment for the manufacture of nitric acid. It estimates that the delay in obtaining this equipment will make a difference in production of U.S.A. during the months of October, November and December of from 250 to 300 tons per month.

The War Department has spare ammonia oxidation equipment at Picatinny Arsenal and the company made application upon March 8th, 1941 for the transfer of this equipment with the following understandings:

1. It agreed to pay all costs of packing and shipping the equipment from Picatinny Arsenal to Atlas Co.
2. It agreed to immediately place an order for exactly similar equipment to be delivered at its expense to Picatinny Arsenal.
3. It agreed that representatives of the Government should inspect the new equipment prior to shipment to Picatinny Arsenal, the cost of such inspection to be borne by it.

At the time that this application was made it was understood that it was favored by the Ordnance Department but that there existed certain legal difficulties which might prevent it from being agreed to.

Upon receipt of the application it was referred to the Department of the Judge Advocate General. I have been informed that in his opinion there existed only two methods by which the transfer could be made, i.e., if lease or by sale. In the former case the law requires

the return of the identical article which formed the object of the lease less reasonable allowance for wear and tear depreciation. This is possible for many articles such as lathes but would not be possible in this case as the ammonia oxidation equipment has to be incorporated in the building of which it subsequently forms part. In the latter case, sales of Government equipment require to be made by competitive bid but it was the decision of the Department that such a sale could not be justified before Congress.

We subsequently asked for consideration to be given to the possible transfer or sale of this equipment to some other Department or Government agency which might not be so strictly and technically bound in its disposition of the equipment. This was considered and we were informed that the suggestion could not be acted upon.

We have asked the President's Liaison Committee not to inform us officially that the application of the Atlas Powder Company could not be accepted.

C.T.B.

April 23, 1940

April 25, 1940

11 a. m.

Present:

Mr. Purvis
Mr. Plevin
Captain Collins
Mr. Phil Young
Mrs. Klotz

HM, Jr: Are you (Mr. Plevin) sailing soon?

Mr. Plevin: Mr. Secretary, in principle on Saturday.

Mr. Purvis: That means the clipper's principals.

HM, Jr: Have you a seat?

Mr. Plevin: Yes, I have. I am glad not to have to disturb you once more.

HM, Jr: I am going to ask you to let me get off my chest the things I have first, because I have a lot of odds and ends and if we don't get through this morning we will get through this afternoon.

I am sorry I could not have you for lunch, but I postponed the gentleman yesterday, a Mr. Crane who has been helping us on this foreign exchange, and he came down today.

I have gone over -- I do my homework for you at night and early in the morning -- with the Army and Navy this morning what I finally got altogether.

Mr. Purvis: Yes.

HM, Jr: And I can now talk again for the Government.

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Mr. Purvis: Good!

HM, Jr: On powder. What we would like to see, if and when you are ready to place your order for smokeless powder

Mr. Purvis: Yes.

HM, Jr: which, according to your memorandum, you had in mind 32,000 tons.

Mr. Purvis: Yes. Yes. That's the total.

HM, Jr: Yes. In this you suggested that wanted to place 20,000 tons in this country and 12,000 in Canada. Well, I always think the best way is the bold way, so to speak.

Mr. Purvis: Quite.

HM, Jr: The Army and Navy feel that before we can give any assistance to any other country to build up their production, we have to build up our own first, because, as you know, by now our production is very small.

Mr. Purvis: Yes.

HM, Jr: Therefore, once the Allied Purchasing Mission has given firm contracts to increase the production in this country over and above what it is now by 20,000 tons

Mr. Purvis: Yes.

HM, Jr: we would be very glad to give the Canadian Government whatever assistance they need to build up their production.

Mr. Purvis: In calculating that 20,000, does that include the 3600 for which we have already given capital assistance?

HM, Jr: I asked that question and they said no.

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Mr. Purvis: They drive a good bargain,
Mr. Secretary. However, that's all right.

HM, Jr: I am never going to bargain with you.

Mr. Purvis: No. We agreed that.

HM, Jr: I am never going to bargain. In
addition

Mr. Purvis: Yes.

HM, Jr: ... once you people have signed firm
contracts, the Navy will release immediately another
2,500,000 pounds which they have on order at Du Pont.
So that's a little sweetening.

Mr. Purvis: That would be of value.

HM, Jr: Immediately! Now, for the vinegar.
They feel ~~it~~ it would be a great mistake and undefensible
for them to release any part of their machinery.

Mr. Purvis: Yes.

HM, Jr: Just could not defend it and it's
out of the question.

Mr. Purvis: I can understand that.

HM, Jr: In the first place it's illegal and
to do it any way around, through some subterfuge --
and over and above that, they don't want to do it.

Mr. Purvis: I understand. That does not
stop us. That was extra facility whereas the other
things are vital things to enable us to do it in
Canada, the point being there are two questions:
process and design and then there is also the ques-
tion of machinery. If we get process and design,
we can order the machinery.

HM, Jr: I don't mind telling you people
I had Assistant Secretary of War and Assistant Sec-
retary of Navy and the chief admirals and generals

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here and they will give you every assistance you need to build up production in Canada after you have helped us build up ours with your money.

Mr. Parvis: May I ask another question. You remember there was a certain interview in which I was bold enough to make the suggestion it might suit the United States Administration to make in some way a contribution to such a plant through its preparedness program or otherwise or through the form of an option to buy it at the end at some figure that would be suitable to the Army and Navy and though it might represent a relatively small part of the total would nevertheless give some situation on which to buy

HM, Jr.: Frankly, if I did know about it, it slipped my mind, so if you would dictate a memorandum on that. *(Memo furnished 4/17, dated 4/30 date from phone Parvis)*

Mr. Parvis: I would like to pursue it now if I may.

HM, Jr.: If you would dictate a memorandum on that for me, I quite frankly -- perfectly possible you did tell me.

Mr. Parvis: It came up at the time we went over to see the President.

HM, Jr.: It's completely slipped my mind.

Mr. Parvis: I will just give you a little note.

HM, Jr.: And you are supposed to give me everything and in all these memorandums you did not restate it.

Mr. Parvis: I did not restate it because I did not know the time was ripe, but I realize the time is ripe.

HM, Jr.: It's all right. You restate it,

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but that was the conclusion we came to this morning. Have I stated it about right, Harry?

Captain Collins: That's right.

HM, Jr: Mrs. Klotz?

Mrs. Klotz: Exactly!

HM, Jr: You have 2,500,000 pounds which the Navy could immediately release from Du Pont. That would make 2,500,000 pounds available at once, but that's a little sweetening on the other thing.

Mr. Purvis: I realize that and what I am able to tell the Canadian people is that as and when we can tell them we have placed an order to build up production here by 20,000 tons of smokeless powder per annum, they will automatically be able to get this information.

HM, Jr: And get it willingly and cheerfully, and get the whole backing of the Army and Navy on it. Any assistance the Army and Navy, Du Pont, Hercules or anybody else. The Army and Navy guarantees to tell Du Pont and Hercules, and the machinery; everything you need.

Mr. Purvis: And to authorize them to move it over the border?

HM, Jr: At once.

Mr. Purvis: Fine!

HM, Jr: Now, if I may continue. Have those two letters from your two Ambassadors on the planes gone forward?

Mr. Purvis: No. The situation on that is that after talking with you we redrafted the letter a little bit to the point where we thought our Ambassadors could properly sign it and obtained the approval of the Ambassadors to the redraft; cabled to London for their formal -- I mean, the usual formal approval for such a document to be signed by their Ambassadors so as to give every assurance you wanted. Of course,

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we did not expect any difficulty about that matter whatsoever and are awaiting the reply to the cable because, as you know, Governments take a day or two to do things, and that is the proposed letter and we wondered if it might be well -- you remember I should redraft Mr. Johnson's letter -- and make sure it covers it. We tried to make it cover it very strongly and very fully.

HM, Jr: May I read it?

Mr. Purvis: Yes, if you would.

HM, Jr: Tell you what you might do, Mrs. Klotz. Have a copy of this made and send it over to Mr. Johnson and ask him if he would read it and tell him that's the letter that he ought to get, let's say, by tomorrow, within 24 hours.

Mr. Purvis: On a thing where there was no dispute

Mr. Plevin: I have just spoken to Monnet about it and they expect to send it tonight. As they pointed out, there are so many things to be done

HM, Jr: Mr. Johnson was a little upset today because he had not gotten it.

Mr. Purvis: My fault, because in cabling it over we did not think there was any urgency. We thought the fact it was going to be done, this was just the machinery.

HM, Jr: No. He wants it. Afterwards you send it over and you (Mrs. Klotz) explain to him that they have asked for formal confirmation which ought to be coming tonight, so he will get this thing tomorrow, but in the meantime he's holding everything.

Mr. Purvis: Does he really think this matter is one -- I am sorry that he really feels that way, because really the thing is going to reach him without question.

HM, Jr: He lays great stress on it.

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Mr. Purvis: Yes. Quite.

HM, Jr: He isn't questioning your good faith, but he wants it. He wants the formal document in his possession, if you can distinguish between that.

The other thing is the thing that came from your man Ballantyne in regard to Anglo-French Purchasing Mission being asked for a statement by the British and French Embassies showing purchases. *for Collins memo 4/8/40*

Mr. Purvis: I don't know that I have seen that memorandum. May I just glance at it?

HM, Jr: And maybe afterwards -- there seems to be a misunderstanding.

Mr. Purvis: Oh, no! I know what is pending. We are making an effort in the English and French missions to cut down as much as possible duplication of work in giving statements. It appears that the State Department served notice upon our Embassies, I think it was way back in November.....

HM, Jr: ... October, they say.

Mr. Purvis: ... that there was a certain monthly statement required. Well, the Embassy had been giving it as best they could and we have been sending information too. Our men came down to try to find out how they could reduce the number of statements and what Ballantyne is doing, I think, is really asking Collins' permission to use the information that is going to you as a basis for the information that goes to the State Department.

Captain Collins: Without mentioning values.

Mr. Purvis: And we always thought the State Department did not need anything like the data we were giving you, yet if we could dress down the statements it would save a lot of clerical work.

HM, Jr: In talking with Welles he said that since October they asked all Embassies to furnish them

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with purchases, this information going to Colonel McMorland of the Munitions Board.

Mr. Purvis: And our understanding had always been that it only covered a rather strict definition of munitions and therefore the Embassies have only been picking that out, whereas to you we have been sending every bit of the information we could get on every product.

HM, Jr.: This is something your Ballantyne could sit down with Collins and McMorland and you put your heads together and there would be one set of figures and no duplication. The thing that bothered me was that you — but you will take care of that; you (Collins) get together with McMorland — what I have been trying to do was not to get you involved with the State Department.

Mr. Purvis: I agree.

HM, Jr.: And I said, right from the start, it was to your interest not to be.

Mr. Purvis: And I have kept steadily away.

HM, Jr.: I was fearful this was something new.

Mr. Purvis: Oh, no! It's purely a question of trying to save clerical work.

HM, Jr.: (To Mrs. Klotz) I must call up Mr. Welles. I promised to call him back, but I think if you (Collins) and McMorland and Ballantyne sit down together

Captain Collins: Yes, sir.

HM, Jr.: And Philip Young, the four of you.

Now, I have not had a chance to read this memorandum on moral embargo. Is this for me or Mr. Young? (Handwritten: *Handwritten: 4/15*)

Mr. Purvis: No, for you. Mr. Young has a copy through Mr. Ballantyne.

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HM, Jr: Same thing?

Mr. Young: Not the same thing.

HM, Jr: Then let's let it go until this afternoon.

Mr. Young: That's complete. He has a summary.

HM, Jr: I had an envelop marked "three o'clock this afternoon". I was putting alloys in that.

Mr. Purvis: That would suit me very well.

HM, Jr: I have it for three, but let's make it 3:15.

Mr. Purvis: Splendid! And maybe I will get a chance to read this. Then we will leave alloys until 3:15.

HM, Jr: Have I forgotten anything?

Mr. Purvis: There is something I wanted to do. First, I would like to -- I promised to bring with me a copy of a letter about what we were referring to as our contract with Allison of April 8th.

HM, Jr: Yes. Want me to read that now?

Mr. Purvis: No. It simply means we did enter into a contract which insofar as it refers to the French contract, fixed the cost of capital expansion. Mr. Pleven, is that right?

Mr. Pleven: That's right. You see, the contract is in itself a very lengthy document, something like 30 pages which includes a number of stipulations of a technical character, so in order not to delay the beginning of the work we have always adopted the policy -- we give a letter of intention which is a letter of commitment to the firms. We tell them to go ahead and we pay some down cash with the latter and in 30 days representatives of the company and the mission

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work out the details of the contract.

HM, Jr. That's what you told me on the phone.

Mr. Purvis: But the fact they demanded it made it a legal contract and it was examined by our lawyers.

Mr. Flaven: And they feel committed.

Mr. Purvis: And we both are. But part of the stipulations -- you must not bribe members of Parliament -- that's the kind of thing, seem to be a little amusing.

Then, machine tools. I always felt I ought to mention the situation as it has now transpired. It has ceased to be on the new aviation program a problem as we see it.

HM, Jr. Wonderful!

Mr. Purvis: It's limited to \$8,000,000 orders on the books and \$5,000,000 of that represent reservations that Wright and General Motors had already arranged and the other two for Pratt Whitney. Our understanding is no difficulty whatsoever about that from their view. The remaining amount, \$9,000,000, of which \$2,500,000 may be propellers, \$3,000,000 accessories, \$1,000,000 for struts, \$1,500,000 for armament. Those are, naturally, merely estimates, but nevertheless it means that the whole problem is so completely in the compass of the machine tool industry it does not represent a difficulty. It's a reduction in the numbers to conform to what can be produced by the industry.

Mr. Flaven: And we have splined the orders in such a way we do not require the people to make any large plant expansion as far as airplanes are concerned.

HM, Jr. Then good cooperation all around.

Mr. Purvis: It has worked out all around.

HM, Jr. I had Collins call Pratt-Whitney and Wright the other day and he got a similar report.

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happy. Captain Collins: Almost identical. Very

Mr. Purvis: I just remembered we had it as an open item to say to you sooner or later.

The other item which is engaging rather anxious attention and on which, Mr. Secretary, we might again want help from you though we shall do our best to avoid it, taxation item on capital expansion, income tax I mean. The loan procedure which Mr. Sullivan developed fits some of the children, but it does not fit others. Now we have developed, have actually been able to sign a contract this week with the American Car and Foundry on another basis which -- anyway it enabled them to forget any question of the tax risks so it is on their shoulders if there should be one.

HM, Jr: What are they going to make?

Shells. Mr. Purvis: The American Car and Foundry? First contract this week for shells, 9.2s.

HM, Jr: Does that come to you (Collins)?

list. Mr. Purvis: That inquiry has been on the

HM, Jr: I will get that?

Captain Collins: Yes; probably be covered in the next report.

Mr. Purvis: They slip from the inquiry list to the orders placed sheet and then they only become definite as to amount when a contract is actually signed. I signed it last night at 8 o'clock so it's not on the list until tomorrow.

HM, Jr: Another stock I can take off my list, now, as taboo. I am going to end up by owning flower bulbs!

Mr. Fleven: Dutch invasion may have quite an effect!

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HM, Jr. I see. Fortunately I don't own any American Car and Foundry, so I don't have to sell any.

Mr. Purvis: We are going to see Sullivan. I phoned him. We would like to have a talk with him. After we have seen him we think the new arrangement in connection with leasing facilities may be the answer. We are up against it in connection with an extremely important contract with Curtiss-Wright for expansion of their engine facilities.

HM, Jr. He's waiting to see you. He told me.

Mr. Purvis: It's vital we don't pay that with these other payments.

HM, Jr. I am exhausted, having done powder this morning, so you take on some fresh meat.

I got a letter from K. P. Chen. He's going to take it up when he goes to China.

Mr. Purvis: I think we might discuss that, on tungsten, this afternoon.

Another little item is this steel. Arising out of the various cables that have gone by, Mons. Bloch-Laine has received some important advices from home which involve possible quite an operation here in regard to shell steel which has some particular difficulties involving the Army and Navy on which he would like, if he could, to have a talk with you and wondered if he might come down at the beginning of the week.

HM, Jr. Want to make it now. I will give you an appointment, but could he do it the way you do it. Do it either one of two ways, give me all the facts and then I have the Army and Navy in, discuss it with them, and then by the time he comes in I can tell him?

Mr. Purvis: I agree. I think there are certain

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HM, Jr: If not, I can have him in the morning and he can wait over a day.

Mr. Purvis: May I talk with him? I am not as familiar

HM, Jr: 10:30 Tuesday, if he can get it in. If not he will have to give it to me and I can absorb it and if he waits over a day I can give him the answer.

Mr. Purvis: It's an especially important thing.

HM, Jr: I can't do it this week.

Mr. Purvis: He's sick this week.

HM, Jr: He will be coming alone?

Mr. Purvis: I think he would like to come alone.

HM, Jr: That's all right.

Mr. Purvis: I don't think other than the alloy question that I have anything more to worry you about this morning, Mr. Secretary.

HM, Jr: Fine! A little gossip. Is it true you are asking Consolidated to make a lot of changes in the Consolidated bomber?

Mr. Plevin: You see, it is partly true. It's really I think a purely military question. We want to have more guns than usual.

HM, Jr: I see. You changed some of your orders quite around from your April 10th .. Is it any military significance in the way you are changing your orders?

Mr. Plevin: The significance is in the requirements of British and French types. We have two different problems, the British and French. The British need more than we do light bombers.

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HM, Jr: Light what?

Mr. Plevan: Like the Glenn-Martin.

HM, Jr: The British need those?

Mr. Plevan: Need those because those light bombers work in very close cooperation with land arms. The type of bomber which is used in the Norwegian war by the Germans. The British have had a small land army; have not developed the light bomber side as we have. On the other hand, the British have developed much more than we have the big long-range bombers which can go a very long distance to the air bases of Germany. We in turn are behind them on this phase so we are more interested than they are in heavy bombers.

HM, Jr: And that's Douglas?

Mr. Plevan: That's the four-engine which could take us very far away.

HM, Jr: Is the Douglas a light bomber?

Mr. Plevan: A special bomber that we use as an attack bomber. It's a light bomber but used really in direct cooperation with the troops, to make dive attacks on troops.

HM, Jr: Those 50 or 60 would go to France?

Mr. Plevan: It would be for France.

HM, Jr: When the English fly over and attack a Danish airport or Sylt, what kind of bomber do they use for that?

Mr. Plevan: I don't know, but I figure they would use a bomber which would be more or less the type of Consolidated Bomber.

HM, Jr: I see. Do they have four-engine bombers?

Mr. Plevan: They have four-engine bombers and three-engine bombers. I think the type is called Achilles (?).

-15-

Mr. Purvis: I might be able to give you a short memorandum.

Mr. Plevin: We have the prices we are charged, we are asked to pay, so high that we are wondering whether we ought not to buy British bombers.

HM, Jr: I am glad you brought up the question of bombers. You men all forgot that. When you want to know about the price, we are prepared to do this: if you will say, "Mr. Morgenthau,"-- on this, if you will come in and say, "This is the price that they are asking in the contract," the Army will have General Brett over here and he will tell you "that is approximately what we are paying" or "That is lower" or "that is too high". They don't want actually given out of their hands what they pay, but they will tell you whether you are getting a reasonable price or whether you are being charged too much. Now, any time you are ready to talk prices or when you know, if you will let me know the Army will send General Brett over here and you will say, "We are paying \$80,000. They are asking us \$80,000" for a B-1 or 2 or 3. Is that reasonable? General Brett will get out his list and tell you whether it's reasonable or excessive or whether you are getting an extra good price. If you want that.

Mr. Plevin: In practice it's a rather difficult thing.

HM, Jr: That's what they said.

Mr. Plevin: By heavy pressure you discuss with them terms and specifications. We reach a moment in the meeting where they tell us "prices are these" and "it will be so much".

HM, Jr: But if you want that, that is available.

Mr. Plevin: May I quote a price now and find out whether it is a fair one.

HM, Jr: Yes. Give it to Collins. He will call up and get the answer for you.

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Mr. Fleven: The price requested by Consolidated is \$238,000.

HM, Jr.: For how many?

Mr. Fleven: For one. I would like to know if this is fair compared to the prices at which I understand the United States has an option on this ship.

Captain Collins: This is complete with engines?

Mr. Fleven: Without engines, without guns.

HM, Jr.: For one?

Mr. Fleven: If we order 60.

HM, Jr.: The Army was discussing whether they buy 5 or 10 or 100. Makes all the difference.

Mr. Purvis: 60 at \$238,000 per plane. If we get to a point in the discussion where they say "If you give us an order now this will be the price" and we think it is desirable to do so, can we call up Collins?

HM, Jr.: Definitely! Definitely!

Is that all you have on your mind until this afternoon.

Mr. Purvis: Yes, sir. Thank you.

HM, Jr.: If I could talk to Mr. Purvis and Mr. Fleven a minute alone.

(All left the meeting except Mrs. Hester.)

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*The information given verbally and may not
be entirely accurate. See Definite statement
arriving this afternoon.*

CONFIDENTIAL Aircraft *April 26, 1945*

The replies to Captain Collins's questions are as follows:

1. Letters of intention serving as preliminary agreement leading up to the conclusion of final contracts within a period of thirty days have been mutually signed by the Anglo-French Purchasing Board with the following aircraft contractors, i.e. (a) Curtiss Wright; (b) Bell Aircraft; (c) Glen Martin. In addition, contracts have been placed with the following two firms:
 - a. Douglas Aircraft Co. for 180 A-26 aircraft under an existing contractual option;
 - b. a contract for 20 P-51 flying boats with the Consolidated Aircraft Co. under an existing contractual option.
2. a. The contract with Curtiss Wright covers arrangements for 480 P-40 and 160 B-40 which will embody Allison engines. The total value is approximately \$7,000,000. This total includes the U.S. Army charge for development and extension, \$750,000, plus a charge of \$250,000 to cover cost of transfer of P-40's from the U.S. Administration to the Allied Government order.
- b. The contract with the Bell Aircraft Company covers 300 P-51 aircraft with the Allison engines. The total value is roughly \$4,000,000, including \$500,000 U.S. Army charge for development expenditure.
- c. Regarding Glen Martin, the program is contemplation to 400 Glen Martin XP type embodying the Allison engine. It is not possible to state the probable value of this order pending negotiations but the firm have notified that \$150,000 U.S. Army charge

2.

must be included for development expenses.

- d. The contract placed under existing options with the Douglas Aircraft Co. covers 180 A-20's incorporating the Wright 2600 engines and the airframe order, - roughly valued at \$19,000,000.
- e. Similarly, the order of the Consolidated Aircraft Co. covered 20 P-40's embodying Wright 1820 engines at a total value of approximately \$4,250,000 including engines and propellers.

3. So far as engine contracts are concerned, it is not possible to get specific details as the number of engines remains for determination within a period of 30 days allowed for conclusion of the final contracts. Following conclusion of preliminary agreement in respect of capital expenditure under which financial advances have already been made, such an agreement has been contracted with the General Motors Corporation and covers an option to take up the 3500 engines at a maximum price total of \$61,000,000. Under the corresponding option taken with the Wright Aeronautical Corporation for Wright 2600 engines, the number of engines remain for further negotiations as well as the price.
4. Active negotiations are now being carried on daily with the Lockheed Aircraft Corporation, Douglas Aircraft Co., Boeing, Consolidated Aircraft Co. and Pratt & Whitney.
5. It should perhaps be observed that it is not the policy of the Allied Purchasing Commission to give any statement to the press on the actual numbers of engines and planes for which orders are being placed as it is considered that this information might be useful to the enemy.

*This information given verbally and may not
entirely accurate State Definite statement
arriving this afternoon*

RECEIVED

Aircraft

April 26, 1944

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 - a. Douglas Aircraft Co. for 180 A-20 aircraft under an existing contractual option;
 - b. A contract for 20 PBV flying boats with the Consolidated Aircraft Co. under an existing contractual option.
2. a. The contract with Curtiss Wright covers arrangements for 600 P-40 and 360 P40D which will embody Allison engines. The total value is approximately \$37,000,000. This total includes the U.S. Army charge for development and extension, \$739,000, ? plus a charge of \$245,000 to cover cost of transfer of P-40's from the U.S. Administration to the Allied Government order.
- b. The contract with the Bell Aircraft Company covers 200 P39 aircraft with the Allison engines. The total value is roughly \$9,000,000, including \$360,000 U.S. Army charge for development expenditure.
- c. Regarding Glen Martin, the programme in contemplation is 600 Glen Martin 157 type embodying the Allison engine. It is not possible to state the probable value of this order pending negotiations but the firm have notified that \$850,000 U.S. Army charge

must be included for development expenses.

- d. The contract placed under existing options with the Douglas Aircraft Co. covers 180 A-20's incorporating the Wright 2600 engines and the airframe order, - roughly valued at \$19,000,000.
- e. Similarly, the order of the Consolidated Aircraft Co. covered 20 PBYS boats embodying Wright 1820 engines at a total value of approximately \$4,250,000 including engines and propellers.

- 3. So far as engine contracts are concerned, it is not possible to get specific details as the number of engines remains for determination within a period of 30 days allowed for conclusion of the final contracts. Following conclusion of preliminary agreement in respect of capital expenditure under which financial advances have already been made, such an agreement has been contracted with the General Motors Corporation and covers an option to take up the 3500 engines at a maximum price total of \$61,000,000. Under the corresponding option taken with the Wright Aeronautical Corporation for Wright 2600 engines, the number of engines remain for further negotiations as well as the price.
- 4. Active negotiations are now being carried on daily with the Lockheed Aircraft Corporation, Douglas Aircraft Co., Boeing, Consolidated Aircraft Co. and Pratt & Whitney.
- 5. It should perhaps be observed that it is not the policy of the Allied Purchasing Commission to give any statement to the press on the actual numbers of engines and planes for which orders are being placed as it is considered that this information might be useful to the enemy.



General Motors Corporation
Broadway at 57th Street
New York, N. Y.

Attention: Mr. Hogan

Gentlemen:

With reference to your Preliminary Proposal dated March 14, 1940, we have to advise you that the Allied Governments are prepared to provide the funds necessary to increase your production capacity of Allison engines to 500 per month with the understanding that the capital cost of the additional facilities would amount to \$5,548,087, made up as follows:

Buildings - 189,500 sq. ft. at \$3.50	...	\$659,850
Land improvements	...	107,825
Machinery, jigs, fixtures, gauges and plant equipment	...	3,166,412
Twenty-six (26) test stands and equipment	...	1,404,000
Bearing plant machinery and equipment	...	210,000
		<u>\$5,548,087</u>

It is understood that you will, after the completion of the said building, and after the purchase of the machinery, jigs, furniture, etc., and equipment for test stands, and after the erection of the building and the test stands, furnish us with a detailed breakdown of the cost and disbursements made in connection therewith.

It is our understanding that the above figures are estimated figures, and if a saving can be made on the above cost, such saving will be for the benefit of the Allied Governments while if such costs are necessarily exceeded, the Allied Governments will be responsible for such excess within a maximum of 15% of the above total, which shall be determined to be necessary within one year from the date of this letter.

Within seven days from receipt of your agreement to proceed urgently with the creation of this additional facility, the Allied Governments will advance to you the sum of two million dollars.

Between the date of this letter and May 1st, 1940, you will advise us of the amount of money you have expended to provide the facilities referred to herein, and on May 1st, 1940, the Allied Governments will advance to you said sums. In addition, any expenditures made after May 1st, 1940, for said facilities, shall be advanced by the Allied Governments within ten days after notice to the Allied Governments of the expenditures, provided that the total payment made under this and the preceding paragraph shall not exceed the total sum prescribed in the first three paragraphs hereof.

In consideration of the Allied Governments' financing the cost of the additional facilities, they will expect you to reserve in time a total production of 3,500 engines by the 30th September, 1940, in accordance with the schedule attached to your Preliminary Proposal. Thereafter you will hold available for the Allied Governments for the duration of the war, a capacity of 300 engines per month, it being understood, however, that you will not be required to hold these facilities available unless the Governments six months in advance of the expected delivery date deliver to you orders for completed engines, it being understood that this provision in regard to orders relates to each month's delivery.

In the event that the Government shall order less than 100 engines per month for a continued period of three months, then Allison shall be under no obligation to retain these facilities for the use of the Allied Governments.

We are not in a position to indicate the final total of the engines for which orders will be placed, until we know more definitely the incidence of the Administration's new policy to defer their deliveries on some of their outstanding orders. As soon as this incidence has been elucidated, we shall be prepared to negotiate a contract with you, it being understood that this contract shall be executed within thirty days from the date hereof. The form of said contract shall be substantially the form of the agreement between you and THE FRANCE STATE dated as of February 1st, 1940 - the delivery schedules, cost and payments to be as set forth in the Preliminary Proposal to us dated March 14, 1940, as modified herein, with such other terms as may be mutually agreed upon including the terms outlined in principle in the schedule appended hereto.

Meantime we will be glad if you will confirm that

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you will immediately start work on the creation of the additional necessary facilities on the understanding that should the Allied Governments wish to terminate this agreement before the work is completed you would be asked to cancel any uncompleted orders and the Allied Governments would indemnify you against all your costs properly incurred in connection with the above work up to the date of and arising out of such cancellation.

This letter supersedes the letter dated March 20, 1940, addressed to you by Col. P. Jacquin, M. R. Plevin and Sir Henry Self relating to the above matter. It is expected that the foregoing arrangements will be incorporated in a definitive contract or contracts which will include the terms of and supersede this letter. However, as it is most urgent that you proceed promptly with the program outlined above, we ask that you accept and act on the authorization contained in this letter pending the preparation of said definitive contracts. Please confirm your acceptance by signing and returning to us the two copies of this letter enclosed herewith.

Very truly yours,

HIS MAJESTY'S GOVERNMENT IN
THE UNITED KINGDOM
By British Purchasing Commission

By _____
Director-General

THE FRENCH GOVERNMENT
By French Purchasing Commission

By _____
Director-General

Accepted April , 1940
GENERAL MOTORS CORPORATION

By _____

Attest:

CLAUSES OF CONTRACT DATED AS OF FEBRUARY 1st, 1940 Between

THE FRENCH STATE
and
GENERAL MOTORS CORPORATION

TO BE MODIFIED

-
- (1) LABOR - ARTICLE III, paragraph 2(a)(1) to be eliminated.
- (2) Paragraph 2(a)(ii) to be changed in view of elimination of (1).

The average hourly earned rate to be changed to average basic rate. The contract shall contain a statement-

"The contractor now pays at the rate of time and one-half for all hours worked in excess of eight hours in any one day, or in excess of forty hours in any one week and pays double time for work on Sundays and holidays, but does not pay for vacations. Work performed on night shifts receives a premium of five per cent. Should there be any changes in the above basis of wages, adjustments will be made accordingly, using the car manufacturing plants of the contractor for the month of April, 1940 as a base. Such adjustments shall be made applicable for the months in which they occur for the actual work performed under this contract."

- (3) MATERIAL - Article III (2)(b)(1) to be eliminated. In its place is to be incorporated a clause somewhat as follows:

Material costs as determined for the first 624 engines shall be considered as basic material cost for the contract. Any increases or decreases shall be adjusted upon the completion of each release.

(Additions to Contract)

DIVISION OF PROFITS

- (1) Allison agrees that if the total number of engines delivered under this contract exceeds 3,000, to pay to the Government one-half of any profits in excess of twelve per cent of the contract price (\$17,500 times the number of engines delivered) after provision for all taxes, total remuneration of executive staff and proper Central Office charges and after deducting the amounts of depreciation or amortization on plants or facilities which have been returned to the Government.

RETURN OF DEPRECIATION OR AMORTIZATION
ON PLANTS OR FACILITIES.

- (2) Allison agrees that if the total number of engines delivered under this contract is not less than one thousand to pay to the Government upon the completion of this contract, a sum of money equal to the amount included in the cost of the engines delivered to and paid for by the Government on account of depreciation and amortization on plants and facilities, which have been provided under this Article and paid

for by the Government. Said sum shall not exceed the amount of money advanced by the Government.

VALUE OF PLANT AT EXPIRATION OF CONTRACT

- (3) Some suitable clause shall be drawn to provide for the disposition of the plant on the termination of the contract.

TRAINING OF OPERATORS

- (4) The expense of training operators shall be billed to the Government as said expenses occur within the prescribed total of \$600,000.

.....oOo.....

4-25-40
am meeting

DRAFT OF LETTER FROM THE FRENCH AND THE BRITISH AMBASSADORS
TO THE HON. LOUIS JOHNSON, ASSISTANT SECRETARY OF WAR.

Sir,

I understand that one of the conditions set forth by the War Department in regard to export of American manufactured aircraft, was the inclusion in each contract of a clause to the effect that the purchaser should supply accredited agents of the U. S. Government with complete information relative to the suitability^{of the} design^{of the} equipment^{of the}, and^{the} combat performance, of the planes which are released for export.

The Government is anxious to cooperate fully with the U. S. War Department with a view to giving the latter all the information it may wish as to the performance under combat conditions of all American purchased planes. However, in view of all the military aspects bearing on the information desired by the U. S. Army Department, it is felt that it would probably be more proper to avoid making the question of information a part of the contractual obligation with the manufacturers. I have therefore been requested by my Government to suggest to you that in lieu of the inclusion of any such contract provision, you accept the assurances of my Government that they will be glad to keep the U. S. Government's accredited agents currently advised on all matters which may be of interest to the U. S. Government as regards performance of American made planes under combat conditions. They will also be glad to answer any questions on the same subject matter which the U. S. accredited agents may wish to put forward.

Yours very truly,

Regraded Uclassified

MEMORANDUMTOP SECRETEXPLOSIVES
-Nitrocellulose (Smokeless) Powder -

On the 29th December, 1939, at an audience with the President which Mr. Morgenthau arranged for W. Flaven and myself, I raised the question as to whether, as part of the United States preparedness programme, the United States Army and Navy might be willing to take upon their shoulders part of the capital cost of new plant of a purely military nature, the building of which might represent an asset of obvious strategic value. Explosives was particularly envisaged, though at that time there was some question as to whether Nitrocellulose powder production was deficient from a strictly United States viewpoint. Permission was given to raise the question in due course when a practical instance arose.

In connection with a request to the United States Administration for the release to Canada of certain technical and design information for a similar plant, it has been made a condition that a Nitrocellulose powder plant should be built in the United States by the Allied Governments with an annual minimum capacity of 20,000 tons. This is in addition to the Nitrocellulose powder and Trinitrotoluol extensions of existing plants for which the Allied Governments have already contracted at their own expense in recent months, representing a capital cost to these Governments of \$3,602,800. It is anticipated such a new plant would be built by the DuPont Company for account of a United States

-2-

corporation, the stockholdings of which would be held in Canada.

It would appear therefore that this is the appropriate time to raise the question anew.

It is thought that an agreement whereby the United States Government would purchase the plant on a previously agreed basis, the purchase to take place when the Allied Government war needs have been fulfilled, would be the simplest, and perhaps the fairest, method of approach, but it is felt that that, or similar approaches, could better be explored when the matter has received initial consideration.

The total cost of such a plant would be of the order of \$17,000,000.

ABP

Arthur B. Purvis
New York
April 27th, 1940

TO:

Miss Chauncey

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For the
files, please.

②

Delivered
over Radio
4/25/40
10 pm

From: MR. SCHWARTZ

I am afraid Mr. Bruce gives me much greater credit than I am entitled to, although I would increase rather than lessen the importance he gives to the establishment of the Section of Fine Arts in the United States Treasury. There is a man in the picture who deserves the glory of a great accomplishment, but it is not myself. It is Mr. Bruce. There is a woman in the picture, too, and the tribute Mr. Bruce has paid to her I will let stand.

But in the case of everybody concerned I believe it is a matter of having wrought more wisely than they knew. I doubt if anybody actually realized the greatness of the task they had set themselves when the section of Fine Arts was created.

Everybody knows that art is an eternal source of enjoyment and enrichment, that art is a great force in education and a true measure of civilization's progress.

It is one of those things we know historically, yet do not fully understand in our own time. The Romans built their great aqueducts to live throughout the ages, but it is not the aqueducts that have survived; it is the sculptured art of that same period and it tells us more of Roman civilization, perhaps, than all the books then written. Buildings which the Greeks expected to live forever are outlived by Greek masterpieces of art.

So it may be with us and the art being produced in America today.

The importance of the Fine Arts section lies in the fact that it provides the means of fostering and developing creative art in America—an all important element in our lives that was threatened a few short years ago with starvation through the collapse of our material prosperity. The genius of Edward Bruce was revealed when he turned this threat of disaster into a triumph of the ideas he had long held. What might have been, if not the end of American art, at least a long period of stagnation, has become instead the period of its greatest development, the period of recognition of its value by the American people, a period in which an enduring foundation has been laid for all time.

The Treasury's part in this has been a simple and a natural one. For one hundred years the Treasury had built the greater part of our federal buildings. We were coming to appreciate more and more how much the painter and the sculptor could add to the work of the architect and builder. This resulted—and if I have any cause for pride it is that it resulted in my time—in the setting up of the Section of Fine Arts with Mr. Bruce as its chief.

I am one of those benighted persons who sometimes say, "I don't know much about art, but I know what I like." And I like art that enriches the life of the community. That is the chief purpose of the Section of Fine Arts and I truly believe it is fulfilling its purpose.

In the absence of my wife, who had looked forward with great pleasure to being here and was only prevented from taking part in this program due to illness, it is now my privilege to read a letter which she received from Mrs. Roosevelt.

THE WHITE HOUSE
Washington

April 20, 1940.

Dear Eleanor:

I am so happy to have been at the first meeting of the Public Works of Art Project, which has since accomplished such great things. At that time I said, "It is unbelievable that a great nation could fail to utilize the services of its creative talents to the fullest". I have never wavered in this belief and now feel that we have shown that we can use these creative artists. They have contributed greatly to the general education of the nation and to the appreciation of the arts.

Very sincerely yours,

Eleanor Roosevelt.

4-22-40
except before last
reading copy made

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due to illness
~~In the absence of Mrs. Morgenthau, who was not
able to come here tonight although she had counted
on being present, it is now my great pleasure to
read a letter to her from Mrs. Roosevelt:~~

the absence of my
wife who had looked
forward with great
pleasure to being here
and was only prevented
from taking part in this
program ~~to~~ *due to illness,*
it is now my ~~pleasure~~ *privilege*
to read a letter which she
received from Mrs. Franklin Roosevelt

- 5 -

In the absence of my wife, who had looked forward with great pleasure to being here and was only prevented from taking part in this program due to illness, it is now my privilege to read a letter which she received from Mrs. Roosevelt.

THE WHITE HOUSE
Washington

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April 20, 1940.

Dear Elinor:

I am so happy to have been at the first meeting of the Public Works of Art Project, which has since accomplished such great things. At that time I said, "It is unbelievable that a great nation could fail to utilize the services of its creative talents to the fullest". I have never wavered in this belief and now feel that we have shown that we can use these creative artists. They have contributed greatly to the general education of the nation and to the appreciation of the arts.

Very sincerely yours,

Eleanor Roosevelt.

April 25, 1940

3:15 pm

Present:

Mr. Purvis
Mr. Fleven
Captain Collins
Mr. Young
Dr. White

HM, Jr: (To Captain Collins) What I want to have for the President when he gets back, I want a statement showing planes delivered and showing that during the month of May, as far as we can forecast, this is what they think they are going to get.

Mr. Purvis: Forecast of deliveries.

Captain Collins: Did you pick May for any particular reason?

HM, Jr: No.

Captain Collins: I can get it for the rest of the year.

Mr. Fleven: That would be too long, because, you see

HM, Jr: As far as you can go.

Mr. Fleven: you want real figures.

HM, Jr: For me and him, always.

Mr. Fleven: When you make forecasts they are not always right.

HM, Jr: I should like to show him planes, whatever date, as of today or Saturday; make it just as recent as you can, as long as I can have it Monday morning, so that I can put it on his desk. These figures are so confusing.

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Mr. Purvis: I myself would like to see it in that style.

Mr. Plevan: You will be surprised. They are small.

HM, Jr.: Whatever they are, I want the facts. I have seen so many figures I am just dizzy, but I would like to have it for him. And for my purposes, the French and English, I don't want to divide it.

At your service.

Mr. Purvis: Thank you, Sir.

On the alloy field, the particular thing that I would like to get settled if we could — not settled by crystallized out a little more — is the possibility of doing something in tungsten.....

HM, Jr.: Excuse me. I forgot. Harry White should sit in on this. (Phoned for Dr. White to come to the meeting.)

Mr. Purvis: Chen does not really know. He told me the difficult question was not what was going to be produced there, but what was going to be put out.

But it is quite evident, Mr. Secretary, that the key to the situation is the Chinese situation. Now, if they can't get it out of China, there is less to buy and so much the better.

HM, Jr.: May I interrupt you to say that K. P. Chen is the only Chinese that has given me the facts. The only Chinese that has not tried to kid me and if he tells you something is so, it's absolutely so. I mean, he debunks all of this stuff. Whatever he tells you — I recommended loaning him this \$45,000,000 because he personally says he will live up to it. He's an amazing person! An amazing person!

Mr. Purvis: I liked his attitude. He said to me "The transport question is the key to it, so I

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shall go in on the Burma road myself and find out for myself what it is," because he said it is impossible to learn from written reports. You can't really get to the truth. I imagine the transportation problem is extremely difficult. Serious.

HM, Jr: Terrible.

Mr. Purvis: The picture is, world production: 38,600 tons. Apparently 22,000 in the ordinary course of events between the United States, France and England.

(At this point Dr. White came in.)

HM, Jr: Come in, Harry. We are back on our old friend tungsten.

Mr. Purvis: We are back at that.

Of the 38,600 estimated production for this year, 22,000 are accounted for by the requirements of the United States, England and France. I mean, normal requirements for requirements, as we estimate them, for England and France and it really leaves just that balance which is China, which, if it were taken off the market, would perhaps do the job. The difficulty in regard to Russia is an unknown one. It apparently, according to this cable, which I sent you a copy of, which I think is quite interesting, is, when one starts to read it carefully, apparently only 100 tons a month could be probably taken out overland to Russia at this time. Now that means that the amounts that could get into Germany that way might be quite small.

Dr. White: Doesn't that depend on the statement in the other communication? It's true that's all they ship overland, but if you close all other channels then it would become highly important to get more overland even at higher expense. Now, if you stop the other than it will be a great incentive to get out more overland.

Mr. Purvis: I had, perhaps incorrectly, in

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talking with Chen, I had understood that the difficulty was the mechanical difficulty of getting it out. It wasn't a question of expense. That may or may not be correct, but that's certainly what I understood from him.

HM, Jr: This is wolfram. I had it photostated.

Mr. Purvis: That's a good idea.

HM, Jr: We are trying to coordinate ourselves!

Mr. Purvis: That's not a bad idea.

What we would like to get out, of course, is paragraph four.

HM, Jr: What's that?

Mr. Purvis: What your likely requirements are from the American Government view of commercial consumers. My understanding, Dr. White, is from the point of view of importations plus your own consumption, I mean production, your normal consumption would be on the order of 6,000 tons, of which 3500 tons will be produced here and 2500 tons will be imported, presumably from South America, in the normal course. Is that about right?

Dr. White: About 2,000 tons. Yes. About 500 tons out of the way.

Mr. Purvis: Yes. So if the Chinese is all that is left, if it could be accounted for it might represent a valuable contribution.

HM, Jr: The Chinese keep telling us they earmarked 4500 tons for the Russians.

Mr. Purvis: Yes, but whether they can get it out mechanically -- I challenge whether they can get that quantity.

HM, Jr: What you want to know from us and we are not prepared to answer is how much can we use.

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Mr. Purvis: Yes. Otherwise, what we really want — the cable is descriptive of the background — what we really want is to know whether we could join with you in setting up some reserve stocks which would not be normal peace-time production, but might be, from the Army view, valuable here and we would perhaps take some more ton. If there is 14,000 tons to account for and 4,000 or 5,000 may go to Russia, there is some 9 or 10 — if that estimate is correct — which, if we went into the market for it might clean it up.

HM, Jr.: Let me ask Collins. Collins, what's the program on the strategic buying as far as we know goes. Do you know what your program is? What the Army and Navy will buy?

Captain Collins: I don't know at the moment.

HM, Jr.: You can find out.

Dr. White: Unless they change their mind it's none.

HM, Jr.: They can be made to change their mind.

Dr. White: The figure, 14,000, is 4,000 higher than ours.

Mr. Purvis: I asked Chen and he said his guess is 12,000. So much the better. The lower it is, the better in a way.

Dr. White: And easier to handle.

HM, Jr.: Let me get this thing.

Do you say in this thing — I frankly have not read it — how much would you like us to buy? 5,000 tons?

Mr. Purvis: 5,000 was what I said to you the other day. If you could take 5,000, our people would take 5,000 out of this 1940 production, it would

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leave a balance for the Russian thing, if it has to go through, although I think our people would be delighted not to see it go through if possible ...

HEJ, Jr.: Harry, you take charge of finding out what the industry wants, etc., etc. Think about it.

Captain Collins: I could get close to that figure.

HEJ, Jr.: Steel, etc., can you find out?

Captain Collins: Yes, sir.

HEJ, Jr.: The thing I reminded the President, when Manfrenle thing was down there, how pleased we were about nickel.

Mr. Purvis: Good!

HEJ, Jr.: So I am sure the President said something about nickel.

Mr. Purvis: That's good.

HEJ, Jr.: After all, you people have been fine on nickel and I think we should do something on tungsten.

Mr. Purvis: If it works out that way it would be a splendid approach for us later.

HEJ, Jr.: And if Collins will get busy and White also. The two of you take this on. Will you, Harry?

Mr. White: Yes, sir.

HEJ, Jr.: Work with Collins on this so next week you can tell us. Is there a steel institute in this country?

Mr. Purvis: Oh, yes, and Stettinins would be very helpful in giving anything that is wanted.

HEJ, Jr.: I am on very friendly terms with him.

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Mr. Purvis: He has been very helpful to us.

Dr. White: I think that would be a better approach because of the nature of the commodity.

HM, Jr: We will do it now, damn it!

(The Secretary placed a telephone call for Mr. Stettinius.)

Mr. Purvis: The other thought in regard to it is whether as a matter of mechanics it might be easier to tie it in with the Chinese loan situation, tie it in with tin, provided, of course, if it could be put up as security. You could take it over as a leverage.

HM, Jr: Let me, with my usual frankness, I am glad Plevin is here because you ought to take this back. The day I saw Chen, "Mr. Morgenthau, after months I am ready to sign; 3000 tons of tin a year. Don't, if you don't have to, tie up my tungsten so I will have some cash left to get munitions because while you know how much I appreciate the loan, not one dollar goes for munitions."

If they take everything, ourselves, the French and British, and tie up everything, what the devil are they going to use to buy munitions? I don't mind saying in this room here if we tie them up, we simply tie them up in a nice pink ribbon and turn them over to Russia. And I wish Mr. Plevin would have this in his mind. The French have tied up a large amount of tungsten and I don't think they have given them any answer in Indo China and these people haven't any money to buy munitions and they have squeezed out the last 4,000,000 ounces of silver and the only thing they have left is tungsten. If we are going to squeeze them down to that, then they have nothing left and you just hand them over to Russia. Did you see the map the Russians published the other day? What they claim? They don't even recognize that Chiang-Kai-Shek exists and I think you people ought to keep that in mind, and we are here.

Mr. Purvis: Yes.

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HM, Jr: But that has nothing to do with what you are asking me how much will the industry take and how much can we buy for strategic materials and I will go the limit on that.

But I don't think you fellows ought to put such screws on them if they have some tungsten they can sell in the world markets, provided it does not go to your enemies. Doesn't that make sense?

Mr. Purvis: It makes sense to me.

HM, Jr: And your Minister of Colonies there ought to make up his mind. What's his name?

Mr. Plevin: Mandel.

HM, Jr: He ought to make up his mind what he's going to do with this tungsten, not just sit on it. If the Chinese could raise some cash on it

Dr. White: They were even willing to sell it. Suggested some popular arrangement could be made for exchange of war materials.

Mr. Purvis: They will be willing to barter on raw materials?

Dr. White: War materials.

HM, Jr: And that's the main need, money, desperately, to buy munitions and we can't help them there. But I will go the limit on what we can do here. I will take care of the steel industry when I get Mr. Stettinius and Collins, who is the purchasing agent for our strategic war materials, will get busy and find out how much money he has left and build up a nice story why we need stocks. We will do something on that.

Mr. Purvis: The other point that I bothered you about the other day was the possibility -- we feel that our grave danger comes from

(HM, Jr rang for McKay and told him the operator was having trouble reaching Mr. Stettinius and asked him to try to complete the call.)

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Mr. Purvis: May I give you the latest information on chrome ore and cobalt. These are both items which come within what I am now going to suggest as the second main point. We feel the main danger is re-export of certain of these goods which, at present, are not on the strategic list, these materials, but which is quite important should be. Apparently the easiest way -- and I am only theorizing here -- but I would think the easiest way of getting some foundation for controlling that export, if those 5 or 6 products I mentioned last week could be put on the strategic list and then if that clause, which I now believe has been approved by the State Department in regard to tin as a clause by which people who buy undertake not to re-export, could be gradually introduced into contracts that are made for these materials, other than tin, on the strategic list, then we would be in position to have an undertaking on the part of these people not to re-export, which would give a foundation for control.

HM, Jr.: Are you (Young) up on that stuff? Is that in your memorandum?

Mr. Young: As much as I got out of Joe Green the other day.

HM, Jr.: Supposing I read this out loud.

"At the present time there are three categories of moral embargoes. The first moral embargo, July 1, 1938, was applicable to the shipment, direct or indirect, of 'aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes.'

"It was generally understood that this moral embargo was applicable to Japan only. On December 8, 1939, the President in a public statement extended and modified this moral embargo by making it applicable to countries the armed forces of which were engaged in 'the unprovoked bombing and machine-gunning of civilian populations from the air' and to the exportations of 'airplanes, aeronautical equipment and materials essential to airplane manufacture'.

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"It was understood that 'materials essential to airplane manufacture' should be limited to molybdenum and aluminum without reference to the possible uses to which they may be put, and other articles and materials only when there is reason to suppose that they are to be manufactured into airplanes or parts thereof.

"Mr. Green informed me that no other materials had been included under this limitation. It was understood that the President's statement made this moral embargo applicable to Japan and the U.S.S.R. Several companies, however, have assumed that it was applicable to Germany also.

"The second moral embargo, December 14, 1939, was applicable to the delivery to Japanese interests of 'plans, plants, manufacturing rights, or technical information required for the production of high quality aviation gasoline'. The Secretary of State decided that this second moral embargo should apply equally to the Soviet Union.

"Whereas the first moral embargo had been understood to involve no contravention of policy by companies carrying out contractual obligations, in this second moral embargo the companies affected agreed that it would in some cases necessitate breach of contracts already entered into.

"The third moral embargo applies to the exportation of strategic and critical raw materials. These materials as listed by the Army and Navy Munitions Board on October 11, 1939, are:

Antimony	Quartz Crystal	Roll
Chromium	Quicksilver	Tin
Japanese-ferrograde	Quinine	Tungsten
Vanilla Fiber	Rubber	

"Tin" has been interpreted to include tin scrap, pewter, and babbitt metal. Mr. Green informed me that no other alloys were included by the Munitions Board in this list.

"In effect this moral embargo is applicable to all shipments, except normal peace-time shipments, to countries in the western hemisphere.

"The first two moral embargoes dealing with aircraft parts and aircraft gasoline, etc., according to the State Department, are applicable only to Japan and the U.S.S.R. However, a majority of the committees involved have voluntarily applied these moral embargoes against Germany. The third moral embargo dealing with strategic and critical raw materials is applicable to all shipments, except normal peace-time shipments, to countries in the eastern hemisphere. The only item on this list over which there is legal control is tin.

"Mr. Brown informed me that the moral embargoes were about 85 per cent efficient, the greatest violation being Japan. He also told me that it was within the prerogative of the Sanctions Control Board to increase or decrease the items on the strategic and critical list, but that at the present time no such action was contemplated.

"The only item the export of which is limited, and which is not included in the foregoing list, is nickel. Inasmuch as the source of nickel is Canada, that country imposes in its contracts, even with United States firms, a clause prohibiting re-export of nickel to belligerents. Thus, there is an embargo on the nickel leaving United States ports.

"Inasmuch as Mr. Basil Harris has been attending the meetings of the Sanctions Control Board, I have requested his complete file for study."

MR. BROWN: Now, you have a list you want added to this for re-examination. Have you got it? Have you told me about it?

MR. BROWN: Cobalt, molybdenum, columbium, tantalum and industrial diamonds.

MR. BROWN: As a result of the other meeting the Secretary said "Let's find out about this whole picture".

MR. BROWN: The time gentlemen on that thing at 10:15 tomorrow morning.

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Dr. White: I have made a study on these five articles.

Mr. Purvis: One other thing I would like to add for consideration is scrap. I am deliberately saying that is a more difficult thing to do -- scrap of these alloys. It gets into the hand of a rather different kind of crowd and if it is impossible to do anything about it, that's too bad, but scrap in some cases is an important item.

Dr. White: Much more difficult definitely. Start with the others.

HM, Jr.: Harry, have an agenda for me tomorrow morning.

Mr. Purvis: I think at that point, for today, we would be better to leave it if I may have another opportunity next week.

HM, Jr.: Sure!

(At this point, Lieut. McKay came in to report that Mr. Stettinius was at the hospital visiting his young son who had just undergone a serious operation. HM, Jr. told Lieut. McKay to say that he could talk with Mr. Stettinius tomorrow between 10 and 11.)

HM, Jr.: We will stop here and maybe I will have a talk with you two gentlemen alone for a minute.

(At this point, Captain Collins, Mr. Young and Miss Channery left the meeting. Mr. Purvis, Mr. Flaven and Mrs. Klotz remained with the Secretary.)

and at 4/25 pm
meeting with
P. Jones

Read 184

Longline

CONFIDENTIAL

April 25, 1940

To: The Secretary

From: Mr. Young

Subject: Moral Embargo

At the present time there are three categories of moral embargoes. The first moral embargo, July 1, 1938, was applicable to the shipment, direct or indirect, of "aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft parts, aircraft accessories, aerial bombs or torpedoes."

It was generally understood that this moral embargo was applicable to Japan only. On December 2, 1939, the President in a public statement extended and modified this moral embargo by making it applicable to countries the armed forces of which were engaged in "the unprovoked bombing and machine-gunning of civilian populations from the air" and to the exportation of "airplanes, aeronautical equipment and materials essential to airplane manufacture."

It was understood that "materials essential to airplane manufacture" should be limited to molybdenum and aluminum without reference to the possible uses to which they may be put, and other articles and materials only when there is reason to suppose that they are to be manufactured into airplanes or parts thereof.

Mr. Green informed me that no other materials had been included under this limitation. It was understood that the President's statement made this moral embargo applicable to Japan and the U.S.S.R. Several companies, however, have assumed that it was applicable to Germany also.

The second moral embargo, December 14, 1939, was applicable to the delivery to Japanese interests of "plans, plants, manufacturing rights, or technical information required for the production of high quality aviation gasoline." The Secretary of State decided that this second moral embargo should apply equally to the Soviet Union.

Whereas the first moral embargo had been understood to involve no contravention of policy by companies carrying out contractual obligations, in this second moral embargo the companies affected agreed that it would in some cases necessitate breach of contracts already entered into.

The third moral embargo applies to the exportation of strategic and critical raw materials. These materials as listed by the Army and Navy Munitions Board on October 11, 1939, are:

Antimony	Quartz Crystal	Silk
Chromium	Quicksilver	Tin
Manganese—ferrograde	Quinine	Tungsten
Manila Fiber	Rubber	

"Tin" has been interpreted to include tin scrap, pewter, and babbitt metal. Mr. Green informed me that no other alloys were included by implication in this list.

In effect this moral embargo is applicable to all shipments, except normal peace-time shipments, to countries in the western hemisphere.

The first two moral embargoes dealing with aircraft parts and aircraft gasoline, etc., according to the State Department, are applicable only to Japan and the U.S.S.R. However, a majority of the companies involved have voluntarily applied these moral embargoes against Germany. The third moral embargo dealing with strategic and critical raw materials is applicable to all shipments, except normal peace-time shipments, to countries in the western hemisphere. The only item on this list over which there is legal control is tin.

Mr. Green informed me that the moral embargoes were about 90 per cent efficient, the greatest violator being Amtorg. He also told me that it was within the discretion of the Munitions Control Board to increase or decrease the items on the strategic and critical list, but that at the present time no such action was contemplated.

The only item the export of which is limited, and which is not included in the foregoing list, is nickel. Inasmuch as the source of nickel is Canada, that country imposes in its contracts, even with United States firms, a clause prohibiting re-export of nickel to belligerents. Thus, there is an embargo on the nickel leaving United States ports.

Inasmuch as Mr. Basil Harris has been attending the meetings of the Munitions Control Board, I have requested his complete file for study.

RL

CONFIDENTIALWOLF RAM

There has been little change in the Wolfram situation during the last three months. The French Government however now hope to conclude their negotiations for stocks in Indo-China shortly.

The control of further production both in China and the lesser producing countries, such as Bolivia and Thailand remains to be settled. An approximate estimate of world's production is as follows:

China approximately	14,000 metric tons
Korea	2,200
Siam	500
South America	4,100
Burma	5,700
British Empire	3,500
French	1,100
Portuguese	3,000
U.S.A. and others .	3,500

Total..... 37,600 metric tons

Estimated requirements of the Allies are:

French	8,000 metric tons
British	8,000
And it is thought that the U.S. will require some	6,000

Thus out of 37,600 there is an assured safe destination for 22,000 tons. Therefore, assuming that Japan consumes the production of Korea, there remains open on the world market something under 14,000 tons, which is the approximate equivalent of one year of Chinese production. China therefore remains the key to the problem. To the best of our knowledge none of the Chinese producing areas have fallen into the hands of the Japanese whose requirements are said to be 5,000 tons for 1940.

As you will remember the question of preemptive purchase of Chinese wolfram was discussed at the beginning of the year at which time the U.S. were reported to be negotiating a loan with the Chinese Government for \$20,000,000, and it was thought possible that wolfram might be used as a security. I understand however that wolfram has not yet been mentioned in this connection by the U.S. Government.

In order that we may decide our course of action in China, I would appreciate -

First, your views on the likely requirements both of the American Government and of commercial consumers, and

Secondly, your opinion on the possibilities of the American Government using wolfram as a security for the loans to China.

This might be very helpful to us provided -

(a) a real control is established on the wolfram given as security so as to prevent it reaching dangerous destinations, and

- 2 -

- (b) an arrangement be reached between the U. S. Government and the Allied Governments so as to provide opportunity for latter(s) purchase of the whole, or part of, this wolfram as the need may arise.

One of the principal difficulties in this problem is that China has been obtaining arms from Russia in exchange for about 400 tons monthly of wolfram and wishes to continue to do so and that consequently any deal in order to be accepted by the Chinese Government must allow that Government to obtain arms at least for part of their wolfram. At present we are stopping shipment by sea to Russia and we doubt whether more than 100 tons could be transported overland. You may find it useful to point out, in your discussions, that the plans outlined above, if effective, would deny Chinese wolfram to Japan and Russia as well as Germany.

WOLFRAM

There has been little change in the Wolfram situation during the last three months. The Russian Government however now hope to conclude their negotiations for stocks in Indo-China shortly.

The demand for further production both in China and the lesser producing countries, such as Bolivia and Thailand remains to be settled. An approximate estimate of world's production is as follows:

China approximately	14,000 metric tons
Korea	2,200
Spain	500
South America	4,100
Burma	2,700
British Empire	3,500
France	2,100
Portuguese	3,000
U.S.A. and others ..	2,500

Total..... 37,600 metric tons

Estimated requirements of the Allies are:

France	4,000 metric tons
British	3,000
and it is thought that the U.S. will require some	5,000

Thus out of 37,600 there is an assured safe destination for 22,000 tons. Therefore, assuming that Japan consumes the production of Korea, there remains open on the world market something under 14,000 tons, which is the approximate equivalent of one year of Chinese production. China therefore remains the key to the problem. To the best of our knowledge none of the Chinese producing areas have fallen into the hands of the Japanese whose requirements are said to be 5,000 tons for 1940.

As you will remember the question of prospective purchase of Chinese wolfram was discussed at the beginning of the year at which time the U.S. were reported to be negotiating a loan with the Chinese Government for \$200,000,000, and it was thought possible that wolfram might be used as a security. I understand however that wolfram has not yet been mentioned in this connection by the U.S. Government.

In order that we may decide our course of action in China, I would appreciate -

First, your views on the likely requirements both of the American Government and of commercial customers, and

Secondly, your opinion on the possibilities of the American Government using wolfram as a security for the loan to China.

This might be very helpful to us provided -

1. a real control is established on the wolfram given as security so as to prevent its reaching Japanese destinations, and

(b) an arrangement be reached between the U. S. Government and the Allied Governments so as to provide opportunity for latter(s) purchase of the whole, or part of, this wolfram as the need may arise.

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April 25, 1940
9:58 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles. Go ahead.

H.M.Jr: Hello.

Sumner
Welles: Hello, Henry. Good morning.

H.M.Jr: How are you?

W: How is Mrs. Morgenthau?

H.M.Jr: She's getting along very nicely, thank you.

W: I was awfully sorry to hear yesterday afternoon that she had gone to the hospital.

H.M.Jr: No, she's getting along.....

W: Well, I'm glad to hear it. Please give her my best, will you?

H.M.Jr: Thank you, Sumner. Thank you.

Sumner, I wondered if you could tell me -- I was a little bit surprised and mystified; the Allied Purchasing Board told me that the State Department wanted a copy of all of their purchases and that it was going to be furnished to them through the French and British Embassies. And I was just a little curious why if the State Department wanted it why they didn't ask me for it.

W: I've never even heard of it.

H.M.Jr: And I wondered what was behind it.

W: Never even heard of it.

H.M.Jr: Well, would you look in and.....

W: Could you tell me, did they indicate to you by whom that request had been made?

H.M.Jr: No.

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W: Why certainly I'll look into it.

H.M.Jr: I just wondered because I'm trying to do this -- you know the whole thing we went through on the Collins' Board and it was all settled.

W: Why of course.

H.M.Jr: Now, if they want that, Captain Collins has it and if the State Department wants it and has a good reason for needing it, why Captain Collins will be glad to furnish it to Mr. Hull or you.

W: Sure.

H.M.Jr: But it isn't the sort of thing that ought to be floating around.

W: I entirely agree. I'll look into it at once, Henry, and when I've found out I'll let you know.

H.M.Jr: Purvis is coming in at eleven. If it was possible to let me know before I'd like it, but if it rushes too much you can let me know later on.

W: Well, I'll let you know if I can find the full information before then; I'll call you.

H.M.Jr: Joe Green or somebody might know, I don't know.

W: All right, Henry.

H.M.Jr: Thank you.

W: Thanks.

April 25, 1940
10:20 a.m.

H.M.Jr: Hello.

Sumner
Velles: Hello.

H.M.Jr: Yes, Sumner.

V: Hello, Henry. I've found that this is what the situation is. About last October the Army and Navy Munitions Board requested the Department to ask the missions of the foreign governments of the purchasing in this country to send every month a statement as to their purchases. That practice has been continued, as you understood, until the present time. The information obtained from these Embassies every month is forwarded only to the Munitions Board and Colonel McMorland, I understand, the head of the office of the War Department who is connected with that, immediately gives that information to Capt. Collins.

H.M.Jr: I don't think that that is correct, Sumner.

V: Well, I'm told positively that Capt. Collins has all of that information.

H.M.Jr: Well we have it -- he gets it, but he gets it directly.

V: Yeah.

H.M.Jr: And I got the note this morning, you see, from the Allied Purchasing Board that for the first time they're going to turn this over now.

V: Oh now, it's been done since October.

H.M.Jr: What, that they've been turning it over?

V: The Embassies have been turning it over.

H.M.Jr: Well, I -- I think that's incorrect but I can clear it up in a half an hour.

V: Well, I don't know anything about the Allied Purchasing Board. No request has been made of them. The request was made at the request of the Munitions

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Board. We were solely acting as agents for that Board last October and that's been the practice ever since.

H.W.J.: Since last -- I'm just making notes -- since last October.....

W: That's right.

H.W.J.:the Embassies.....

W: The Embassies of the foreign governments purchasing in this country were requested to furnish the Department every month with a list of their purchases.

H.W.J.: That's all Embassies.

W: All of those that were purchasing here, yes.

H.W.J.: All Embassies. Well then I wonder why the Allied Purchasing Board should bring it up as though it was new business.

W: That I have absolutely no information on. All that I know is that this matter was started last -- early last autumn at the request of the Munitions Board.

H.W.J.: Well.....

W: Now if you feel there's any duplication or that you want the system changed, of course we can change it. I mean, we were solely doing it at the request of Army and Navy.

H.W.J.: No. Well, if it's something which -- that Purvis will have to clear up for me. Now, where has the French and English Embassies been getting their information from since October?

W: I suppose from him, don't you? Or has he been -- that must have been before he even started his work, wasn't it?

H.W.J.: Of course, I find every day that things are going on that he doesn't know about.

W: I see.

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H.W.Jr: See?

W: Um-hm.

H.W.Jr: And maybe somebody has been giving this to the French and English Embassies and he didn't know it.

W: Um-hm.

H.W.Jr: That wouldn't be the first time that that happened.

W: Yeah.

H.W.Jr: But I'll ask him and if I'm not satisfied, or whatever I learn from him, I'll give you a ring.

W: Please do so.

H.W.Jr: I'll give you a ring.

W: Because I'm told positively that this has been done merely as a routine matter since early last autumn and it was done solely at the request of the Munitions Board.

H.W.Jr: Well, after he goes I'll call you back.

W: All right, Henry.

H.W.Jr: Thank you.

W: Thanks.



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 25, 1940.

MEMORANDUM FOR THE SECRETARY

In a meeting this morning Mr. Ballantyne, Secretary-General of the Anglo-French Purchasing Board, informed me that the Board proposed to furnish to the State Department via the French and British Embassies a statement showing purchases made by the Board giving quantities only without reference to cost.

H. J. Kelley

April 25, 1940
12:07 p.m.

E.W.Jr: Mr. Plevan has just left my office.

William
Sullitt: Well, I was hoping he hadn't left. I tried to get you before he did.

E.W.Jr: Well, do you want him in here?

E: No, I'll tell you why.

E.W.Jr: Wait a minute.

E: That's fine.

E.W.Jr: Yes, go ahead.

E: I'll tell you why, I took up that matter of our favorite cognac.

E.W.Jr: I know you have.

E: And they said that they had already taken action to handle ninety percent

E.W.Jr: Yes.

E: And that they hoped to take action to handle the remaining ten per cent rapidly.

E.W.Jr: Yes.

E: I would appreciate it very much if you could tell Plevan before his departure in entire confidence your ideas on the subject.

E.W.Jr: I -- I've already done that.

E: I'm perfectly delighted and I thank you very much and that's all I called for, but I was just asked to do that on the telephone and I said, "All right," I'd put in a call for you.

E.W.Jr: Well I was amazed with the action -- the speed with which you worked.

- 2 -

B: (Laughs) Henry, you ought to be used to that.

H.M.Jr: And I heard that you had Offie over there already.

B: We work rapidly here when you give us orders.

H.M.Jr: Well, I'm.....

B: What we have to know is what you want, Henry.

H.M.Jr: Well, I will, and Plevan will have the whole story -- he has it now.

B: That's fine. I'm perfectly delighted. Henry.....

H.M.Jr: Yes.

B:tell me about the President's grippe. Is he all right again now?

H.M.Jr: Yes, I had a long talk with him on the phone yesterday and he's feeling fine; he's very cheerful; and he's going to be back here Saturday or Sunday.

B: Oh, I'm perfectly delighted because he had it for so long I was worried.

H.M.Jr: Well, no -- he sounded very cheerful and before he left he didn't -- he was -- had entirely recovered.

B: That's fine. How's Elinor tonight?

H.M.Jr: Doing very nicely, thank you.

B: Give her my very best wishes, Henry.

H.M.Jr: I will, and my hat off to you as a chain lightning operator.

B: (Laughs) Thank you, Henry.

H.M.Jr: All right.

B: Goodbye.

H.M.Jr: Goodbye.

April 25, 1940
2:55 p.m.

H.M.Jr: Hello.

Sumner
Welles; Hello, Henry.

H.M.Jr: Sumner, when Mr. Purvis was in here I asked him about this business.

W: Yes.

H.M.Jr: And I gathered what happened was that they sent somebody down here to find out whether there were any duplications in the reports.

W: I see.

H.M.Jr: Whether they were sending the same thing to the same place, and what I suggested was that his man -- he has -- Ballantyne, who is here in Washington, get together with this Colonel and Capt. Collins.

W: Yes.

H.M.Jr: And see that we're not getting duplicate reports but the thing will continue as it was.

W: I see.

H.M.Jr: See?

W: I see.

H.M.Jr: But they were trying to catch up and I -- I really don't think that Purvis knew quite what had happened.

W: I understand.

H.M.Jr: But.....

W: Well, from your standpoint then it's satisfactory.

H.M.Jr: I'm -- told Collins to contact this Colonel, whatever his name is.

W: McMorland.

H.M.Jr: McMorland; get Bellantyne, who is secretary to the Allied Purchasing Mission, and the three of them sit down together and whatever they agree on is all right with me.

W: Fine.

H.M.Jr: I'm sure that's all right with you, isn't it?

W: You bet.

H.M.Jr: But there's.....

W: Anything that's all right with you is all right with me.

H.M.Jr: All right. Now, I gather I'm on the same program with you tonight.

W: Oh, grand. I didn't know that.

H.M.Jr: Yes. So I'll see you.

W: That's fine. That's one of those charming duties which I'd like to evade.

H.M.Jr: Art for art's sake.

W: Just about it. (Laughs)

H.M.Jr: O. K.

W: All right, Henry.

H.M.Jr: Goodbye.

W: Goodbye.

TREASURY DEPARTMENT

200

INTER OFFICE COMMUNICATION

DATE April 25, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Trading in the foreign exchange market was very light today, and the sterling rate moved within a narrow range. The opening rate was 3.50-3/4. A high of 3.51-1/4 was reached in the first hour of trading, and again in mid-afternoon. The closing quotation was 3.51.

Sales of spot sterling by the six reporting banks totaled £ 348,000, from the following sources:

By commercial concerns.....	£ 193,000
By foreign banks (Far East, Europe and South America)...	£ 155,000
Total..	£ 348,000

Purchases of spot sterling amount to £ 258,000, as indicated below:

By commercial concerns.....	£ 72,000
By foreign banks (Europe and Far East).....	£ 186,000
Total..	£ 258,000

The following reporting banks sold cotton bills totaling £ 8,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 5,000 by the Guaranty Trust Company
2,000 by the National City Bank
1,000 by the Irving Trust Company
<u>£ 8,000 Total</u>

The Guaranty Trust Company reported that it had purchased £ 10,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used to pay for shipments of rubber.

The initial advance of the belga rate to .1690 in the late morning was followed by a rapid decline to .1684 on news that the Belgian Cabinet had resigned. The closing rate was .1683-1/2.

The other important currencies closed as follows:

French francs	.0159
Guilders	.5309
Swiss francs	.2242-1/2
Canadian dollars	15-1/4 discount

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The Swedish krona was quoted nominally at .2350 throughout the day.

We purchased the following amounts of gold from the earmarked accounts at the banks indicated:

\$1,000,000 from the Netherlands Bank
700,000 from the Bank of the Colombian Republic
<u>\$1,700,000 Total</u>

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

\$5,111,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank, to be earmarked for account of the Netherlands Bank.
\$24,000 from England, shipped by Samuel Montagu & Co., London, to the Bankers Trust Company, New York, for sale to the U. S. Assay Office.
<u>\$5,135,000 Total</u>

The State Department forwarded to us a cable stating that Samuel Montagu & Co., London, shipped \$460,000 in gold from England to the Irving Trust Company, New York, for sale to the U. S. Assay Office.

According to the Department of Commerce's statement of daily silver exports and imports, a shipment of 1,107,000 ounces of refined silver bullion left New York for Romania on April 25. The silver was consigned by the American Metal Co. of Canada, Ltd., Toronto, Canada, to an unnamed address in Bucharest. The shipment consisted of silver bars whose markings indicated that the metal had originally been imported into this country from Mexico. From a conversation which this office had last September with Mr. George Boncesco, Financial Counselor to the Romanian Legation, it appears likely that the silver now being exported will be used by the Romanian Government for coinage purposes. Mr. Boncesco at that time informed us that the Romanian Minister of Finance had ordered him to arrange the purchase of 640,000 ounces of silver for minting purposes, and we discussed with him the method used for purchasing silver in the New York market.

The Commerce Department's statement also revealed that a shipment of 416,000 ounces of refined silver bullion arrived in New York yesterday from London, England. The details of this importation were similar to those of the shipment reported by us last Saturday: the silver was consigned to the Irvington Smelting and Refining Works and, in all probability, payment for the metal was effected in sterling purchased at the open market rate.

The Bombay spot silver quotation advanced the equivalent of 3/8¢ to 41.37¢.

Spot silver in London was fixed at 20-25/16d, off 1/16d. The forward quotation was unchanged at 20-7/8d. The U. S. equivalents were 33.06¢ and 32.68¢.

Gold and silver'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¢.

CONFIDENTIAL

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We made six purchases of silver totaling 373,000 ounces under the Silver Purchase Act. Of this amount, 44,000 ounces represented a sale from inventory, and the remaining 329,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 90,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

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

CONFIDENTIAL

STRICTLY CONFIDENTIAL

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
April				
15	12,120	532,053	N11	N11
16	11,420	431,605	N11	N11
17	12,054	629,404	N11	N11
18	12,990	380,087	N11	N11
19	17,826	463,822	6,000	4,687
20	100	8,818	N11	N11
TOTAL FOR WEEK	66,510	2,445,789	6,000	4,687
Sales from February 22 to April 13, incl.	<u>926,732</u>	<u>29,459,764</u>	<u>N11</u>	<u>N11</u>
TOTAL FEBRUARY 22 to APRIL 20, INCL.	993,242	31,905,553	6,000	4,687

Mr. Gifford received a cablegram on April 18 to the effect that \$3,500,000 of non-vested securities had been sold the preceding week (that is, the week ended April 14.)

J. M. J.

JR

PLAIN

London

Dated April 25, 1940

Rec'd 12:50 p.m.

Secretary of State,
Washington.

1055, April 25.

FOR TREASURY FROM BUTTERWORTH.

Keynes joined issue with Simon in a long letter published in today's TIMES. He cites as the first outstanding feature of the budget: "Simon's assumption that a failure of the civilian department to increase our war output will protect him from the severity of the financial problem not merely at the present time but for a full year to come". He advocates the spending of pounds 500 million more than the present estimate "before our war effort in relation to our resources would begin to approach the effort either of Germany or France".

Keynes characterizes the second feature of the budget that "Sir John Simon has not disclosed any serious attempt to solve even the limited problem which the spending departments have set him", and he termed as "optimistic" the reliance on the adequacy of voluntary saving. He added:

"Sir

-2- #1055, April 25, from London.

"Sir John Simon's remarks on my proposal for deferred pay need no comment from me at this stage. Sooner or later he has to choose between (1) comprehensive inflation; (2) the fixing of wages and a limited inflation; (3) shop shortages and comprehensive rationing; (4) a tax on wages; and (5) deferred pay. None of these expedients is free from objection. It is not useful or interesting to defend one of them except against an alternative. The alternative which Sir John Simon prefers he is keeping for the present to himself."

RECEIVED

EPD

12

GRAY

Milan

Dated April 25, 1940

Rec'd 1:45 p. m.

Secretary of State,

Washington

14, April 25, 5 p. m.

Referring to Department's telegram of April 14 and 24. Today's closing prices of stocks listed in Department's telegram of April 24 in order mentioned are as follows:

201. 75; 345; 509; not listed; 972; 208. 75; 1668; 64. 75; 233. Volume 75125.

All quotations rather apparently due speculation and proportionate additional taxes.

SHOLES

HFD

April 25, 1940

Mr. Pele

Mr. Cushman

Will you please send the following message:

AMERICAN LEGATION, STOCKHOLM.

The Secretary of the Treasury has asked that the Minister be informed that the information contained in cablegram #510 of April 18 has been found most useful by the Treasury and that further messages of this type would be highly appreciated."

B.M.R.

RECEIVED
APR 25 1940

HSM

TELEGRAM SENT

GRAY

April 25, 1940

5 p. m.

AMERICAN LEGATION

STOCKHOLM

110.

The Secretary of the Treasury has asked that the Minister be informed that the information contained in cablegram No. 310 of April 18 has been found most useful by the Treasury and that further messages of this type would be highly appreciated.

HULL
(FL)

EA:HF:MEG

April 25, 1940

Mr. Feis

Mr. Cushman

Will you kindly send a cablegram along the following lines:
"AMERICAN LEGATION, HELSINKI."

The Secretary of the Treasury has complimented highly
Minister Schoenfeld's cablegram #191 of April 13 because of the
important information contained therein and has noted with pleasure
that a further message of this type #204 of April 19 has also been
received."



RECEIVED
4.25.40

BSM

TELEGRAM SENT

GRAY

April 25, 1940

5 p. m.

AMERICAN LEGATION

HELSINKI

126.

The Secretary of the Treasury has complimented highly Minister Schoenfeld's cablegram No. 191 of April 13 because of the important information contained therein and has noted with pleasure that a further message of this type, No. 204 of April 19, has also been received.

HULL
(FL)

EL:HF:JES

REPORT
 OF
 SPECIAL COMMISSION
 FOR THE INVESTIGATION OF THE
 DESTRUCTION OF THE AMERICAN BOMBERS
 OF THE
 NATIONAL BOARD OF AIRCRAFT INVESTIGATION, INC.
 NEW YORK, NEW YORK
 APRIL 25, 1947.

FOREIGN TRADE AND CUSTOMS - INSIDE AND OUT

In the early part of the Nineteenth Century, the famous historian, George Bancroft, who was Collector of the Port of Boston, appointed as measurer in the Boston Customhouse that distinguished man of letters Nathaniel Hawthorne. Shortly after his appointment, Hawthorne, in writing to his friend Longfellow, remarked somewhat gaily: "I have no reason to doubt my capacity to fulfill the duties, for I don't know what they are." When I was asked to assume the Commissionership of Customs, I think perhaps my views coincided somewhat with those of Mr. Hawthorne.

The allusion to a Commissioner of Customs dates back to the days of the Roman Empire. If any of you importers have ever read the Bible, you would know that we find customs mentioned in both the Old and the New Testaments. For example, we find a reference to an occasion when Jesus called Saint Matthew from "the receipt of customs" where he was apparently doing business as a collector of customs. Saint Paul, in addressing the Romans, gave them some advice which I believe would be well for you importers to heed, namely, that they should "render customs to whom customs is due."

In more modern times we find on the manifest of the ship "New York from London in April, 1790," one item of which is for two cases, marked "G. W.", from W. Welsh and Son, and consigned to none other than George Washington. The records do not indicate that Washington filed a protest, and it is to be assumed that duties thereon were paid in full.

The first vessel to arrive at the port of New York under our first Customs Law (that of 1789) was the Brigantine *PERCIS*, James Weeks, Master, from Leghorn, with a miscellaneous cargo. She arrived August 5, 1789, and was consigned to William Seton, who paid \$774.71 in duties.

- 2 -

Whether the duties were paid in gold, in Al Smith currency, or the 59¢ dollar is not disclosed.

Most of you know that until September of last year I was an official of the United States Lines and in that capacity I came into close contact with importers and their customs problems. I was fully able to appreciate the customs difficulties encountered by importers and to sympathize fully with importers in those difficulties. For the past eight months as Commissioner of Customs I have been in a position to familiarize myself and to understand the other side of the picture. Not that I have lost my perspective in so far as my sympathy with the difficulties of the importers is concerned, but I am now in a better position to understand the intricacies of customs laws which give rise to the difficulties encountered not only by importers but also by customs officers.

We have some 8500 employees in the Customs Service, whose job it is not only to handle the enormous volume of import business, but also to act as watchdogs at every port of entry on both the East and West Coasts for smuggling and the prevention of the entry of narcotics and the almost superhuman effort of guarding the southern boundary of the United States and Mexico and the more than 3000 miles of frontier of Canada, from the northernmost point of Maine to the Pacific Ocean, as well as Alaska, Hawaii and the Virgin Islands. When you consider that articles ranging from safety pins, scientific instruments and machinery to diamonds, antiques and clothing are constantly being imported, you can get some idea of the wide variety of problems which confront customs officers in the performance of their duties and the wide knowledge that they must have of the customs laws, regulations, and decisions of the customs courts. During the first

- 3 -

year a federal tariff law was in effect -- and, by the way, this was the second law which the First Congress of the United States passed -- customs receipts amounted to slightly more than two million dollars. For the fiscal year 1929, the total customs receipts were approximately \$602,000,000. Last year the receipts were approximately \$320,000,000.

After giving considerable thought to the problems arising between importers and customs authorities, and after considering many cases which have come before me during the past eight months as Commissioner of Customs, I have reached the conclusion that most of the importers' customs difficulties arise by reason of the fact that the importers fail to make the proper effort to acquaint themselves with the customs requirements in bringing merchandise into this country. Businessmen in general, and importers in particular, have little patience with so-called "Government red tape", but if you gentlemen were in a position, as I have been during the past eight months, to learn the reasons for the requirement of the various forms and information which are required in connection with the entry of merchandise, you would readily appreciate that from the Government's standpoint all this information and all these forms are necessary to enable Government officers to properly administer the tariff laws enacted by Congress.

Surely, when you place orders for merchandise abroad, you concern yourself not only with the purchase price, but with freight rates, packing charges, cartage, marine insurance and other cost items, and most certainly one of the essential items of cost would be your customs duties, and it would seem to me the policy of wisdom to keep conversant and well abreast of the customs regulations affecting your particular problem.

- 4 -

I would feel my presence here as well rewarded if only I could impress on you the absolute necessity for your own protection to furnish the Government with all the required information when making an entry of imported merchandise. The disclosure of full and complete information at the time of entry will normally avoid difficulties in unusual cases. When all of the information is disclosed, the customs authorities will be able to help you in finding a solution to any difficulty you may have in complying with the legal requirements for entering merchandise. Let me illustrate by a case which came to my attention at the Bureau recently:

A South American shipper consigned certain merchandise to a United States importer and instead of inserting a value which was equal to the market value of the merchandise, or the value which the shipper was willing to receive as is required by section 481 of the Tariff Act, the shipper inserted a value in the consular invoice which represented a higher price that he hoped to be able to induce the United States importer to pay. The United States importer adopted the consular invoice value in making the entry and paid duties on the basis of that value. Subsequently a price was agreed upon between the shipper and the importer which was less than the entered value but it was then too late for the importer to amend the entry, with the result that he paid more duty than he would have had the full facts attendant upon the transaction been disclosed at the time the entry was made. To avoid this situation the shipper decided that in future shipments he would value the merchandise at less than the market value, or the price that he was willing to receive for the merchandise. In entering future shipments the importer adopted the consular invoice value, with the result that the merchandise was seized for having been falsely undervalued and the importer

- 5 -

was obliged to pay additional duties by reason of the undervaluation. Had the importer made a full disclosure of the nature of the transaction and asked the appraiser for information as to value, he could have avoided in the first entry the payment of the excessive amount of duties which were collected by reason of the overvaluation, and in the later entry could have avoided the payment of the additional duties, as well as the seizure of the merchandise which resulted from the undervaluation.

The full disclosure of all the circumstances of the transaction immediately eliminates any question of an intention on the part of the importer to defraud the revenue and therefore if the entry is subsequently questioned for any reason, the Bureau will be inclined to be as lenient as possible in dealing with the case.

If you ever get out of patience with customs requirements, as I am sure you do, I ask that you bear in mind that customs officers, including the Commissioner of Customs, do not make customs laws. It is their job merely to enforce the laws enacted by Congress. If the laws enacted by Congress prove unduly burdensome to importers, the way to remedy the situation is not by appealing to the Commissioner of Customs or customs officers for aid, but rather by appealing to Congress for a change in the law. Now I am very well aware that an appeal to Congress after a law has been enacted to have a change made is a slow and cumbersome solution and one whose success is doubtful, but you should remember that before a tariff act is enacted, it has been given study by the Ways and Means Committee of the House of Representatives and by the Senate Finance Committee and has been the subject of public hearings. If importers would get to realize the importance of these public hearings from their standpoint, I am certain that

they would find less cause for complaint about the tariff laws, since it is at these hearings alone that Congress is able to learn of the evil consequences from an importer's standpoint that will flow from any particular legislation that may be under consideration. Certain burdens necessarily flow from tariff or other revenue-producing legislation. The obvious burden of course is the fact that we all have to pay this revenue, but I think that we must accept that as a necessary burden.

From the time that the First Congress met in 1789, it was recognized that tariff legislation was necessary and after much debate and after heated opposition based on the argument that the primary reason for breaking away from England was to avoid the payment of duties and taxes, the Congress enacted the first tariff act which became law on July 4, 1789. From that day to this, importers have been obliged to bear the necessary burden of customs duties. It sometimes occurs, however, that unnecessary burdens creep into tariff legislation which could readily have been avoided had there been adequate representations to the Congressional Committee considering the legislation by the persons who are affected by the legislation and who would be the ones to bear the unnecessary burdens of the legislation. My advice then to you gentlemen is to follow carefully all the tariff legislation that is introduced into Congress. Follow its progress in committees, both in the House and in the Senate, and be present or have representatives present who will bring to the attention of the Committees any inequities which you think would result from the adoption of the legislation under consideration.

Of course, by attending these Congressional hearings you will not

passed in making Congress into something else. The prophet here said: "It shall not be lawful to impose toll, tribute, or custom upon the priests and Levites, Singers or Ministers of this House of God". I am sure that you would not be able to talk any Congressional Committee into writing such a law in the statute books of the United States whereby it would be made unlawful to impose toll, tribute, or custom not only upon the priests, Levites, Singers and Ministers of the House of God, but also upon importers. But certain things can definitely be accomplished, as I have said, by the proper presentation of the importers' point of view in connection with tariff acts under consideration. The Bureau of Customs heartily welcomes the presentation of such views. After all, we are interested in seeing to it that tariff laws are enacted that will function smoothly. There is no desire on the part of the Bureau of Customs to have laws enacted which will be easily workshopped or will make for needless controversy.

As an example of the Bureau's desire to avoid unnecessarily burdening importers, let me call to your attention that in 1933 the Bureau recommended to the 73rd Congress certain changes in the tariff law which were subsequently enacted in the Customs Administration Act of 1933. Included in the Customs Administration Act was the elimination of the 10% additional duty previously imposed for failure to mark goods properly to show their country of origin, provided the goods were subsequently marked properly under customs supervision. The subsequent marking is now permitted even though the goods have been released for customs custody. Prior to the enactment of the Customs Administration Act of 1933, goods not properly

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merchandise were subject to a 10% additional duty unless exported, and had to be packed before leaving customs custody.

In addition to making a full disclosure of information at the time of entry and to keeping a weather eye on tariff legislation, another way for importers to avoid customs difficulties is to exercise extreme caution in the selection of customs brokers. Of course it is wholly immaterial to the Bureau whether or not importers choose to employ customs brokers. But, when customs brokers are employed by importers, they become part of the importer's business and importers ought to exercise as much care in their selection as they do in the selection and purchase of the imported merchandise. As you gentlemen know, customs penalties are frequently very high and inattention or incompetency on the part of a customs broker may have very dire consequences in the way of penalties for the importer whom he represents. An inattentive or incompetent customs broker may be the primary cause of the failure of an importer to obtain the payment of a drawback claim. An inattentive or incompetent broker may enter merchandise under an erroneous classification or may fail to challenge an erroneous classification, with the result that the importer may become involved in a demand for rebate or other difficulty and conceivably might be obliged to pay some duties that are legally due. It is essential then that importers investigate the customs broker that they propose to employ and exercise extreme care in choosing such broker. Once importers have chosen a customs broker, it is advisable for them to consult with the broker at frequent intervals with respect to their importations, since it is only by such frequent consultation that they will

be certain that the broker is in possession of all the documents and information that he needs to enter their merchandise properly or to represent them properly in any other dealings which the broker may have on their behalf with customs authorities. Not only should importers consult with their customs brokers with respect to their importations, but they should feel free to consult directly with customs officers who are always ready and willing to be of whatever assistance possible.

When an importer does get into customs difficulties and he considers these difficulties sufficiently serious to warrant the employment of an attorney, he should exercise extreme care in the selection of an attorney who will adequately represent his interests.

Importers should not hesitate either with or without counsel to call at the collector's office or at the Bureau and discuss their cases and whether the case involves a penalty for the infraction of a customs law or a claim for a refund of duties, or drawback, or a dispute as to classification or any other customs controversy, I believe that they will find a universal disposition on the part of customs authorities to settle the matter without resorting to the courts and protracted litigation. Of course, when a case comes before the Bureau and it involves an infraction of the customs laws, the damage is already done and then it usually becomes a question from the importers' standpoint of trying to settle such difficulties without too great an expenditure in the way of penalties. I wish to state frankly that when differences arise between importers and the Bureau as to the interpretation of customs laws or as to the settlement of cases in which penalties have been incurred, it has been my aim and it will continue to be my aim to avoid litigation and to settle such differences amicably and equitably.

However, as an administrative officer I have only administrative authority and there is a definite limit to the extent to which I am able to go in settling such difficulties.

Under section 618 of the tariff act, the Secretary of the Treasury has authority to remit or mitigate any fine, penalty, or forfeiture incurred under the customs laws, if such fine, penalty, or forfeiture is incurred either without wilful negligence, or without intent to defraud the revenue or violate the law, or under such mitigating circumstances as would warrant the granting of relief. Section 617 of the tariff act authorizes the Secretary of the Treasury to compromise claims arising under the customs laws. Section 623 of the tariff act authorizes the cancellation of bonds or other securities taken for the protection of the revenue under such terms as the Secretary deems sufficient.

The Secretary of the Treasury has delegated to the Commissioner of Customs much of the authority to grant relief under sections 618 and 623 of the tariff act. As I said before, it has been and will continue to be my aim to settle cases under my jurisdiction involving fines, penalties or forfeitures incurred under the customs laws equitably and amicably with a view to avoiding all injustice and unnecessary litigation while rendering my first duty to the Government. In this connection I might say that my past experience in the shipping business and my former close association with importers now stand me in good stead in weighing the merits of the circumstances called to my attention by importers in customs cases. I must, of course, give equal consideration to the Government's interest in the protection of the revenue and in the assessment of appropriate penalties for violations of the customs laws.

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In closing, and in the hope that some, if not all, of you follow the advice and tenets of the Saints, let me again repeat the advice given by Saint Paul, namely, "render customs to whom customs is due", and maybe by following this advice most of your customs difficulties will be resolved, or certainly greatly minimized.

April 25, 1940

Dear Henry:

Thanks for your letter of April 23rd with the enclosure. I read with great interest this weekly summary which is furnished to you by your Foreign Agricultural Service.

I would appreciate very much receiving this each week as it will be very helpful to me.

Yours sincerely,

Heady

Honorable Henry A. Wallace,
Secretary of Agriculture.

By Manager // ²⁵ *Hand*

Copy to Mr. Smith

Incoming taken to the farm with
the Secretary the weekend of
April 27th.

224

0 I am sending
copies of this
week's report to
Poulton, White,
Haas



DEPARTMENT OF AGRICULTURE
WASHINGTON

*ack'd receipt
4/25/40*

April 23, 1940

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury

Dear Henry:

Every Thursday our Office of Foreign Agricultural Relations prepares for me a memorandum like the enclosed. Also our commodity people prepare for me once a week an analysis similar to the one enclosed. I shall be happy to hand you this material each week at Cabinet meeting.

Sincerely yours,

H A Wallace

Enclosures

Secretary

April 23, 1940

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Dear Henry:

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Sincerely yours,

Enclosures

Secretary

HOGS

Hog prices advanced moderately last week and have risen further this week. On April 4 the Chicago top was \$5.15, the lowest since the summer of 1934. A week later, April 11, the top was \$5.40 and on April 18 it was \$5.90, the highest since mid-January. For the week ended April 11 slaughter supplies were larger than in the preceding week, but market receipts have been smaller this week than last. The reasons for recent rise are about as uncertain as the reasons for the drop in prices from mid-January to early April, when market supplies were decreasing. It is possible that recent occupation of Denmark by Germany has given rise to considerable bullish sentiment for pork exports.

Lard prices also have risen sharply in the past 2 weeks. The May lard future at Chicago closed at \$6.40 on April 17. This compares with the recent low of \$5.57 on March 27. Fresh pork prices advanced from about \$11 to \$15 per 100 pounds last week.

Storage stocks of lard increased about 13 million pounds from March 1 to April 1. Total holdings on April 1 were 269 million pounds, the largest on record. On April 1 last year, lard stocks amounted to 129 million pounds. Stocks of pork on April 1, totaling 654 million pounds, were only a little larger than on March 1, but they were 25 percent greater than on April 1 last year.

Since last December the Federal Surplus Commodities Corporation has purchased for relief distribution about 34.7 million pounds of lard and 5.8 million pounds of dry salt fat backs. The Federal Surplus Commodities Corporation recently announced invitations for bids on hams, picnic and bacon.

The total dressed weight of livestock slaughter under Federal inspection in the first quarter of 1940 was about 17 percent larger than in the first quarter of last year, and it was the second largest for the period in the past 20 years.

WHEAT

For the week ended April 15, 1940

Domestic wheat prices on April 15 were sharply higher than a week earlier. May futures at Chicago closed at \$1.12, which was 4-1/2 cents higher than a week earlier, and the highest since 1937. Factors which contributed to this rise were the intensified war situation, pessimistic crop news from the domestic wheat belt and abroad, large Canadian export sales, and inquiry from Portugal for 800,000 bushels of United States wheat.

The export indemnity that would be required to move round lots of wheat to Europe on neutral ships from the Gulf was about 2 cents higher than on April 11, and from the Pacific Coast about unchanged from April 11, according to the Federal Surplus Commodities Corporation. On April 15 it would require an indemnity of 26 to 27 cents per bushel from the Gulf, and 29 to 29-1/2 cents per bushel from the Pacific Coast. These figures represent the margin that domestic port prices are above export parity.

Canadian wheat on the basis of present values, c.i.f. Buffalo, duty paid, is about 9-1/2 cents per bushel higher than United States spring wheat of approximately the same quality at Buffalo. A week ago this spread was 11-1/2 cents per bushel.

Export sales for the week ended April 15 totaled about 150,000 bushels, making a total of wheat and flour for the season to April 17 of 30.9 million bushels.

COTTON

Domestic prices for spot cotton have moved in a very narrow range this week, the average price for middling 7/8 inch at the 10 designated markets today of 10.46 being only 2 points above the quotation of 10.44 a week ago; the price was 8.53 cents on April 16, 1939. In contrast, the distant futures quotations based on the 1940 crop have been strong on reports of late crop preparations, and show gains of over twenty points since last Thursday.

Liverpool prices have remained steady, though rumors have been current in the trade that less freight space may be allocated for shipment of American cotton to England after May 1. Since February 1, space for 100,000 bales each month has been allocated, but it is reported this may be reduced to 50,000 bales monthly on May 1.

Mill consumption in the United States during March amounted to 626,000 bales, which compares with 663,000 bales in February and 650,000 bales in March last year. The average daily rate of cotton consumption has declined steadily since December, but mill activity increased slightly last week. The sharp advance in unfinished goods sales by mills, which occurred the first two weeks in April, has subsided, but the trade seems fairly optimistic that no substantial mill curtailment is in prospect for the immediate future.

Textile activity has declined somewhat in Great Britain, and that country has issued decrees restricting domestic use of cotton and other textiles, in order to facilitate larger exports. American exporters are experiencing difficulty in obtaining payment for cotton shipped to Japan under the "link" system. Italy continues to send best reports of textile activity, with mills reported to be running at capacity. Chinese mill activity has increased, as yarn prices advanced much faster than raw cotton, which has improved mill margins. Much of this stimulus has resulted from speculative buying because of further depreciation of Chinese currency.

Cotton exports last week were only half as large as the week previous, and 27 percent higher than the same week a year ago. Exports of cotton from August 1 to April 17 total 5,689,000, which compares with only 2,919,000 bales in the same period last year. Exports to Great Britain amounts for over 1-3/4 million bales, or about one-third of our total exports. It has been announced that British cotton regulations are now equal to requirements for eight months, which lends strength to the belief that freight space allocated for cotton may be reduced.

OFFICE OF FOREIGN ECONOMIC RELATIONS

April 18, 1940

FOR CABINET MEMORANDUM
 SIGNIFICANT FOREIGN DEVELOPMENTS
 (Received April 12 to April 18, 1940)

BRITISH EMERGENCY: The Food Ministry issued an order permitting the sale and domestic manufacture under license of bacon containing borax. Such bacon may be imported only by the Food Ministry. The Ministry advised that no decision had been made as yet regarding the permitted borax content but that it had in mind only a "slight dusting" of the vulnerable parts.

The Board of Trade issued an order, effective April 12, prohibiting the exportation except under license of all goods from the United Kingdom to ports on the Baltic and Arctic Seas (including those of Denmark, Estonia, Finland, Latvia, Lithuania, Norway, Sweden and Russia). All licenses for exports to these destinations have been revoked. The Order does not apply to Iceland, Greenland and the Faroe Islands.

The President of the Board of Trade announced in Parliament on April 15 the introduction of a rationing scheme restricting the sale for home market consumption of cotton, rayon and linen piecegoods and manufactures. The restriction will apply both to sales by wholesalers to retailers and to purchases by wholesalers from manufacturers. The order prohibits the supplying by any manufacturer or wholesaler for the home market during the period April 15 to September 30, 1940, of any piecegoods or manufactures from such piecegoods exceeding 75 percent in the case of cotton and rayon, and 25 percent in the case of linen, of the quantity of corresponding goods supplied in the period April 1 to September 30, 1939. The control is essentially through wholesalers who must register with the Board of Trade.

There are no restrictions on supplying cotton, rayon and linen goods for the export market or for fulfilling government contracts. The primary purpose of the scheme is to restrict sales for the home market in order to enable mills to meet adequately the requirements of the military services and of the export market. No reduction is contemplated in the total amount of these goods to be manufactured in the United Kingdom. It was also emphasized that no diminution in the requirements of American raw cotton is contemplated as a result of the scheme. The President of the Board of Trade was particularly anxious to reassure American interests on this point. The scheme is in part intended as a trial. If it works out successfully a similar rationing scheme will be extended to other commodity groups, probably in the near future.

DETAILS: The Canadian Bacon Board met on April 12 to consider a British query as to how much more bacon Canada could ship if called upon to do so. Canada's reply took into consideration the possibility of increased imports from the United States and indicated that it was prepared to meet Britain's call for larger shipments. It was pointed out that total pork in cold store in Canada on April 1 reached 61,000,000 pounds as compared with 35,000,000 on the same date last year. Despite the heavy supplies on hand the Canadian Bacon Board has instructed packers to resume storing for its account, enabling an increased export demand. As a result hog prices have shown a steady upward trend.

Counteracting the implications in the above despatch the Canadian Bacon Board announced on April 17 that despite Danish developments additional bacon shipments from Canada are not now and probably would not be required by the United Kingdom in the near future. The reasons given are as follows:

- (1) Excessive stocks in the United Kingdom must be reduced before warm weather arrives.
- (2) British and Irish production continues unexpectedly large.
- (3) Refrigerated shipping space is scarce.
- (4) The United Kingdom intends to reduce its bacon consumption and thereby conserve foreign exchange.

The foregoing facts were made clear and definite by an exchange of cables between Canada and the United Kingdom in the past few days. The Bacon Board states that Canada has sufficient pork in storage to meet all foreseeable requirements during any deficiency of hog marketing next summer, and that lower prices for both bacon and hogs in Canada had to be expected in view of the current supply situation.

- 3 -

DENMARK: An official notice to importers and exporters dated April 14 cancelled all licenses which had authorized imports from Norway and Denmark. Such imports, however, will be permitted if the goods were shipped to France before April 9. All exports and reexports to those countries are also prohibited and all export licenses are cancelled. The new regulations do not apply to trade relations with Iceland, Faroe Islands and Greenland.

RUSSIA: On the 10th of April Moscow prices for practically all foodstuffs, except bread, were increased from 25 to 70 percent above the prices fixed on January 24. It is reported that the food situation in the provinces is becoming more critical. Reports indicate that in Kharkov purchases of bread are limited to one-half a pound per consumer per day and that in Siberia purchases are limited to even smaller amounts. It is also reported that the usual vacations for deserving workers during the summer at Georgian and Black Sea resorts are either being cancelled or limited in expectation of food shortages of a serious nature at those places. An additional intimation of the concern of the Russian officials regarding foodstuffs may be found in the changes made recently in the regulations concerning grain deliveries reported in this memorandum on April 12.

SWEDEN: Official and trade contacts of the American Embassy in Stockholm reported on April 12 that there were ample supplies on hand of animal fats; grains; sugar; meat; and miscellaneous foodstuffs, except fruit. The supply of leaf tobacco, basic chemicals, fertilizers and feedstuffs is sufficient to last a year or longer. Stocks of petroleum products were believed to be greater than on the first of September, but it was expected that rigid restrictions on consumption would be imposed shortly. There is an acute shortage of coal and for the present a complete interruption of imports. Supplies of rubber, sulphur and copper are believed to be sufficient for several months.

All rail communication between Sweden and Narvik on the west coast of Norway was reported broken. The Swedish port of Lulea on the Baltic will probably be icebound until mid-June. Retail buying continues active in Sweden. Industries manufacturing for domestic consumption are active except those affected by the coal shortage. Export industries have heavy inventories. Many pulp and sawmills in north Sweden are closing down. The stock market is establishing new lows. All coal and coke stocks have been placed under Government control. Banks report no alarming withdrawals of funds except in the south and west of Sweden. Unemployment is increasing and prices are rising. A state price-control board with wide powers has been established with the object of preventing speculative price increases.

The Government on April 16 expropriated all petroleum products except lubricating oil and gasoline in Sweden, or arriving. Strict rationing of those products was instituted. It is probable that lubricating oil and gasoline will be expropriated within a few days. Fears are expressed regarding possible frost damage to the winter wheat crop which sprouted late. The condition of the winter rye crop, however, is believed

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to be about normal. Planting in south Sweden is now one month late and only a few areas have begun to plant. The Government will probably suspend the maximum hours of work law affecting agricultural labor. Hog cholera is reported as diminishing.

ROMANIA: The Romanian Government on April 15 prohibited all exports of wheat except orders already contracted for. It is believed that unfulfilled contracts are small, but no definite information is obtainable. It is estimated that Romania's 1940 wheat crop will only be sufficient to take care of domestic consumption needs owing to the hard winter and late spring, and the smaller plantings caused by precautionary mobilizations. It has been intimated that the Government's motive in prohibiting wheat exports was to protect Romania's food supply from preemptive bidding on the part of belligerents. Indications that Romania may decline to imperil her own economy in order to meet the requirements of Germany were strengthened by the announcement of the export prohibition which was made while negotiations with Germany were going on. Other countries' prospects for obtaining food from Romania during the current year have greatly declined, since the export prohibition list already includes beans, soybeans, barley, and sunflower seed. Moreover, corn planting has been so delayed by the cold weather that corn exports may also be placed on the prohibited list.

ConfidentialPARAPHRASE

A telegram of April 25, 1940, from the American to the American Consulate General at Shanghai Ambassador at Chungking/reads substantially as follows:

According to information received by the American Ambassador from the Minister of Finance, the general manager of banking department of Central Bank is being instructed to proceed to Shanghai for the purpose of organizing an unofficial consultative committee. This committee is to comprise representatives of the Chase Bank, the National City Bank, three principal British banks and the French bank. It is the desire of the Minister of Finance that this information be conveyed in confidence to the American banks and that they be asked to support the committee's work. The Minister of Finance desires that this information be considered as confidential and he asks specifically that the fact that the committee has been formed and information in regard to its work be held confidential. The American Ambassador requests that the American consular officer in charge at Shanghai remember that the Chinese Ministry of Finance is taking the initiative in this matter and that, according to the Minister of Finance, the committee is being formed in the interest of that consultation which was
said

CONFIDENTIAL

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said by American bankers to be desirable. The matter of conveying this information confidentially to American banks and holding it confidential is left to the discretion of the American consular officer.



DEPARTMENT OF AGRICULTURE
WASHINGTON

April 25, 1940.

The President

The White House

Dear Mr. President:

You may recall that at a Cabinet meeting when you and Henry Morgenthau and I were talking about gold purchase, I suggested that the Republicans have left a very vulnerable opening by trying to close every door to the sale of this country's products abroad. You asked me to put in writing what I was saying at that time. I am not sure that this letter will suit your purposes but I offer it as a comment on the present political scene.

In the following discussion I do not mean to suggest that the United States should have as a primary concern the getting of as much as possible of the war-time market for our producers. On the contrary, from an economic standpoint the desirable thing is to prevent as much as possible that distortion of our economy which would come from changing our production and marketing to meet a strictly war-time demand. But there are problems of shifts in demand as between products; there is the possibility of loss of all or a part of markets which we have had if the wrong policies should be adopted; and there is the big problem of working toward a post-war situation in which we have a minimum of loss to adjust and a maximum of constructive trade potentialities to build on.

Foreigners can not buy our products except with dollars. They can for a time liquidate their investments in this country and thus change back to dollars assets which they acquired with dollars in the first place. But, beyond the use of these temporary assets, there are only three ways by which they can obtain new dollar exchange: (1) By selling their goods and services to us; (2) through credit extended by this country; (3) by sending us their gold or silver.

The Republicans are opposed to each of these three possible methods of placing dollars in the hands of our customers abroad. They were solidly opposed to extending the reciprocal trade agreements act, so they are against letting in imports. In contrast to their earlier complacency toward unwise foreign loans during the Twenties, they are

now no longer in favor of making foreign loans. Judged by statements by various Republican Senators and by their attitude last June toward extending the Presidential power to devalue the dollar, the Republicans are building up public sentiment against the purchase of gold.

Their policies, in other words, would inevitably destroy a large part of our export trade. The great loss in foreign markets would, in turn, necessitate far-reaching readjustments in our productive plant, both industrial and agricultural. In the case of industry this would mean an intensification of the already serious problem of unemployment. In the case of agriculture it would mean drastic readjustment of production in line with the lower level of demand. When the Republicans claim to be for more exports and for free enterprise and yet oppose all of the ways in which we can keep foreign markets and avoid production control they are guilty again of the typical blind contradictions for which their party is famous. A large section of American business enterprise and American agriculture would be severely damaged by any fulfillment of the Republican custom of riding a horse in all directions at the same time.

But the damage to business and agriculture would not be all the harm from a Republican fulfillment. The basic decency of a humanitarian approach to world affairs are affronted. That they are saying, perhaps without knowing it, is that they would not favor any policy that would give the people of our own and foreign countries an opportunity to share in both the work and the results of agricultural and industrial production. Helpless human beings, who are caught in misery by trade restrictions, need the food, clothing, and other products which could be produced and sold in such abundance. If some of our Republican friends could be faced with a picture of children all over the world perpetually hungry, I doubt whether the American public would agree wholeheartedly with their opposition to efforts designed to provide food for those children. Certainly I know the American farmer would prefer to see a world in which the products of his soil could be transformed increasingly into worldwide distribution of food and clothing, and in which he himself could share in the benefits of abundant industrial production.

In contrast to the economic child play by the Republicans, you can point for the past and present to a consistent international policy of trying to maintain both industrial and agricultural exports in a world that has been disintegrating. Your international policy on both the economic and political fronts has been of one piece and has been aimed at preserving our fair share of the world market without changing any other nation that was willing to join in a decent relationship with the family of nations.

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It seems to me that your most important immediate policy for enabling foreign powers to buy our goods is the gold purchase. Standing ready to purchase substantial quantities of gold would enable us to carry on for the present. It is realized, of course, that we can not indefinitely maintain our foreign trade on the basis of imports of gold. But, such purchases have the advantage of serving as a bridge during the period in which the American public is being educated to the desirability of imports greatly in excess of exports or the loaning of money in large quantity to those countries from which eventually we shall be willing to accept greatly increased imports. Any cessation or hint of cessation of gold purchases would cause a worldwide panic, and would have such extreme effects on the British Empire that the Allies would lose the war.

Furthermore, your international policy, in contrast to the confused statements by the Republicans, can be carried consistently into the future so that you can offer not only accomplishments of the past and present but also assurance for the future. I have been thinking some about the future, particularly the state of the world and our place in it when the war is over, and I pass on this observation for whatever it is worth.

Any settlement after this war will be affected by both economic and psychological factors. On the economic front it is to be hoped that the plan for peace will be suggested by the intellectual leadership of the western world acting under a sense of responsibility to human welfare. The plan will probably have to be built around

(1) Continued and intensified efforts to facilitate the flow of goods and services among countries. This would mean basically a continuation of the reciprocal trade agreements program adapted, however, to conditions arising out of the war and the post-war situation. One such modification might be in the direction of increased use of the technique of limiting duty reductions to specified quantities. Through such a technique it probably would be possible to make greater reductions in our own tariffs, in the face of depreciating currencies and unsettled conditions abroad, than would otherwise be the case. In this connection the "have not" countries should be assured of raw materials essential to their industries through trade arrangements rather than by a new division of colonies which would perpetuate and intensify the evils of the imperialistic system.

(2) Special world agreements to protect the producers and consumers of certain raw materials such as cotton and wheat, which are chronically produced in surplus. These agreements would preferably be designed to allocate markets and to increase the sum of production rather than to restrict production. Some sort of international over-normal granary, with each of the main exporting countries prepared

to get a definite supply on the world market year after year for the ends of gradually increasing consumption wherever needed for human welfare, would be needed to stabilize the prices and incomes of the primary world producers and to give greater stability to the entire world economy.

(3) The use of credit to facilitate international trade and the reconstruction of war-stricken countries. This should be accompanied by trade arrangements so that repayment of credits could be possible. The question of an international bank which could itself extend credit on an international scale might be considered, but all consideration of international credit must be accompanied by the willingness of the United States to accept goods and services. It might be worth considering whether such a bank might be set up so as to make returns on a heavy investment in it by the United States clearly dependent upon receipt by the United States of goods produced in countries using the bank's credit. The idea here would be to give our people a vested interest in imports that they would clearly see.

(4) Stabilization of currencies. Various types of regional currencies might come up for consideration.

(5) A reconsideration of the gold policy of the world with a view to assisting the economic recovery of the various countries of the world, including our own.

All of these are in the future and would raise tremendous questions of international economics. For the time being, to repeat, I think a morally and economically feasible way of helping our own country and the world and preserving as much stability in international exchange as possible in a rapidly changing world is to continue purchases of gold.

This general sketch of economic policies which we might consider should be checked with the experts in all the fields involved. I am suggesting them now, not as fully matured conclusions as to positions to be taken, but rather as a general outline of economic policies deserving of fuller exploration. Of course, I realize, as you do, that we can not ignore our domestic problems because of the international problem. The two perhaps go together, and at any rate I have addressed myself here only to the international problem. Whatever place we take in the post-war world will be determined in large part by our domestic condition and our success in overcoming our problems here at home. Recently I was looking over again Thorstein Veblen's book, "The Nature of Peace," written in January, 1917. It is amazing how clearly he saw the problems of peace that would follow the World War. If some State Department New-Dealer had the time to mull over Veblen's proposals in "The Nature of Peace" against the background of the current situation, his comments should be decidedly interesting.

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On the psychological, or political, front it seems to me that the plans devised by specialists in economics will have to be justified by aims which the public will understand. A solution must have the support of the masses of men, and particularly in our own country our own people must be persuaded to engage in world trade which means doing our part as well as expecting other nations to do their part. Perhaps the idea of making it possible for the common people of our own country and the rest of the world to produce and consume more goods and services would be a good aim to justify the economic adjustments necessary to world trade. Our people have always responded to appeals for help from people in other lands who are caught by disaster. If they could be brought to see that the international exchange of goods and services means really the improvement of conditions of life among the common people of the world, including our own people, I believe it would be much easier to accomplish an economic program for international stability. The contradictory proposals and the contradictory record of the Republican party have no promise of alleviating the human distress in the world now or in the future. If the United States is going to be the receiver for a bankrupt world, it is important that the party in power in the United States have some understanding of international conditions and some consistent program for our part.

Respectfully yours,

H A Wallace

Secretary

Tiber Eckhardt, head of the Small Farmer Party in Hungary (the 3rd largest) was in this morning and made the statement that it is only by means of relatively ^{world} free trade that small neutrals can maintain their national entity. He was talking about the "Place."

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 25, 1940

TO Mr. White
 FROM Mr. Wilman
 Subject: Carbon Black

1. Is carbon black essential to a war economy?

Carbon black is not included in available United States Army and Navy listings of strategic, critical, and important raw materials. However, it is an important material in the manufacture of rubber tires. It serves to reinforce rubber, and also to increase the heat-resistance (and thus the durability) of the tires. This use is its chief one, accounting for about 90 percent of the carbon black sold domestically in recent years. Occasionally it is used as a black pigment in printing inks and paints, or as an element in dry-cell batteries; but other materials have been found more suitable for these purposes.

2. Where and how is carbon black produced?

Carbon black is produced in areas where natural gas is plentiful and cheap. The process of manufacture is a relatively simple one, consisting of the mere incomplete combustion of gas. It is estimated that, on the average, 1.5 thousand cubic feet of gas are used in producing one pound of carbon black.

The United States produces most of the world's carbon black. The U. S. S. R. also manufactures it in the Caucasus. No available statistics reflect production in the Soviet Union, but the Department of Commerce knows of at least three recently constructed large carbon black plants in that country.

Commodity specialists know of no production in other oil-producing countries such as Venezuela, Iran, and Iraq.

3. Are there substitutes for carbon black, and how effective, expensive, and accessible are the substitutes?

Carbon made from artificial coal gas can be substituted for natural gas carbon black in all uses, including the rubber tire industry. The substitute can be made in any country that has available coal.

The substitute would be appreciably more expensive than carbon black if artificial gas has to be manufactured and burned.

However, coal-gas black is a by-product in a nitrogen-fixation process which utilizes coal. This process is regarded as a highly practical means of obtaining nitrates for explosives and fertilizers, and makes large quantities of carbon as a by-product. (This process is already in use in the United States

in a California plant.

4. Is the United States assured of a supply of carbon black?

According to commodity specialists of the Tariff Commission and the Bureau of Mines, the United States is by far the world's largest producer of carbon black. Domestic production rose each year from 1932 to 1937, when it reached 511 million pounds. It declined slightly in 1938 to 477 million pounds (see Table I). Specialists in this field, however, state that production recovered in 1939, when it reached or exceeded the 1937 level.

A large part (usually about 40 percent) of the domestically produced article has been exported. Imports have been practically non-existent.

5. Are the Allied belligerents assured of a supply of carbon black or its substitutes?

There is some indication that France and Britain have depended on the United States as a source of carbon black. United States exports to the United Kingdom, Canada, and Australia totalled 63 million pounds in 1936, fluctuating slightly in 1937 and 1938, but rising sharply to 91 million pounds in 1939 (see Table II). Exports to France, since 1936, have fluctuated between 26 and 30 million pounds (29 million in 1939).

There is no indication that these exports have increased since the outbreak of war. In fact, monthly exports to France in the last three months of 1939 were lower than in the previous nine months.

If shipping difficulties should necessitate it, England could manufacture the substitute from coal gas. A supply of suitable material, therefore, appears to be at least as readily available as sufficient quantities of raw rubber, with which carbon black is used.

6. Is Germany assured of a supply of carbon black or its substitutes?

United States exports to Germany in 1936 amounted to 15 million pounds. Exports rose sharply in 1937 to 27 million pounds, declining in 1938 and 1939, when they were 20 million pounds. Commodity specialists feel that the sharp rise in 1937 can be ascribed to military preparations.

Exports to Germany fell drastically following the outbreak of war, dropping to 39 thousand pounds in December, in contrast to monthly exports of from 2 to 4 million pounds in the months preceding the war.

It is possible that the U. S. S. R. will be able to produce a sufficient exportable surplus of carbon black to satisfy German requirements, since there is apparently a plentiful supply of natural gas in the Soviet Union, and the

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Division of Monetary
Research

manufacturing process is a simple one that demands no new and intricate equipment.

If this proves to be impossible, Germany can supply its own needs by producing a substitute carbon from artificial coal gas. The substitute would be satisfactory either in rubber or in the synthetic ("Buna") rubber, currently produced in Germany. Furthermore, Germany may adopt the process of nitrogen-fixation described above, in which case the substitute will be made available as a by-product.

7. Can the final destination of carbon black be controlled?

Although Germany can produce carbon black, it appears that it can do so only at a considerable additional expense. Otherwise it would be difficult to account for the fact that Germany imported in 1939 twenty million pounds from the United States, despite her very great need for conserving foreign exchange.

Although the U.S.S.R. can probably supply Germany with adequate carbon black, she would do so reluctantly or demand something in return. Therefore, it probably is worthwhile to attempt to control the ultimate destination of carbon black.

The difficulty, however, of controlling the ultimate destination would lie in the fact that there are a large number of independent producers in the United States turning out carbon black. In 1938 there were 55 domestic plants operated by 24 producers, chiefly in five states. Further investigation would be needed to determine what the prospects are of getting these producers to cooperate.

Table II. Carbon black: United States exports
to specific countries, 1936-1939

(In millions of pounds)

Country	: 1936	: 1937	: 1938	: 1939
United Kingdom	47	48	44	66
Canada	14	17	14	18
Australia	2	3	3	10
Total - Three Countries	63	68	61	94
France	27	30	26	29
Germany	16	27	24	20
U. S. S. R.	1/	1/	1/	-
Japan	11	12	9	11

Treasury Department, Division of Monetary Research. April 25, 1940.

1/ Less than 10,000 pounds

Source: U. S. Department of Commerce, Foreign Commerce and
Navigation of the United States.

Table I.

Carbon Black: Summary of United States Production,
Domestic Sales, Exports, and Imports, 1936-1939(Quantity: Millions of pounds)
(Value: Millions of Dollars)

	: 1936 :	: 1937 :	: 1938 :	: 1939 :
<u>Production (Quantity and Value)</u>				
Quantity	411	511	477	1/
Value	\$16	\$17	\$12	1/
Unit Value (Dollars per Pound)	\$.039	\$.034	\$.024	1/
<u>Domestic Sales 2/ (Quantity)</u>				
To Rubber Industry	278	270	217	1/
To All Industries	313	305	244	1/
<u>Exports 2/ (Quantity)</u>	155	184	168	204
<u>Imports</u>	2/	2/	2/	2/

Treasury Department, Division of Monetary Research. April 25, 1940.

- 1/ Not available.
 2/ Discrepancy between production and domestic sales plus exports represents changes in stocks.
 3/ Less than 1000 pounds.

Source: Production and domestic Sales: U. S. Department of Interior, Bureau of Mines, Minerals Yearbook, 1939.

Imports and Exports: U. S. Department of Commerce, Foreign Commerce and Navigation of the United States.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 25, 1940.

TO Mr. White
FROM Mr. Ullmann
Subject: Tantalum

1. Is tantalum essential to a war economy?

Tantalum is not included in available United States Army and Navy listings of strategic, critical, and important raw materials. In some of its uses, tantalum is still in an experimental stage. However, it has known qualities that make it valuable in industry.

Tantalum is highly resistant to corrosion by other chemicals, including hydrochloric acid. It is useful therefore in several chemical processes. Laboratory vessels are made of tantalum. Similarly, the apertures ("spinnerets") through which rayon filaments are processed are made of tantalum, since it does not corrode and therefore stain the rayon. It is also used in vacuum tube manufacture. Another use is in tipping high speed cutting tools (tantalum carbide), but other materials have been found preferable for this purpose.

2. Where is tantalum ore (tantalite) produced?

The world's tantalite (tantalum ore) has come chiefly from Western Australia, according to the Bureau of Mines. Deposits have been discovered in the Belgian Congo. Some tantalite is mined in Brazil. Minute quantities of the ore are mined domestically.

3. Are there substitutes for tantalum, and how effective and expensive are the substitutes?

For chemical uses, platinum is as effective as tantalum, with the exception that tantalum is more inert to hydrochloric acid. Porcelain vessels can be used for processes involving hydrochloric acid.

Other metals, notably tungsten, are as good as tantalum in the manufacture of vacuum tubes, and preferable in tipping tools.

According to the Bureau of Mines, tantalum is more expensive than platinum.

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Division of Monetary
Research4. Is the United States assured of a supply of tantalum or its substitutes?

According to commodity specialists, the Fansteel Metallurgical Corporation monopolizes the domestic production of tantalum. The ore is nearly all imported, coming principally from Australia. Imports of the refined metal are negligible.

The United States imported 10 tons of tantalite ore in 1937, 21 tons in 1938, and 28 tons in 1939. 1939 imports were confined to a three month period, April through June.

Commodity specialists know of no United States exports. According to Treasury information, however, tantalum ore valued at \$7,026 was shipped to Vladivostok, Siberia, on the S.S. Norbryn, which sailed on March 1, 1940. This amount would be equivalent to about 6 or 7 thousand pounds of ore, which would produce only a very small quantity of the refined metal.

5. Are the Allied belligerents assured of a supply of tantalum or its substitutes?

Inasmuch as tantalite comes chiefly from Australia, England will be able to obtain tantalum as long as the shipping lanes are open. Canada produces large amounts of platinum, and England's supply of platinum will depend on the same conditions.

6. Is Germany assured of a supply of tantalum or its substitutes?

It is probable that Germany will be able to obtain platinum from the U.S.S.R., which is one of the world's largest producers.

Furthermore, there are materials other than platinum which can be substituted for tantalum in specific uses (e.g., porcelain vessels) and it is likely that Germany will utilize these substitutes.

7. Can the final destination of tantalum be controlled?

Inasmuch as only one concern (The Fansteel Metallurgical Corporation) has (according to the Bureau of Mines) a complete monopoly on the production of tantalum in the United States, it should be easy to arrange contracts similar to that Mr. Purvis believes is being arranged in the marketing of tin. Moreover, the fact that the tantalite ore is imported chiefly from Australia should make the task easier.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 25, 1940.

TO Mr. White
FROM Mr. Ullmann
Subject: Columbium

1. Is columbium essential to a war economy?

Columbium is not included in any available United States Army or Navy listings of strategic, critical, or important raw materials, in spite of the fact that the United States is dependent on imports for a supply of the metal.

Columbium is a metal which prevents inter-granular corrosion of other metals under the extreme heat of welding. It is, therefore, sometimes used in stainless steel to make the steel more weldable. Smaller amounts are used in welding rods for certain metals.

The use of columbium is still somewhat experimental, and does not appear to be essential.

2. Are there substitutes for columbium, and how effective, expensive, and accessible are the substitutes?

Another metal, titanium, is generally used in stainless steels, welding rods, and other metals to increase weldability. Titanium is abundant, as an ingredient of a type of clay found in almost every country. Titanium is extracted by electrolysis, and is occasionally a by-product in the production of aluminum from bauxite. Titanium is less expensive than clay.

The fact that columbium has not been proven superior to titanium may explain the small and declining imports of columbite in the last three years.

3. Where is columbium ore (columbite) produced?

Most of the world's production of columbium is from ore mined in Nigeria, which reported shipments of 707 thousand tons in 1937, and reserves of 10,000 tons. Columbite, with a lower columbium content, is also found in Australia and the Belgian Congo. Brazil also produces some small amounts of Columbite.

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Division of Monetary
Research4. Is the United States assured of a supply of columbium or titanium?

According to commodity specialists, the Electro-Metallurgical Corporation extracts practically all the columbium used in the United States. Some columbite is reported to have been imported from Brazil in 1939. Columbium ore is imported chiefly from Nigeria. Imports of the refined metal are negligible.

The United States imported 461 tons of columbite in 1937, 323 tons in 1938, and 55 tons in 1939. Virtually all the 1939 imports were during the first three months of the year. Commodity specialists know of no United States exports of columbium.

As long as shipping can be continued, the United States can obtain columbite. If a shipping shortage should occur, however, the United States has a generous and adequate supply of titanium.

5. Are the Allied belligerents assured of a supply of columbium or titanium?

The Allies will be able to obtain columbite as long as the shipping lanes are open, since most of the world's supply is produced in the British Empire.

Moreover, continental France has an adequate supply of titanium.

6. Is Germany assured of an adequate supply of columbium or titanium?

Both Germany and the U.S.S.R. have supplies of the types of clay in which titanium is found. It is believed by commodity specialists that Germany's supply is adequate for her needs. If not, however, Germany should be able to obtain titanium clay or metal from the U.S.S.R.

7. Can the final destination of columbium be controlled?

Our information is that one corporation (The Electro Metallurgical Corporation) produces practically all the columbium used in the United States, from ore which is imported chiefly from Nigeria. Although no exports of columbium are known to the commodity specialists, it should be easy to regulate final destination of any exports that may be taking place now.

Inasmuch as Germany and the U.S.S.R. have plentiful supplies of titanium, which, according to our information, is probably both less expensive and at least as good for most uses, further investigation would be called for before deciding that it would be desirable to attempt to control the export of columbium.

The export of columbium already processed into stainless steel and welding rods raises a much broader and more difficult question which we have not yet examined.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 25, 1940.

TO Mr. White
FROM Mr. Ullmann
Subject: Cobalt

1. Is cobalt essential to a war economy?

Cobalt is not included in available United States Army and Navy listings of strategic, critical, and important raw materials, in spite of the fact that the United States is dependent on imports for a continuous supply of cobalt. Cobalt metal is used frequently in an alloy known as "stellite", which usually contains chromium and tungsten, but may contain other elements. Stellite is extremely hard and resistant to corrosion. Its hardness makes stellite a valuable material with which to tip machine tool cutting instruments, and resistance to corrosion makes stellite practical for such articles as surgical instruments. Cobalt is also useful for making magnet steels and in binding tungsten carbide and other superhard cutting materials. Cobalt oxide is used as a blue pigment in the manufacture of glass and pottery. The sulphate serves as a red pigment.

2. Where is cobalt ore produced?

According to the Bureau of Mines, the Belgian Congo, Rhodesia, and French Morocco lead the world in cobalt ore production. Recent production information is not available, but in 1937 the Congo produced ore equalling 1,500 metric tons of metallic cobalt. Rhodesia was second with 884 tons and French Morocco produced 581 tons. Australia, Canada, Burma, Finland, Germany, U.S.S.R., and other countries produced smaller amounts. Over half the world's production has been in countries of the British and French empires.

3. Is the United States assured of a supply of cobalt?

Negligible quantities of cobalt are produced in the United States. These small quantities are recovered from the residuals of ores refined into other metals. Aside from these minute quantities, the United States demand is supplied by imports, chiefly of cobalt metal. Imports of the metal rose from 537 tons in 1937 to over a thousand tons in 1939 (see Table I), coming chiefly from Belgium. The quantity of domestic stocks is not known.

Some cobalt ore is imported and refined in the United States. Imports of ore amounting to about 300 tons have come chiefly from Canada.

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Research

Cobalt oxide (which is about 70 percent cobalt in weight), has been imported principally from Belgium and Germany. Belgium was the chief supplier in 1937 and previous years. Germany was the most important source in 1938 and the first nine months of 1939, but declined in importance after the outbreak of war.

Commodity specialists of the Tariff Commission and the Bureau of Mines believe our exports are practically non-existent, if there are any at all.

For most of cobalt's uses (except as a blue pigment), it is possible to substitute other metals, such as molybdenum, found in the United States.

4. Are the Allied belligerents assured of a supply of cobalt?

There appears to be no danger of the Allies' being cut off from their supply of cobalt, which originates within their empires, as long as the shipping lanes are open.

5. Is Germany assured of a supply of cobalt?

According to the Bureau of Mines, Germany has cobalt deposits in Wittichen and the Black Forest, with an output which "will suffice to supply the great bulk of Germany's requirements of around 100 metric tons a year" (1938). It is not known to what extent Germany can increase production to provide for war-time needs. Specialists feel, however, that cobalt is not an indispensable mineral for some of its uses, and that Germany can restrict the use of cobalt. It is probable, therefore, that Germany can satisfy its own requirements for cobalt.

The Soviet Union also produces cobalt, although specific data are not available to reflect the quantity produced.

6. Can the final destination of cobalt be controlled?

Our information is that United States exports of cobalt have been negligible. Our imports of cobalt come chiefly from Belgium. It may be possible that since the beginning of the year re-exports of cobalt are taking place because of the degree of Allied control over Belgian exports. More time is needed to ascertain whether any exports are currently being made. As in the case of tantalum and columbium, there are doubtless exports of finished products which contain cobalt metal. The control over these numerous finished commodities raises problems that are much more complex.

Table L.

Cobalt: United States Imports of Cobalt Ore,
metal, oxide, and sulphate 1937-1939

(Short tons)

Country	1937	1938	1939
<u>Cobalt Ore</u>			
Canada	290	216	287
Australia	4	-	-
Others	-	9	19
Total	294	225	306
<u>Cobalt Metal</u>			
Canada	4	40	-
Belgium	458	309	955
Others	75	120	130
Total	537	469	1,065
<u>Cobalt Oxide</u>			
Canada	45	-	-
Germany	134	71	96
Belgium	151	11	121
Others	91	105	123
Total	421	187	340
<u>Cobalt Sulphate</u>			
Belgium	27	20	35
France	1	1	2
Others	-	-	1
Total	28	21	38

Treasury Department, Division of Monetary Research. April 25, 1940.
 Sources: U. S. Department of Commerce: Foreign Commerce and
 Navigation of the United States.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 25, 1940

TO Mr. White
 FROM Mr. Ullmann
 Subject: Industrial diamonds.

1. Are industrial diamonds essential to a war economy?

Diamonds are not included in any available United States Army or Navy listings of strategic, critical, or important raw materials, in spite of the fact that the United States is dependent on imports for a continued supply. However, there are uses for industrial diamonds that makes them essential to a wartime economy.

Diamond points are virtually indispensable in drills for certain purposes, notably for deep drilling through rock. Furthermore, diamond points on machine tools and lathe cutters are efficient for machining hard alloys, making them valuable to such industries as the automobile and aviation industries. Similarly, according to the Bureau of Mines, diamonds are valuable in making superabrasives for polishing and shaping hard alloy steels, a quality which renders them particularly suitable for the manufacture of armaments.

2. Are there suitable substitutes for industrial diamonds, and how effective, expensive, and accessible are the substitutes?

For all uses except deep drilling through rock, other materials can be substituted for industrial diamonds. Extremely hard metallic alloys can be used for abrasive and tooling purposes. New methods of hardening steel by electromagnetic high-frequency vibration create extremely hard metals suitable for high-speed cutting tools.

As hard steel alloys are available to all the major countries. Although these materials appear to be less costly, their use, as a substitute for diamonds is approximately as expensive as the use of diamonds, since the quantity consumed in each operation is much greater, and the operations are slower.

3. Where are industrial diamonds produced?

According to Bureau of Mines statistics, the British and French empire countries are responsible for between a third and a half of the world's production of diamonds (one-half in 1937 and one-third in 1938). The Belgian Congo produced

nearly all the remainder, with Brasil, the U. S. S. R., and other countries responsible for small portions.

The mining of industrial diamonds has in the past accompanied the production of gem diamonds. It is probable that trading in gem diamonds, a luxury article, will suffer during the war. That this means a decline in the production of industrial diamonds, however, is doubtful, since the Allied powers need the article for war industries.

4. Is the United States assured of a supply of industrial diamonds or substitutes?

In 1932, a minute quantity of industrial diamonds was produced in Arkansas, but there is no record of subsequent production. With that single exception, all United States needs have been satisfied by imports, chiefly through Belgium and the United Kingdom prior to 1938, and direct from the Union of South Africa in 1938 and 1939 (see Table I). Imports in 1939 were approximately double imports in each of the previous two years, but the increase occurred in the first nine months of the year, before the outbreak of war.

As diamonds have a high value relative to their shipping space, a possible shortage of shipping would affect the trade less than would be the case with more bulky imported products.

According to information obtained by Mr. Eddy, estimates of domestic stocks of industrial diamonds vary between 500,000 and 1,500,000 carats. Domestic consumption is alleged to be between 1.5 and 2 million carats annually. If this is the case, stocks must be large as a result of 1939 imports of almost 3.6 million carats. It is felt that any such assumption is not justified, since domestic consumption may well have increased in recent months, even if the estimates were correct at one time, and there is no way readily to determine exports.

In a memorandum of February 5, 1940, prepared by Mr. Glasser, it was pointed out that United States re-exports of industrial diamonds in the last four months of 1939 amounted to almost \$260 thousand, all of which went to Canada. Canadian import figures indicate larger shipments.

In view of the lack of a separate export classification, and in view of the fact that industrial diamond exports consist both of re-exports and of diamond dust produced as a by-product in gem cutting, it is impossible to estimate United States exports without a thorough and detailed study.

- 3 -

Division of Monetary
Research

The United States has an adequate supply of the metallic alloys that can be substituted for diamonds in most industrial uses.

4. Are the Allied belligerents assured of a supply in industrial diamonds or substitutes therefore?

Since almost a half of the world's diamonds are produced in the British and French empires, England and France will be able to obtain industrial diamonds as long as the shipping lanes are open.

5. Is Germany assured of a supply of industrial diamonds or substitutes therefore?

For most German industrial purposes, Germany will be able to use alloys as substitutes for diamonds, and appears to have adequate alloy metals for the relatively small quantities that would be used as a substitute for diamonds, especially if Germany adopts the new methods of electro-magnetic hardening of steel.

In case of an extreme need for industrial diamonds, the German Government can requisition privately owned gem diamonds of its citizens, and divert the stones to industrial uses.

No information is available to reflect the German stocks of industrial diamonds.

7. Can the U. S. S. R. obtain diamonds for oil drilling?

The Bureau of Mines, in its "Minerals Yearbook, 1939", reports that diamonds were produced in the U. S. S. R. in 1938. The quantity produced there is unknown. Furthermore, the extent of stocks of diamonds in the U. S. S. R. cannot be determined, but the Commerce Department reports that the Soviet Union imported some industrial diamonds in 1939. It is possible that the Soviet Union produces enough diamonds for its own needs, and imported them to build up stocks; or it is possible that the Soviet Union is continuously dependent on imports for an adequate supply.

8. Can the final destination of industrial diamonds be controlled?

It is understood that there are already measures being taken to exercise control over the exports of industrial diamonds.

Table I. Industrial diamonds: United States imports
for consumption, 1937-1939

(Carats)

Country	1937	1938	1939
Union of South Africa	328,529	1,074,166	3,007,506
Brazil	118,165	93,273	180,624
Belgium	438,069	90,699	49,095
Belgian Congo	33,673	94,634	103,707
United Kingdom	435,994	7,111	118,605
Netherlands	189,488	1,133	59,941
Canada	312,580	30,877	38,583
Other Countries	329,472	4,394	10,709
Total	1,885,970	1,396,247	3,566,730

Treasury Department, Division of Monetary Research.

TREASURY DEPARTMENT

257

INTER-OFFICE COMMUNICATION

DATE April 26, 1940

TO Mr. White
FROM Mr. Tilman
SUBJECT: Chromium

1. Is chromium essential to a war economy?

Chromium is included on all United States Army and Navy listings of strategic war materials. Moreover, it has been listed among the four 'materials of first priority in the strategic list' of the Army.

Chromium, in some form, is extensively used in the manufacture of alloy steels. Ferrochromium, an electric furnace product, is made directly from chrome ore and scrap steel, and contains 65 to 75 percent chromium, serving as the basic alloy material used in the manufacture of most chromium alloy steels. The largest and best known use of chromium is in the manufacture of stainless steels. Chromium metal, containing over 98 percent chromium, is used in small amounts in some steels to impart a corrosion and heat-resisting surface. Such steels have been in some demand for electrical heating apparatus, high-speed cutting tools, etc. Some small amounts of chromium metal have been added to copper for the manufacture of high-strength bronzes.

Chromium ore (chromite) is used in refractories, chiefly in the form of brick. Lumpy and ground chromite cements are used in building furnaces.

Chromium salts (sodium chromate and dichromate, potassium chromate and dichromate) are used in the dyeing, pigment, and tanning industries.

In recent years, chromium plating has had a wide field of uses and has assumed importance industrially, but the amount of material consumed is relatively small owing to the thinness of the layer of metal deposited.

Chromium has frequently been the subject of Governmental consideration in connection with the creation of stock piles of strategic materials.

2. Are there substitutes for chromium, and how effective are the substitutes?

Chromium is practically indispensable in certain forms of steel alloys. In some cases, however, other alloy metals such as manganese, tungsten, vanadium, and molybdenum can be used, notably in the manufacture of some tool steel and heat resisting alloys.

Earthen products can frequently be substituted for chromite in refractory bricks. The Army, in February, 1938, estimated that 50 percent of the chromite used for refractory purposes could be replaced by suitable substitutes.

Information is lacking as to the suitability of substitutes for chrome in electro-plating, dyeing, and tanning. It appears probable that some of the vegetable tans (oak, quebracho, syrobalan, etc.) could be used for tanning purposes, and that plating could be done satisfactorily (for some purposes) with other metals.

3. Where is chromium ore (chromite) produced?

Approximately 40 percent of the world output is produced in British Empire countries, chiefly Southern Rhodesia, Union of South Africa, and British India. The U.S.S.R. apparently produces 20 percent or more of the world's output, being the largest single producing country. The Philippine Islands, Cuba, Yugoslavia, New Caledonia, Greece, and Japan each produce smaller amounts, varying between 5 and 7 percent of the world's output. Deposits of chromite are known to exist in Alaska, although the Bureau of Mines reports no Alaskan production and there is some doubt as to the practical accessibility of Alaskan chromite.

The total world output of chromite in 1936 was approximately one million long tons. The 1937 output is not known, but appears to have been approximately higher than the 1936 production, while 1938 appears to have about equalled 1936.

4. Is the United States assured of a continual supply of chromium?

The United States imports annually between a third and a half of the world's output of chromite. In 1936, the United States imported 352,085 long tons: 50 percent from Africa, 20 percent from the Philippines, 11 percent from Cuba, 8 percent from New Caledonia, 6 percent from Turkey and 3 percent from Greece. We imported none from the U.S.S.R. in 1938, in contrast to relatively high (but steadily declining) imports in earlier years.

1938 imports represented a decline from 1937 imports amounting to 554 thousand tons, a fact which can partially be explained by the decline in the domestic output of automobiles (an important use for chrome alloy steels and chrome plating) from 4.8 million cars in 1937 to 2.5 million cars in 1938.

Cuban ore is used largely in the domestic refractory industry, inasmuch as it is relatively low in chrome content. The entire Cuban output goes to the United States (93 thousand tons in 1937). Imports from the Philippines rose to 78 thousand tons in 1938.

In contrast to imports of chromite, domestic production is minute. Shipments from domestic mines (California) in 1938 amounted to only 812 long tons.

Imports of chrome in forms other than ore are small.

It is possible that with a full adoption of substitutes and with maximum production in the Philippines, Cuba, and Alaska, the United States might be able to supply its needs for chromium, at least for a limited time. This possibility, however, depends on open sea lanes, in which case other large sources of chromite would also be available.

5. Does the United States export chromium?

Exports of chromite, chromium metal, and chromium are not reported, and are known to be small. The Tariff Commission states, in connection with exports: "If there are any, they are negligible in amount".

It is obvious, however, that United States exports include a number of finished products which contain chromium, especially in steel alloys.

6. Are the Allied belligerents assured of a supply of chromium?

Countries of the British and French Empires produce a large part of the world's output of chromite. The Allies will be able, therefore, to obtain chromite as long as the sea lanes are open.

There is some doubt, however, as to the Allies' ability to convert chromite into ferrochromium. The Bureau of Mines reports that the United Kingdom imported about 46 thousand metric tons of chromite in 1937, but used it all in the chemical and refractory industries. England imported its ferrochromium (18 thousand tons in 1937) from Norway and Sweden. It is not known to what extent England has now installed the equipment necessary to convert chromite to ferrochromium.

Similarly, no information is available to indicate French independence of outside sources for ferrochromium. Her imports of chromite in 1937 amounted to 38,171 tons, all of which may have been used in the chemical and refractory industries.

The Allies must have made some arrangements for the production of ferrochromium, since they have contracted to purchase about 300,000 tons of chromite in 1940 from Turkey, Greece and Yugoslavia. Whether the Allies intend to use all this amount or to sell some to neutrals, including the United States, cannot be determined. If, however, they intended to have it processed in Norway and Sweden, it is obvious that they will have to make other arrangements.

7. Is Germany assured of a supply of chromite?

Germany does not produce chromite. Its imports in 1938 totalled 176 thousand metric tons, of which 34 percent came from the Union of South Africa, 30 percent from Turkey and 10 percent from Greece. German stocks are not known.

Germany potentially could obtain chromite over land from Turkey, Greece, Yugoslavia and the U.S.S.R.

According to our information, the British and French Governments concluded an agreement with Turkey whereby the Allies have the right to purchase the total Turkish production, limited to 250,000 tons per year (Turkish production in 1938 was estimated at 205 thousand tons), excluding sales to the United States. Other neutrals can buy only with the consent of the Allies.

Similarly, the British Government has purchased practically the whole 1940 production of Greece, in return for which the Greek Government has undertaken to prohibit exports to Germany and to restrict exports to neutrals to normal levels.

The British own the principal mining company of Yugoslavia and are extending their control to other properties, hoping to restrict the amount available to Germany to not more than 16,000 tons in 1940 and 9,000 tons in 1941. It would appear, therefore, that Yugoslavian chromite will be shut off from Germany, provided there is no change in the status of Yugoslavia.

However, the U.S.S.R. is the world's largest single producer of chromite. It is probable that Germany will be able to obtain an adequate quantity of chromite from the Soviet Union, especially since it is expected that Germany will manufacture machines and tools (many of which require chromium) for export to the U.S.S.R.

8. Is the U.S.S.R. assured of a supply of chromite?

The U.S.S.R. produced 217,000 metric tons of chromite in 1936, the latest figure available. Production is probably appreciably higher at present, since it is known to have risen sharply through 1936. (1934: 127,400 tons; 1935: 177,900 tons). The U.S.S.R. has not exported chromite in recent years, and has probably built up large stocks.

9. Are Japan and Italy assured of supplies of chromium?

Japan produces about 40,000 tons of chromite annually, and is probably self-sufficient.

No Italian production is known, and no information is available to reflect Italy's imports.

10. Can the destination of United States exports of chromium be effectively controlled?

No information is available concerning domestic holders of chrome stocks. Inasmuch as chromium is used principally in the manufacture of steel, the steel companies probably hold most of the available stocks, in which event the Iron and Steel Institute should be consulted as to the possible extent that the industry would cooperate in restricting exports of chromite, ferrochromium, and chrome metal.

The problem is somewhat more complex, however, since numerous metallurgical plants purchase these materials. Furthermore, even if it should prove practical to control exports of these raw materials, the problem of controlling exports of finished commodities fabricated from chrome alloys would be virtually impossible, since it would imply a close scrutiny on exports of an extremely wide variety of products.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

April 26, 1940

MEMORANDUM FOR THE SECRETARY

The attached was received at 5:20 this afternoon and should be substituted for the memorandum from the same source which was left with you this morning.

att.

The replies to Captain Collins's questions are as follows:

1. Letters of intention serving as preliminary agreements leading up to the conclusion of final contracts within a period of 30 days have been mutually signed by the Anglo-French Purchasing Board and the following aircraft contractors, viz:

- a. Curtiss Wright Co.
- b. Bell Co.
- c. Glenn Martin Co.

In addition contracts have been placed with the following two firms,

- d. Douglas Aircraft Co., for 180 A.20 aircraft under an existing contractual option.
- e. A contract for 20 P.B.Y. flying boats with the Consolidated Co. under an existing contractual option.

2. (a) The contract with Curtiss Wright covers arrangements for 600 P.40s and 360 P.40Ds, which will embody Allison engines. The total value is approximately \$37,000,000. This total includes the U.S. Army charge for development expenses of \$739,000, plus a charge of \$245,000 to cover cost of transfer of P.40s from the U.S. Administration to the Allied Government order.

(b) The contract with the Bell Company covers 200 P.39 aircraft using the Allison engine. The total value is roughly \$9,000,000, including \$360,000 U.S. Army charge for development expenditure.

(c) Regarding Glenn Martin, the programme in contemplation is 600 Glenn Martin 187 type embodying the Allison engine. It is not possible to state the probable value of this order pending negotiations, but the firm have notified that \$850,000 U.S. Army charge must be included for develop-

ment expenses.

(d) The contract placed under existing options with the Douglas Company covers 180 A.20s, incorporating the Wright 2600 engine and the airframe order is roughly valued at \$19,000,000.

(e) Similarly the order with Consolidated covers 20 P.B.Y.5 boats embodying Wright 1820 engines, at a total value of approximately \$4,250,000, including engines and propellers.

3. So far as engine contracts are concerned it is not possible to give specific details as the number of engines remains for determination within a period of 30 days allowed for conclusion of the final contracts following conclusion of preliminary agreements in respect of capital expenditure under which financial advances have already been made. Such an agreement has been concluded with the General Motors Corporation and covers an option to take up to 3,500 engines at a maximum price total of \$61,000,000. Under the corresponding option taken with the Wright Aeronautical Corporation for Wright 2600 engines, the number of engines remains for further negotiation as well as the price.

4. Active negotiations are now being carried on daily with the Lockheed Aircraft Company, the Douglas Company, the Boeing Company, the Consolidated Company and Pratt & Whitney.

5. It should perhaps be observed that it is not the policy of the Allied Purchasing Commissions to give any statement to the Press on the actual numbers of engines and planes for which orders are being placed as it is considered that this information might be useful to the enemy.

April 26, 1940

C.T.B.

S. J. Ballentine

Regraded Unclassified

April 26, 1940

CONFIDENTIAL TELEGRAM TO THE PRESIDENT
AT WARM SPRINGS, GEORGIA
(VIA WHITE HOUSE TELEGRAPH ROOM)

AMERICAN CONSUL GENERAL SHANGHAI CABLED ON APRIL
TWENTY THIRD THAT VIA BACK STAIRS GOSSIP HE HAD
BEEN INFORMED THAT ITALIAN BANK BALANCES WERE BEING
WITHDRAWN FROM BELLIGERENT BANKS PERIOD WE RECEIVE
DAILY QUOTATIONS ON THE MILAN STOCK EXCHANGE PERIOD
FROM MARCH TWENTY THIRD TO APRIL SIXTH STOCKS ROSE
DAILY PERIOD FROM APRIL SIXTH THROUGH YESTERDAY
STOCKS HAVE BEEN FALLING STEADILY PERIOD I AM
TRYING TO CHECK UP ON THE REPORT THAT ITALIAN ACCOUNTS
ARE BEING WITHDRAWN FROM BELLIGERENT BANKS

HENRY MORGENTHAU JR.

April 26, 1940

CONFIDENTIAL TELEGRAM TO THE PRESIDENT
AT WASH SPRINGS, GEORGIA
(VIA WHITE HOUSE TELEGRAPH ROOM)

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ARE BEING WITHDRAWN FROM BELLEGGUENT BANKS
HENRY MORGENTHAU JR

April 28, 1940

CONFIDENTIAL TELEGRAM TO THE PRESIDENT
AT WASH SPRINGS, GEORGIA
(VIA WHITE HOUSE TELEGRAPH ROOM)

AMERICAN CONSUL GENERAL SHANGHAI CABLED ON APRIL
TWENTY THIRD THAT VIA BACK STAIRS GOSSIP HE HAD
BEEN INFORMED THAT ITALIAN BANK BALANCES WERE BEING
WITHDRAWN FROM BELLIGERENT BANKS PERIOD WE RECEIVE
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ARE BEING WITHDRAWN FROM BELLIGERENT BANKS

HENRY MORSETHAU JR

April 26, 1940

Mr. Felt

Mr. Cushman

Will you kindly send the following cablegram:

"AMERICAN CONSULATE GENERAL, MANAGUA:

The Secretary of the Treasury has read with much interest
Consul Detrick's cablegram #747 of April 23 and would appreciate
receiving any further information on this subject that may become
available."



ENCLOSURE
4.26.40

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

289

INTER OFFICE COMMUNICATION

DATE April 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, who has been absent for several weeks, called on me this afternoon to discuss several matters. Mr. Pinsent handed to me a memorandum, of which a copy is attached, entitled "United Kingdom purchases of food in the United States of America during the first year of war," which revises figures provided us on February 12, 1940. In answer to my inquiry, Mr. Pinsent confirmed that the various Ministries of Supply in Great Britain are still purchasing directly in this country, or permitting importers to purchase along their customary lines but under control, and that payment for such purchases does not pass through the special account in the Federal Reserve Bank. The British officials in this country do not themselves have specific information in regard to the transactions so carried out.

Some weeks ago, Dr. White raised with Mr. Pinsent, in my office, a question in regard to an unexplained residual item in the American balance of payments. Mr. Pinsent, together with Mr. Purvis, gave certain information at that time to explain this item. Mr. Pinsent has today handed me a copy of a personal letter written to him by Mr. Bewley, now in the British Treasury, which throws further light on this subject. A copy of the communication is attached.

Mr. Pinsent referred to a letter which Mr. Gifford had written to me, and which I had brought to the Secretary's attention, in regard to the procedure being followed by Mr. Gifford in disposing of British securities. I told Mr. Pinsent that the Secretary had made no comment upon Mr. Gifford's explanation of his reluctance to make any change in the policy of secrecy which he has been following to date.

Reference was made by Mr. Pinsent to a recent "confidential letter" sent out by Major L.L.B. Angus, which was strongly anti-British, predicting immediate disaster for the Allies in Scandinavia, and advising Americans to sell out their British holdings the moment they drop as much as one-half a point. This letter, according to Pinsent, promised a further expose of the whole case in the next monthly letter. Pinsent was of the opinion that Major Angus is not a British subject, and that the Treasury Department had once investigated him. He asked whether we had any comment or suggestions to make with respect to the present "letter". Pinsent did not have a copy of the letter to give me.

Pinsent asked about reported legislation establishing Statute of Limitation for ten years covering Government debts. I told him I would inquire of Mr. Bernstein on this subject. I telephoned Mr. Bernstein, but the latter was at

- 2 -

the Capitol, so I shall speak with him later.

In referring to the action which the Administration had taken toward "freezing" Danish and Norwegian assets in this country, Pinsent asked if the Treasury could provide him confidentially with our estimate of such holdings. I told him that the census is just being commenced, but that I would let Mr. Bell know of his interest in it.

J. M. R.

United Kingdom purchases of food in the United States of America during the first year of war.

With reference to the memorandum handed to Mr. Cochran on the 22nd February 1940, revising some of the previous figures communicated to the United States Treasury regarding British purchases in the United States, the following revised estimate of foodstuff purchases in the first year of war may now be substituted for the previous estimate totalling £13 million.

	Million £ (f.o.b. values)
Maize	1.90
Other cereals	.77
Bacon and ham	1.32
Other meat	1.05
Lard, oleo-oil	1.13
Canned salmon	.92
Apples and pears	.80
Canned fruit	3.45
Dried fruit	.88
Other foods	3.14
Maize starch (mainly industrial)	1.02
	16.40

J. H. P. [Signature]
26th April 1940

COPY

TREASURY CHAMBERS,
WHITEHALL, S.W.1.

8th April, 1940.

My dear Jerry,

I have done what I could as regards the points raised in your letter of the 8th March about the large residual item in the American balance of payments.

In addition to unrecorded capital movements such as those mentioned in your letter, we think that the increase in the figure is partly to be attributed to the effect of the "cash and carry" clauses of the Neutrality Act which have produced during the last few months net payments far in excess of the visible trade balance.

Two other causes occur to me as possible partial explanations, namely the repurchase through devious channels of defaulted or nearly defaulted bonds by foreign countries, and money sent secretly to the United States with the object of avoiding double taxation. As tax rates increase, the incentive to secret transmissions of funds must increase likewise.

I am afraid I can only suggest the above as possible additional explanations to those suggested in your letter. We have no reliable figures on the matter and cannot verify the suggestions.

Yours sincerely,

(Sgd.) **KENNETH BENLEY.**

G. F. S. Pinnent, Esq., C.M.G.,
British Embassy,
Washington.

United Kingdom purchases of food in the United States of America during the first year of war.

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	Million £ (f.o.b. values)
Maize	1.90
Other cereals	.77
Bacon and ham	1.32
Other meat	1.05
Lard, oleo-oil	1.13
Canned salmon	.92
Apples and pears	.80
Canned fruit	3.45
Dried fruit	.88
Other foods	3.14
Maize starch (mainly industrial)	1.02
	16.40

John P. ...
26 April 1940

April 26, 1940

CONFIDENTIAL

To: The Secretary

From: Mr. Young

Mr. Ballantyne of the Anglo-French Purchasing Board has just notified me that the memorandum of April 22nd from him, which was forwarded to you on April 23rd, entitled "Memorandum re Douglas Aircraft Company and Lockheed Aircraft Corporation", is incorrect. Contracts have not yet actually been signed for these planes although the figures are correct in that they represent the number of these planes that the Purchasing Board would like to get.

I have requested the copies of this memorandum which were forwarded to Messrs. Ems and White to be returned to me.

RY.

TELEGRAM SENT

JT

GRAY

April 26, 1940

5 p.m.

AMERICAN EMBASSY

ANYARA

27

Department's 25, April 23, 5 p.m.

In order that checks may be identified upon arrival please telegraph name of drawing bank and name of person in whose favor checks are drawn, presumably the Danish Charge d'Affaires.

HULL
(TSM)

WE PHA/LS

EA

EU

EN

PLAIN

Stockholm

Dated April 26, 1940

Rec'd 10 p.m.

Secretary of State,
Washington.

NOTES OF INFORMATION
THE SECRETARY OF STATE

397, Twentysixth.

FROM COMMERCIAL ATTACHE.

Riksdag April 19th amended clearing law of 1934 to grant Government power to authorize use when desirable of other than Swedish currency for payment of debts accumulated under clearing agreements. At present this refers particularly to special pounds (refer to Commercial Attache's report dated April 2nd).

IMPORT COMMERCE.

STERLING

END

FS

PLAIN

London

Dated April 26, 1940

Rec'd 12:07 p.m.

Secretary of State,
Washington.

1068, April 26.

FOR TREASURY FROM BUTTERWORTH.

Matthews returned to Paris this forenoon. In the course of the general debate in the House of Commons on the budget, criticism has centered on two main lines: (1) that only £100 million plus the yet to be announced sales tax is to be raised during this fiscal year by new taxation and (2) that only pounds 2,000 million has been budgeted for war expenditure which indicates no appreciable increase in war effort, as reflected in expenditure, over the latter part of the past fiscal year.

Incidentally today's ECONOMIST entitles its article "a budget of delusions".

WEC

KENNEDY

EN

GRAY

Milan:

Dated April 26, 1940

Rec'd 2 p.m.

Secretary of State,
Washington.

15, April 26, 5 p.m.

FOR TREASURY DEPARTMENT.

Today's prices as follows: 250; 345; 505; not listed;
975; 207; 1668; 66.25; 228.50. Volume 93,080.

Increased activity on declining market attributed
to speculation.

SHOLES

WWC

April 26, 1940
10:33 a.m.

H.M.Jr: Hello. Hello.

Operator: He was on there a minute ago.

Over-seas

Operator: Hello, Ambassador Bullitt.

H.M.Jr: Hello.

Operator: Go ahead, Please.

H.M.Jr: Hello.

William
Bullitt:

Hello, Henry.

H.M.Jr: How are you? Can you hear me?

B: Yes, hear you perfectly.

H.M.Jr: Bill.....

B: Hello.

H.M.Jr:we have a cable from Shanghai. Hello?

B: Hello.

H.M.Jr: I have a cable from Shanghai.

B: Hello.

H.M.Jr: Hello, Bill.

B: Hello.

H.M.Jr: Can you hear me?

B: I do hear you.

H.M.Jr: Can you hear me now?

B: I hear you perfectly.

H.M.Jr: We have a cable from the American Consul at Shanghai.

B: Yes.

- 2 -

H.M.Jr: In which he tells us.....

B: Yes.

H.M.Jr:that the Italians are withdrawing all of their accounts.....

B: Yes.

H.M.Jr:from the belligerent banks.

B: Wait a minute. I can't quite get that.

H.M.Jr: Hello.

B: Are withdrawing all their accounts what?

H.M.Jr: From belligerent banks. From the English and French banks.

B: Yes.

H.M.Jr: They're taking all of their money out of any English and French banks.

B: Yes, I understand. From Shanghai.

H.M.Jr: Yes, in Shanghai.

B: Yes.

H.M.Jr: And they're also cancelling any forward contracts that they have.

B: Yes.

H.M.Jr: The Italian bank in Shanghai.

B: Yes, very interesting.

H.M.Jr: Now, I thought that with that information and with the French having banks of their own all over.....

B: Yeah.

H.M.Jr:you might check up on that.

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B: Well, Henry, I'm greatly obliged to you.

H.W.Jr: And anything that you have, if you'd let me have it back.

B: Yes, I'll tackle that right away.

H.W.Jr: It may be significant..... Hello?

B: Hello?

H.W.Jr: This started on the 17th of April.

B: Yes, fine, Henry.

H.W.Jr: It started on the 17th.

B: All right. I'll get that right away.

H.W.Jr: Thank you. Goodbye.

B: Thank you.

H.W.Jr: Goodbye.

B: I can't hear you.

H.W.Jr: I say, good luck.

B: Good luck. Goodbye, Henry.

H.W.Jr: Goodbye.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Yesterday the Financial Counselor of the Swedish Legation, Mr. Erickson, telephoned me. He had been led to believe from a press report that the Joint Resolution before Congress for "freezing" foreign assets would be made automatically applicable to Sweden if his country should be invaded. I referred him to the New York Times of yesterday morning for an accurate account.

I called Mr. Erickson back today and told him that I had spoken with Under Secretary Bell who had attended the hearings at the Capitol, and that there was no provision in the legislation which would make any action automatic with respect to any country. For Sweden, in case of invasion, to be added to the list now comprised of Denmark and Norway, it would be necessary for the President to issue an Executive Proclamation. Mr. Erickson did not indicate definitely his attitude in the premises, but his questions did suggest that he saw certain difficulties involved for Sweden if "freezing" should take place. He hopes, however, that the situation may so develop that Sweden will not be drawn into the war. He intimated that his Legation had reported to his Government the working of our "freezing" arrangement.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Minister Procope of Finland called on me today by appointment. He asked if we had received any recent reports from Finland in regard to economic conditions there. He posed his question in such a manner as to give me the feeling that his Government had probably told him of the data which had been provided Minister Schoenfeld upon this subject, and which we have recently received from the Minister in two cablegrams. I told Procope that we had received certain data from Helsinki in regard to the Finnish situation. Procope said it was "awful", and emphasized the need for foodstuffs. He said that some American officials had suggested caution or delay in making further shipments to Finland, but that he was anxious to move goods which he purchased here on to Finland by direct steamer to Petsamo as quickly as possible. In answer to my question as to whether there were any available ships for this route, he said that, whether he had authority or not, he had recently requisitioned certain Finnish vessels in American waters for this business. He is especially anxious to keep up his shipment of motor trucks. He understands that certain food supplies are available in Lithuania and he hopes that his country will be able to obtain a part thereof. He expects to use his remaining balance of approximately \$20,000,000 of the second Export-Import Bank credit within a comparatively brief period, whether these funds are available only for imports from the United States, or may be freed for reconstruction purposes. For the latter purpose Mr. Jones would still have to obtain approval of Congress. Minister Procope has been in touch with Mr. Jones at least twice a week, but is not yet sure what Mr. Jones will do in the premises.

The Minister asked whether there was anything that Secretary Morgenthau or Under Secretary Bell could tell him in regard to prospects for further financial assistance for Finland. Should a Finnish mission come to this country? I told the Minister that I had informed both the Secretary and Under Secretary that he was calling on me, and that neither had any message to give him in the present state of affairs. My personal thought was that it would be absolutely wrong for the mission to come now. I thought the situation ought first to be clarified. The Minister looks for little clarification and feels that Scandinavia will be an important battleground, with fighting perhaps extending to the Northern Cape. I promised to communicate with him if and when we might have any further word for him.



RE STRATEGIC COMMODITIES

April 26, 1940
10:15 a.m.

Present: Mr. Collins
Mr. Young
Mr. Cochran
Mr. White

H.M. Jr: "Agenda for meeting on Strategic Commodities. Possibilities of absorbing China's output of tungsten."

I haven't been able to get hold of Mr. Stettinius, but I am talking to him at 11:15.

"Captain Collins to report on possible accumulation by Army." You haven't had a chance yet, have you?

Collins: No, but that amount as presently allocated is very small.

White: I have got some information that over a year old. They were willing to buy four million dollars worth.

Collins: Eventually, but in the appropriation of twelve million five, it becomes operative for the fiscal year '41, of which amount three million is presently available for the remainder of the fiscal year. There is no tungsten allocated in that three million dollars, so this is going to be a proposition of discussing it with the Munitions Board to see whether that amount can be listed.

White: When they were going to get 65 million they were willing to spend four of that for tungsten.

Collins: Yes, but those allocations are changed without notice from day to day. They have been changed several times since we have been in the present purchasing program of strategic materials.

H.M. Jr: Well, I didn't expect you to have anything today, but get busy on it.

"Mr. White to report on possible civilian needs." Are you going to report on that?

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White: I will give you a few significant facts with respect to it. Our imports of tungsten dropped very sharply the last few years, but this year so far the first few months they are running at the rate of over 5,000 tons a year, which suggests that because of the war demand that we can take off of the Chinese market 5,000 tons. The question of whether it will be available, there is some difference of opinion, because the communication that you got a couple of months ago specifically stated that they can produce only ten and possibly twelve, so their figure of fourteen - that means therefore, that if their estimates of what they can consume are correct, there will not be 5,000 available for the United States unless they don't send it to Russia, which --

H.M.Jr: Well, what I am going to ask Mr. Stettinius is, if he can find out, one, what does the industry need; two, where are they getting it now or what do they think they could buy. There are some places where they could pool their orders.

White: And we don't export any, but we do export it in tools, and so forth, so that it is quite possible that there may be a re-export business which is now developing and he would know, in which case since we do import it they might include tungsten on that list, which would make it applicable to their general clause of agreement not to re-sell to certain countries.

H.M.Jr: You mean the State Department?

White: Yes, so I would say there is a definite possibility of both taking the amount off the Chinese hands and of controlling its export in the form of tungsten, though not in the form of finished material.

H.M.Jr: Anything else?

White: Well, that is all with regard to tungsten.

H.M.Jr: Now, carbon black.

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White: On carbon black, that is not regarded as one of the strategic and critical commodities on the Army and Navy list and I think that you would first have to get it on there to make it subject to that particular clause that they are interested in. And secondly, even after you get it on there, all you can say about it is that you can make it a little more expensive for Germany to produce her own carbon black and yet I think that is definitely worth while because --

H.M.Jr: Let's forget carbon black. I read that thing three or four months ago and I realize what it is. It is very difficult.

White: There are a lot of concerns producing it. There are 24 producing companies and it would be kind of difficult to get an agreement on it.

H.M.Jr: Let's skip it for this morning. What about cobalt?

White: Cobalt again lends itself to that. We aren't exporting any cobalt, according to our information, at all. There may be some which will be exported and it should be easy to regulate the export, because I understand there is approximately one corporation that is producing it here, so that if re-exports are about to develop in the form of cobalt, then we ought to be able to arrange to have the final destination controlled.

H.M.Jr: Where is cobalt mined?

White: Cobalt, well the British Empire controls most of it.

H.M.Jr: I mean in this country.

White: In this country, where? I don't know.

H.M.Jr: Harry, I don't know what - have you got a memorandum what cobalt is, what it is used for?

White: Yes.

H.M.Jr: Let me read that over the week-end.

White: You have it on your desk.

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H.M.Jr: Well, give me another one.

White: It answers all those questions.

H.M.Jr: I have got one on cobalt?

Young: Harry made up a memo on each one of those five things that is very complete and concise.

Cochran: Have you a copy?

Young: I have a copy here.

White: I will see that you get one.

That covers all the items which you gave us last night except chrome. We have got a memo ready this morning on columbium.

H.M.Jr: Now wait, I have got to read this. Have you (Young) distributed this?

Young: Yes, sir.

H.M.Jr: That thing underneath there?

Young: No, I just got this this morning. I was going to ask you what you want done with it.

(Miss Chauncey entered the conference)

H.M.Jr: Miss Chauncey, these people are accusing me of having a memorandum here on Strategic Materials, cobalt, columbium, and so on. Just go through my papers here.

Well, have a copy of this made and give it back to Miss Chauncey.

Young: I have a copy.

H.M.Jr: All right.

Chauncey: This is Mr. White's memo on it.

H.M.Jr: Carbon black and --

White: They are all underneath on that.

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H.M.Jr: Stick this thing in a file called Strategic Materials and I will take it with me and most likely won't read it.

White: One interesting bit about columbium, England had arranged for the whole supply of Turkey and the Balkans - most of it is from Turkey - which was a very important move and a success on their part to tie up all the ore. That ore was sold - Norway and Sweden converted it into chrome for England and England depended entirely upon chrome in England and Norwegian supplies and that now being shut off, they haven't any facilities right now to produce chrome. They will have to depend on us or - it will take some time before they can develop the necessary plants to turn it out.

H.M.Jr: Well, I don't know anything about cobalt and I don't know anything about columbium or tantalum. Industrial diamonds?

White: I don't think we ought to do anything beyond what is already being done. It was our understanding that they were going forward with an arrangement among the producers themselves. I don't know whether they haven't had success there or what --

Young: I have asked Ballantyne for an up-to-date memorandum on diamonds. It ought to be in today or tomorrow.

H.M.Jr: Up-to-date memo on diamonds. Now, what about chrome? In this thing, have you --

White: You have a memo there. We can discuss it now or you can wait until after you have read it.

H.M.Jr: I will wait. There are two things today. One, it is up to me to have Stettinius make a survey on tungsten and I am talking to him at 11:15. Mr. Collins here is going to make a survey with the Army and Navy --

Collins: Increase in the allotment for tungsten.

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H.M.Jr: And Phil, you see that as soon as Collins knows what the Army and Navy are willing to do, you let me know and get this group together on the thing.

Young: Yes.

White: The price of tungsten has been subject to very large fluctuations and I suspect that we oughtn't to encourage the Army to accumulate too large a supply but rather prefer that industry does it, because they are liable to buy it at present prices and a couple of years from now it may drop to half.

Collins: It is running about a thousand dollars a ton right now.

H.M.Jr: Well, if Chen's figures are right, and I would rather take his figures than Purvis', that the production is ten to twelve thousand tons and not fourteen or fifteen thousand tons and Russia takes five thousand tons and the Allies take five and industry takes five, we don't have to buy much.

White: No, there is very little left.

Collins: At a thousand dollars a ton we couldn't buy much with the existing appropriation.

H.M.Jr: It is all the more reason that I should try to hornswoggle industry to be patriotic.

White: Yes, because we are liable to get stuck with a substantial sum.

H.M.Jr: I will call up Wendell Wilkie and say, "Here is what industry will do."

White: To insure a supply for patriotic needs.

H.M.Jr: All right, gentlemen.

Young: What about that tin clause?

H.M.Jr: On the re-export?

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Young: Are we supposed to be doing something on it?

H.M.Jr: On the re-export?

Young: Yes.

H.M.Jr: O. K. See what you can do with Joe Green.

Young: Finding out about it?

H.M.Jr: No, get him to do it.

Young: I understood it was all clear.

H.M.Jr: Well, give it a little push. Want me to call him up and ask him?

Young: I talked to him about it the other day, briefly, and he said at that time that after two consultations with the Department of Justice they have now - what is it, the tin association?

White: I don't know. There is a tin association.

Young: They were dealing with the tin association and they have submitted the whole story to the Department of Justice and the Department of Justice has evidently made some sort of a statement which will safeguard them in case the thing ever comes up in civil court, if suit is ever brought on this clause.

H.M.Jr: What is it we hope the State Department will do?

Young: I will tell you exactly what Joe Green said or shall I send you a note on it?

H.M.Jr: No, just tell me.

Young: The tin people objected to it on the ground that this clause invalidates the contract, because it would impose a condition which would be interpreted as restraining trade. That is the first point. The State Department, along with the Commodity Corporation and the tin people, went to the Department of Justice. They got a ruling from the Department of Justice to the effect that the

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condition would not be interpreted as a restraint of trade in the eyes of that Department, which cleared the first objection. The second objection to it was, the tin people came back and said that the people buying the tin would take this clause as an excuse to get out of the contract if they wanted to try and break it due to a rise in price or something else during the meantime, after the contract was originally made.

E.W.Jr: But the idea, I understood, is that we don't want any tin. We export it out of this country, is that right?

White: Except to those countries which the ultimate destination will be objected to.

E.W.Jr: How the hell are you going to do that? What I am trying to get in my head, what should I ask Mr. Hull? I am willing to call him up if I know what to ask him. Where does this matter stand on the re-export of tin? Would he let me know? Would that cover it?

Young: Yes, that would cover it. I thought it was all fixed. That was the impression I got from Green, but he didn't say so specifically. I will call him up --

White: Could he find that out and at the same time as possibly an excuse if he needs one, find out how many of these commodities which Mr. Purvis has indicated, these six or seven, some of them are unquestionably strategic materials, but how many of them they feel might be added to the list of commodities so that in our investigations we won't go off unnecessarily on a commodity which they are not willing to add at all.

E.W.Jr: I tell you what you do. You go over and see Joe Green and tell him where we stand on tin. Now, this other list has been added. What are the chances of getting any or all of them added to that list? This is the list that has been given to me by Mr. Purvis and can Mr. Green handle the tin situation or would he like me to call up Mr. Hull and give it a little push? Or can he take care of it himself? I would get over there and see him today. O. K.?

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Young: Right.

H.M.Jr: Do you think that is good going?

White: We are not yet asking them to add these to the list, but how many would he be willing to if they find it is necessary or feasible.

H.M.Jr: That is right. After all, you are going over there representing me as a member of this board.

White: Munitions Control Board.

H.M.Jr: Yes.

Young: You shouldn't do it through Basil Harris who has been going over there?

H.M.Jr: No, because I have never had a single report from Basil Harris on a single meeting. I haven't the slightest idea of them. He has never reported on them once.

Cochran: We fixed up a letter for him once to go.

H.M.Jr: But did I ever get a report?

White: I wouldn't be sure, but I think he made an oral report after the first time. It may be they haven't had meetings.

H.M.Jr: I am most likely going to ask Basil Harris whether he cares about it and if he doesn't, I am going to substitute you (Young) as my representative.

Young: I have all of his file on that stuff. If there is anything in it, I will let you know.

H.M.Jr: All right. Read it over the week-end.

Young: Yes, sir.

H.M.Jr: And see if he ever did make any reports to me. In the meantime, do you want me to call up Joe Green and say that you are going to represent me in these matters from now on or did you get a nice reception?

- 10 -

Young: I thought he was altogether too sweet to me the other day.

H.M.Jr: I had better leave it alone, not call him up. By Monday I would like to know what they are going to do about tin and I would also, as Harry puts it, - what could they do about the rest of this list? I would make it a point to see him today or tomorrow, if possible. Everybody happy?

Collins: Could I have one minute?

H.M.Jr: Yes.

Agenda for Meeting on Strategic Commodities, April 26, 1940

1. Possibilities of absorbing China's output of tungsten:
 - a. Captain Collins to report on possible accumulation by Army.
 - b. Mr. White to report on possible civilian needs.
 - c. Telephone Mr. ^{Stettinius} ~~Stettinius~~ to learn what industry can do.

2. Report on the possibilities of controlling the ultimate destination of the following:
 - a. Carbon Black
 - b. Cobalt
 - c. Columbium
 - d. Tantalum
 - e. Industrial Diamonds
 - f. Chrome

April 25, 1940

To: Miss Chauncey

From: Mr. Young

Attached herewith is a copy of everything I possess on the moral embargo. A summary of this material was submitted to the Secretary, entitled "Moral Embargo", dated April 25, 1940.

All of the attached, although not the summary written for the Secretary, has been made available to Messrs. Purvis and Ballantyne.

This is the material which is supplied to manufacturers, exporters, etc., when they inquire from the State Department concerning this matter.

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CONFIDENTIAL

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DEPARTMENT OF STATE

Washington

In reply refer to
Os

July 1, 1938

As some misunderstanding appears to have arisen as to the purport of the statement made by the Secretary of State in his press conference on June 11 in regard to bombing civilian populations from the air, I am addressing this letter in regard to the matter to all persons and companies registered as manufacturers or exporters of airplanes or aeronautical equipment.

In view of the fact that the Secretary's statement definitely condemned bombing of civilian populations from the air, it should be clear to all concerned that the Government of the United States is strongly opposed to the sale of airplanes or aeronautical equipment which would materially aid or encourage that practice in any countries in any part of the world. Therefore, in view of this policy, the Department would with great regret issue any licenses authorizing exportation, direct or indirect, of any aircraft, aircraft armament, aircraft engines,

aircraft parts, aircraft accessories, aerial bombs or torpedoes to countries the armed forces of which are making use of airplanes for attack upon civilian populations.

Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export airplanes or aeronautical equipment, for which licenses have been issued or for which he has heretofore intended to apply for licenses, to any country which is engaged in bombing civilian populations from the air, it is suggested that he may wish to inform the Department of the terms of that contract before applying for licenses to export pursuant to it or before exporting under licenses already issued.

Very truly yours,

Joseph C. Green, Chief,
Office of Arms and Munitions Control.

MEMORANDUM

December 20, 1939

(1) The Secretary, in his press conference on June 11, 1938, condemned the bombing of civilian populations from the air and the material encouragement of that practice, expressing the hope that his statements would discourage sales of bombing planes to regions where they would be used to bomb civilian populations.

On July 1, 1938, a letter was addressed to all companies registered with the Department as manufacturers or exporters of airplanes, airplane parts, or aeronautical equipment. That letter, after citing the Secretary's statements mentioned above, specified that the "moral embargo" was applicable to the shipment, direct or indirect, of "aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes".

It was generally understood by the interested companies, the press, and the public that this "moral embargo" was applicable to Japan only.

On December 2, 1939, the President in a public statement referred to the policy embodied in the "moral embargo" described above and extended and modified that policy by making it applicable

to countries the armed forces of which are engaged in "the aggravated bombing and machine-gunning of civilian populations from the air" and to the exportation of "airplanes, aeronautical equipment and materials essential to airplane manufacture".

After consultation between the President and the Secretary, it was understood that "materials essential to airplane manufacture" should be understood to mean only magnesium and aluminum, without reference to the possible uses to which they may be put, and other articles and materials only when there is reason to suppose that they are to be manufactured into airplanes or parts thereof.

On December 12, letters inviting attention to the President's statement were addressed to all companies registered with the Department as manufacturers or exporters of airplanes, airplane parts, or aeronautical equipment, and on December 15, a similar letter was addressed to all important producers and exporters of magnesium and aluminum. The texts of these letters were released to the press on December 15.

The press generally understood that the President's statement had the effect of making the "moral embargo" effective in respect to shipments to Japan and the U.S.S.R. No officer of the Department, so far as I am aware, has made any statement which would imply that it is applicable to any other country. Several companies, however, have assumed that it was applicable to Germany also. Other companies have stated that, whether or not it was intended that the embargo

should be applicable to Germany. They intended to consider it applicable to that country as far as they themselves were concerned.

(2) The President on September 25, on the advice of the War and Navy Departments, issued a statement which, in effect, placed an embargo somewhat similar in character to a "moral embargo" on the exportation of strategic and critical raw materials.

On October 11, the Army and Navy Munitions Board issued a statement in which it was stated that this "moral embargo" was applicable to "materials which can be replaced only by imports, especially at the present time when it is becoming more difficult and more expensive to secure even the minimum imports of many of the materials listed". The materials listed were -

Antimony	Quartz Crystal	Silk
Chromium	Quicksilver	Tin
Naphthalene-ferrocene	Quinine	Tungsten
Nitro Cellulose	Rubber	

This "moral embargo" has been interpreted to be applicable to all shipments for export to any country of the materials listed except shipments in normal quantities to customers in foreign countries who normally obtained their supplies from American exporters before the outbreak of the war in Europe. The effect of this interpretation is to make the embargo applicable to all shipments except normal peace-time shipments to countries in the Western Hemisphere.

(3) After several conferences between officers of the Department and representatives of oil companies, singly or in groups, a conference was held in the Department on December 14 at which were present representatives of all companies in a position to sell or control the sale of technical information required for the production of high quality aviation gasoline. At this conference, Mr. Harbo requested that the companies abstain from any further delivery to Japanese interests of "plans, plants, manufacturing rights, or technical information required for the production of high quality aviation gasoline".

Immediately after the conference, it was decided by the Secretary that this policy should apply equally to the delivery of such plans, plants, manufacturing rights, or technical information to the Soviet Union.

On December 19, letters were addressed to the interested companies stating that the policy was applicable to delivery to "certain countries". It was understood by all concerned that "certain countries" meant Japan and the U.S.S.R.

This policy was announced to the press on December 20 as having been decided upon "with a view to conserving in this country certain technical information of strategic importance and as an extension of the announced policy of this Government in regard to the sale of airplanes, aeronautical equipment, and materials essential to airplane manufacture to countries the armed forces of which are engaged in unprovoked bombing or machine-gunning of civilian populations from the air".

In the administration of previous "moral embargoes", action taken pursuant to contracts in effect at the time that such "moral embargoes" were imposed has been understood to involve no contravention of policy by companies carrying out contractual obligations. In this case, however, the representatives of the companies present at the conference on December 1st agreed that the carrying out of the policy explained by Mr. Davis would in some cases necessitate breach of contracts already entered into.

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Joseph C. Green

IMMEDIATE
JOINT RELEASE

WAR DEPARTMENT - NAVY DEPARTMENT

STATEMENT BY ARMY AND NAVY LIMITATIONS BOARD
ON EXPORTS OF ESSENTIAL WAR MATERIALS.

In view of recent activities involving the export of certain strategic materials, the Honorable Charles Edison, Secretary of the Navy and the Honorable Louis Johnson, Assistant Secretary of War, authorized today the following statement by the Army and Navy Limitations Board.

"On October 11, 1939, the Army and Navy Limitations Board in an official release called attention to the possibility that abnormal exports of certain materials classified as strategic might weaken the national defense position of the United States with respect to such materials in spite of the best efforts of the Government to assure an adequate supply of these commodities.

"While there has been a cessation of abnormal exports of some deficiency materials since that statement, the situation in regard to others has become more difficult.

"In the case of crude rubber, for example, there is evidence of a strong demand for unusual exports, especially to European nations. Furthermore the greatly increased re-export of pig tin from the United States to European nations has in the past few weeks become a matter of much concern.

"While the more patriotic and responsible dealers and manufacturers in the United States are cooperating with the Army and Navy Limitations Board in its effort to maintain an adequate supply of these materials in the United States, others, apparently through a lack of appreciation of the situation, or for other reasons, are continuing to engage in export activities detrimental both to the industrial economy of the Nation and to the national defense.

"The War and Navy Departments believe that unless the method of voluntary cooperation can be counted upon to operate with complete effectiveness it will become necessary to use other means to deal with the situation which has developed with respect to the export of crude rubber and tin."

E N D

Regraded Unclassified

DEPARTMENT OF STATE

DECEMBER 20, 1939.

FOR THE PRESS

No. 706

The Department, after consultation with the War and Navy Departments, has decided that the national interest suggests that for the time being there should be no further delivery to certain countries of plans, plants, manufacturing rights, or technical information required for the production of high quality aviation gasoline.

This decision has been reached with a view to conserving in this country certain technical information of strategic importance and as an extension of the announced policy of this Government in regard to the sale of airplanes, aeronautical equipment, and materials essential to airplane manufacture to countries the armed forces of which are engaged in unprovoked bombing or machine-gunning of civilian populations from the air.

The interested American oil companies have been informed of the Government's decision in this matter.

DEPARTMENT OF STATE

FOR THE PRESS

December 15, 1939
No. 692

A letter has been addressed by the Department to all persons and companies registered with the Secretary of State pursuant to the provisions of Section 12 of the Neutrality Act as manufacturers or exporters of the arms, ammunition and implements of war as defined by the President in his proclamation of May 1, 1937, which fall within the general description of "aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes" contained in the President's statement of December 2, 1939, relating to the bombing and machine-gunning of civilian populations from the air. The text of the letter follows:

"There is enclosed a copy of a statement in regard to the bombing and machine-gunning of civilian populations from the air which the President made in his press conference on December 2, 1939.

"In view of the policy to which the President referred, the Department hopes that it will not receive any application for a license to authorize the exportation, direct or indirect, of any aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes to countries the armed forces of which are engaged in such bombing or machine-gunning.

"Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export airplanes or aeronautical equipment, for which licenses have been issued or for which he has heretofore intended to apply for licenses, to countries referred to above, it is suggested that he may wish to inform the Department of the terms of the contract before applying for licenses to export pursuant to it or before exporting under licenses already issued.

"Your attention is invited to the fact that the President's statement refers not only to aircraft and those aircraft parts for which an export license is required but also to aeronautical equipment of all kinds and to materials essential to airplane manufacture."

In view of the fact that the President's statement mentioned above refers to "materials essential to airplane manufacture", a letter has been addressed by the Department to all producers of molybdenum and aluminum as follows:

"There is enclosed a copy of a statement in regard to the bombing and machine-gunning of civilian populations from the air which the President made in his press conference on December 2, 1939.

"I invite your particular attention to the phrase 'materials essential to airplane manufacture' in this statement. Molybdenum and aluminum are included among such materials.

"Should

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"Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export molybdenum or aluminum to countries the armed forces of which are engaged in unprovoked bombing and machine-gunning of civilian populations from the air, he may wish to inform the Department of the terms of his contract."

December 2, 1939.

The President, after consultation with the Secretary of State this morning, released the following statement at noon today: "The American Government and the American people have for some time pursued a policy of wholeheartedly condemning the unprovoked bombing and machine gunning of civilian populations from the air.

"This Government hopes, to the end that such unprovoked bombing shall not be given material encouragement in the light of recent recurrence of such acts, that American manufacturers and exporters of airplanes, aeronautical equipment and materials essential to airplane manufacture, will bear this fact in mind before negotiating contracts for the exportation of these articles to nations obviously guilty of such unprovoked bombing."

IMMEDIATE
JOINT RELEASE

WAR DEPARTMENT - NAVY DEPARTMENT

STATEMENT BY ARMY AND NAVY MUNITIONS BOARD
ON STRATEGIC AND CRITICAL RAW MATERIALS.

To answer numerous queries that have been made upon the Army and Navy Munitions Board with reference to exports of strategic materials, the Honorable Charles Edison, The Acting Secretary of the Navy, and the Honorable Louis Johnson, The Assistant Secretary of War, authorized publication of the following statement issued by the Army and Navy Munitions Board:

"Under the authority of the Act of Congress relating to the purchase and storage of strategic and critical materials for national use during a war emergency, the Procurement Division of the Treasury Department has recently issued proposals for the acquisition of stocks of certain materials classified as strategic by the Army and Navy Munitions Board in consultation with representatives of the State, Treasury, Commerce and Interior Departments.

"The principal purpose of this activity is to assure, in the event war should interrupt the supply, that there will be available in the United States a sufficiency of those materials essential to the industrial economy of the Nation. The materials which will be so accumulated are those which cannot be produced in sufficient quantities in the United States to satisfy vital requirements. The most important of the materials classified by the Army and Navy Munitions Board as strategic are:

Antimony	Quartz Crystal	Silk
Chromium	Quicksilver	Tin
Manganese, ferrograde	Quinine	Tungsten
Wool Fiber	Rubber	

"Since the outbreak of the present war in Europe foreign purchasers have either obtained or are attempting to obtain for shipment abroad, supplies of these strategic materials which have been imported into this country by private interests for use by American industry.

"From the standpoint of national defense it is perhaps imprudent to ship out of the country those materials which can be replaced only by imports, especially at the present time when it is becoming more difficult and more expensive to secure even the minimum imports of many of the materials listed.

"The emergency stock program which has been recently initiated by the Government will be nullified if materials which are normally in stock in the United States not owned by the Government are re-exported. Activities of foreign buyers have resulted in the removal of some 10,000 tons of rubber and an appreciable amount of tin from the market since September 1. Attempts have also been made to obtain ferromanganese and supplies of other strategic materials, either in a raw or semi-finished form now in the United States for export.

"Such sales are condemned by the more patriotic and responsible dealers and manufacturers in the United States, who are cooperating with the Army and Navy Munitions Board in its effort to increase the supply of these materials within the country."

E N D

April 26, 1940
10:12 a.m.

H.M.Jr: Hello.

Operator: Secretary Johnson

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

Louis
Johnson: Good morning, Mr. Secretary.

H.M.Jr: How are you?

J: Fine, how are you?

H.M.Jr: I'm pretty well. Louis.....

J: I'd hate to have all your troubles.

H.M.Jr: What?

J: I'd hate to have as many troubles as you have.

H.M.Jr: Well, these are times when -- we've all got to grin and bear it.

J: That's what I'm doing -- just doing the best I can to back up you and the President and the rest of them.

H.M.Jr: But I've had -- good fortune has stayed with me. Louis, Mr. Purvis tells me that these two Ambassadors.....

J: I don't hear you, Mr. Secretary.

H.M.Jr: These two Ambassadors sent those letters over for official O.K. of their governments. Hello?

J: Yes.

H.M.Jr: And that they ought to be back today or tomorrow.

J: Fine.

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H.W.Jr: The letters are written but they wanted the official approval of the British and French Governments.

J: And of course we want that too, so we never get criticized.

H.W.Jr: Well.....

J: I don't care what the form of it is, Mr. Secretary. So it complies with the.....

H.W.Jr: Well, I think.....

J: -- the President dictated.

H.W.Jr: I think it will and they -- they telephoned yesterday and asked them please to hurry up, but the letter has been written and is just waiting -- it's been signed; it's waiting for the two governments to release it from abroad.

J: Well, we said nothing about it down here.

H.W.Jr: No, you -- I should say that you'd surely get it by Monday.

J: Well, we're going along, Mr. Secretary, just as though we did have it, except not releasing the contracts or we're not telling anybody we haven't.

H.W.Jr: Well, they've given me a sort of provisional letters, you know, these written to the manufacturers so they can go ahead and spend the money.

J: That's right.

H.W.Jr: I mean, the British have done that.

J: Well, we've told the manufacturers that there'd be no hitches we were sure and go ahead. So they're.....

H.W.Jr: So they're going ahead.

J: They're going ahead. No time is being lost.

H.W.Jr: Right.

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J: But I want to get our file complete and that's the only thing that's left.

H.M.Jr: Now, I'm counting on you to keep Woodring posted because -- what we're doing on these planes, because I have no contact with him.

J: Well, the air corps -- we advise him of everything.

H.M.Jr: You do?

J: Yeah, I've told him -- the air corps keeps him advised of every move we make back here. They've been doing that religiously since the President gave me that "go signal".

H.M.Jr: I mean, they do let him know.

J: Yes, sir.

H.M.Jr: So he can't announce some day that he doesn't know what's been going on.

J: Well, Mr. Secretary, he can't truthfully announce it. I want to say that.

H.M.Jr: I see. O. K.

O. K., all right.

J: Right.

H.M.Jr: Goodbye.

J: Goodbye.

April 26, 1940
11:14 a.m.

Operator: Go ahead.

H.W.Jr: Hello.

Edward
Stettinius: Hello, Mr. Secretary.

H.W.Jr: How are you?

S: I'm fine, sir, how are you?

H.W.Jr: Is your boy all right?

S: Oh, he's getting along. He had a -- pretty messy time but he's getting along all right, thanks.

H.W.Jr: How old is he?

S: Oh, he's a little -- just seven years old -- a little eye -- nose and throat trouble.

H.W.Jr: But he's all right.

S: Yeah. Thank you, sir.

H.W.Jr: O. K. Look, I want some help.

S: Right.

H.W.Jr: The Allies have been fussing around now for four months in regard to tungsten.

S: Tungsten.

H.W.Jr: Tungsten.

S: Yeah.

H.W.Jr: And it's a question of how much tungsten the Chinese have for sale and I'll tell you -- the figures run between ten and fifteen thousand tons that the Chiang Kai-Shek Government has or can produce within a year. Hello?

S: Yes.

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H.W.Jr: They tell us that they have to sell about four hundred tons of that a month to the Russians, the Chinese do.

S: Yeah.

H.W.Jr: So that leaves between five and ten thousand tons that, theoretically, they would have for sale.

S: That the Chinese would have for sale?

H.W.Jr: Yeah. They also have a lot of tungsten down in Indo-China which the French are sitting on.

S: Right.

H.W.Jr: And so far haven't done anything about.

S: Right.

H.W.Jr: But that is not in the picture for the minute. Now, the English and French say that they can use five thousand tons of tungsten.

S: Use how much?

H.W.Jr: Five thousand.

S: Five thousand?

H.W.Jr: Yeah.

S: Yeah.

H.W.Jr: And they want to know how much American industry can use and how much we might buy for the strategic war pile, see?

S: Right.

H.W.Jr: Now what I wanted, I'm giving you the whole facts so that you have the whole picture,.....

S: Right.

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H.M.Jr:whether you could find out in the steel industry, whether through Steel Institute or whatever way you think best, I don't know how to do it, you see.

S: Yeah.

H.M.Jr: And I'd like you to do it for me.

S: Right. Be glad to.

H.M.Jr: What the requirements of the American industry for tungsten will be for the balance of this year.

S: Of American industry as a whole.

H.M.Jr: As a whole.

S: Broken down by individual industries.

H.M.Jr: Yes.

S: Right. For the balance of this year.

H.M.Jr: And how -- and how they go about buying it, are there two or three channels, I mean, through which they clear. You see?

S: Right.

H.M.Jr: I mean, I don't know, maybe there are one or two brokers or one or two companies or.....

S: I can do the whole job for you and get a quick report and give you all the necessary facts.

H.M.Jr: You see, and then -- so that -- and, for instance, if they're short of tungsten right away maybe we could get some for them out of Indo-China, you see?

S: Yeah. Indo-China.

H.M.Jr: Yes. I don't know, but I want to get the picture of what are the needs of the American industry.

S: Right.

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H.M.Jr: Now you know -- you see, I'm anxious to help them get for your own confidential information, so that you get the picture.

S: Sure.

H.M.Jr: They are not selling any nickel.

S: On what?

H.M.Jr: The -- International Nickel are not sending any nickel to either Japan or Russia.

S: Yes, I knew that.

H.M.Jr: Well now, of course that is quite a lot and they deserve it -- I mean, they want credit for it, you see?

S: Yes.

H.M.Jr: Now, in return for that they want some help on this tungsten thing.

S: Sure.

H.M.Jr: And I'd like to give it to them.

S: Right, sir.

H.M.Jr: But -- so if you could find out very quietly and -- just what the picture is in the United States and what our own needs are.

S: I'll get it.

H.M.Jr: And look ahead as far as you can, I say the rest of the year, maybe you want to give it to me -- I don't know whether it's a seasonal factor or whether.....

S: Right.

H.M.Jr:-- whatever it is.

S: I'll get you a full survey of the entire problem and if I get it by -- what, next -- the middle of next week all right?

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H.M.Jr: That's all right. Now there's one other thing, if the question of re-export comes up in that. I don't know whether we re-export or not.

S: Yeah.

H.M.Jr: Either in a semi-finished or semi-refined or whether that comes into the picture also.

S: Yeah.

H.M.Jr: You see?

S: In other words, it -- the full survey on the tungsten situation as it affects ourselves at the moment.

H.M.Jr: Yeah, and also whether we re-export any of it in a refined or semi-finished.

S: Right.

H.M.Jr: You see?

S: All right, sir.

H.M.Jr: And while you're thinking about it -- I mean is there anything we should ask in return, you see?

S: Yes.

H.M.Jr: You see?

S: I understand. I get it.

H.M.Jr: Right.

S: I tell you I'll have something in your hands by the middle of the week.

H.M.Jr: Yeah, now how's your own business?

S: Our own business is holding up fairly well. Incoming orders are down again.

H.M.Jr: I see.

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S: The last time we talked, about the time that you went down to Sea Island, down to Georgia, we -- they -- I told you they were on the "up" and they looked pretty hopeful.

H.M.Jr: Yeah.

S: Now they've slipped down again in the last three weeks; incoming orders have been consistently down.

H.M.Jr: I see.

S: However, we have a very good back-log and production is holding up.

H.M.Jr: I see.

S: And I think that -- I don't think we're going to have -- I think, still believe, as I told you two weeks ago that the downward trend has been arrested.

H.M.Jr: Yeah.

S: We've scraped bottom.

H.M.Jr: Yeah. You still think so.

S: I still think so, yes.

H.M.Jr: I see.

S: And I can't -- and particularly with this buying -- I had lunch this week with Arthur Purvis and his boys on another problem.

H.M.Jr: Yeah.

S: And.....

H.M.Jr: On vanadium wasn't it?

S: Yes.

H.M.Jr: Yeah.

S: And they both indicated to me at that time that there was certainly going to be some steel tonnage coming very, very soon.

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H.M.Jr: Yeah.

S: I'm trying to be helpful to those fellows in any way I can.

H.M.Jr: Well, I -- I'm glad you are because they need it.

S: Yeah, I'm sure they do.

H.M.Jr: They need it badly.

S: Righto.

H.M.Jr: Thank you.

S: Thanks ever so much.

H.M.Jr: Goodbye.

S: Goodbye.

GROUP MEETING

April 26, 1940
9:30 a.m.

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

H.M.Jr: I love this heading here, "Wallace" and "Black Face."

Gaston: I read it three times before I made it out.

H.M.Jr: Where is Merle Cochran? Merle, when a cable like this one comes in from the American Consul General at Shanghai that really seems important, I wish somebody would flag it for me. It came in at 3:00 yesterday.

Cochran: You had a meeting on it yesterday at 9:00 o'clock. I could have gotten it in then.

H.M.Jr: I had copies and had them sent over across to have them check it, but this to me is very important and I wish you would stay a minute or two afterward. I want to condense it and send a copy to the President. I got half of it and sent it last night. But I mean, when something like that - there is so much junk that comes in that this thing - McKay comes in here about four times an hour with stuff.

Cochran: I will do that.

H.M.Jr: I would have gotten that last night to the President. With what he had, it would have meant something.

Norman?

Thompson: Captain Fuleston has had a man detailed to him from the Federal Reserve Board on a permanent basis. He is very satisfactory.

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H.M.Jr: What fund?

Thompson: Stabilization.

H.M.Jr: Dan?

Bell: The Home Owners Loan sent us a copy of a press release on May 8 stating that they intend to pay off 128 million on May 15. I think they should release it immediately, don't you, rather than waiting until May?

H.M.Jr: On releases, there was this thing on the ticker yesterday that - the great mystery and secretive-ness about the refund for Armour & Company. Now, if this board, or whatever they call the thing over there, Internal Revenue, tax refund, when they do something why shouldn't it be released at once?

Schwarz: That turns out not to have been a Processing Tax Board of Review case.

Sullivan: Not only processing taxes, but income taxes, on which we are not free to give out any material. The Commissioner came over yesterday afternoon about half past 5:00 and brought with him a memorandum for you. He asked me to give it to you this morning.

H.M.Jr: What does it say? Don't give it to me.

Sullivan: He has an excerpt, a very short one, of what he would like to have if there had to be anything.

H.M.Jr: You decide it and do whatever you think best.

Sullivan: All right, sir.

H.M.Jr: But I don't like this idea of whether there is any mystery about whether we do or don't give a refund. I would rather have you say something.

Schwarz: We said something last night very briefly in order to counteract the earlier story.

H.M.Jr: Will you handle it?

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Sullivan: I will, sir.

H.M.Jr: While we are on that, this Processing Tax Board, when they make a decision, you (Schwarz) said you had trouble with them to get any information.

Sullivan: This was not before the Processing Tax Board.

H.M.Jr: But when it is and they do decide, why can't they announce it the same minute, the way the Board of Tax Appeals does?

Sullivan: They should.

H.M.Jr: They don't, according to Chick.

Sullivan: I will see that they do.

H.M.Jr: Who does that come under?

Sullivan: Schwartz.

H.M.Jr: The Board?

Sullivan: The Commissioner.

H.M.Jr: Schwarz tells me when they make the decision he can't get what they do over there, the Processing Tax Board, and they ought to do it the way the Board of Tax Appeals does, when they decide anything, so that no insider can get a tip. If Armour was released at eight million dollars and some insider knew it, that is worth money and the minute they decide anything it ought to be immediately given out to the press.

Sullivan: That is the Processing Tax Board of Review.

H.M.Jr: Yes. Will you see that that is done?

Sullivan: Yes, sir.

H.M.Jr: And that is not the case now.

Schwarz: That is correct. That was within the Bureau.

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H.M.Jr: What I am saying is correct, isn't it?

Schwarz: Oh, yes.

H.M.Jr: That they do not?

Schwarz: They do not.

H.M.Jr: You take care of that. Do you agree with me?

Sullivan: Oh yes, I do. It is a public record before the Processing Tax Board of Review.

H.M.Jr: But they are not giving it to Chick Schwarz.

Sullivan: I didn't know that.

H.M.Jr: Chick says so and most of the time Chick is truthful, not all of the time but mostly. Like yesterday, they asked when I gave out this letter and Chick says, "Oh yes, the Secretary gave it out," and it turned out it was given out by Darny Bell and I had to admit that I didn't read the letter and Chick leaves the impression I signed the letter and didn't read it, about gold and all that.

Schwarz: The Acting Secretary read it.

H.M.Jr: But you left the impression that I sign lots of mail and never read it. Nice friend I've got. Did you know that? You hadn't seen it either, had you?

Schwarz: I hadn't seen the second page.

H.M.Jr: Does Dan tell you what he does?

Bell: Not everything, but almost.

Schwarz: We asked the legal division six times for that letter when it was ready.

White: You had better not push this any further.

Sullivan: On the Armour case, the Commissioner went through that with you and had it checked.

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E.M.Jr: I know, but that doesn't put the responsibility on me on releases.

Sullivan: Oh, no.

E.M.Jr: He was very careful and told me all about it a month or so ago, at least a month.

Sullivan: January 18.

E.M.Jr: But I think Chick has a good point on this Processing Tax Board.

Sullivan: But it wasn't in this case, though.

E.M.Jr: No, but he has a good point.

Sullivan: I will take care of that.

E.M.Jr: Dan, have you been signing any more letters for me?

Bell: I didn't know I signed that one. We have through the State Department a copy of a dispatch from the American Minister at Stockholm sending along a petition from the Protective Committee for Swedish holders of voting trust certificates in the International Match Realization Company in Delaware. They are objecting to the tactics and the charges of the Irving Trust Company and their lawyers for liquidating this Delaware Corporation. So far, to date, they have taken about seven percent of all the receipts for salaries and expenses and lawyers' fees.

E.M.Jr: That is why I am having my second son to be a lawyer, so he can support me in my old age.

Sullivan: It was only seven percent?

E.M.Jr: Not enough?

Sullivan: No.

White: They are going to get the other thirty when the dumping case goes through next week.

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H.M.Jr: What should I do, Dan?

Bell: I don't know why they sent it to us. I suppose we might find out whether the Irving Trust Company is under the Federal Reserve System and see what the bank examiners would do. It is not a national bank. I don't know just what the Treasury should do. It might be SEC.

H.M.Jr: Refer it to the Committee of Ethics, American Bar Association.

Cotton: Who are the Swedes' lawyers? Better talk to them.

H.M.Jr: No, I would just pass it on.

White: I don't know whether it has any bearing and I am not sure of the details, but on the case that we are about to pass on, a dumping case which involves a very large possible return of funds to that estate and a very large lawyer's fee, I take it, because the lawyers are pressing us - the case is many years old.

Bell: Want to read it?

White: I don't know whether you want to find out about that case first.

Bell: Read it and let me know. It is one of the largest and longest cases that has been in the Treasury.

White: The fines are almost as high as the ceiling.

H.M.Jr: Dan, being me and being of a suspicious nature, there is no hook-up, is there, in the fact that the State Department is pressing us so hard to release the Norwegian funds to the Minister of Norway and the fact that yesterday the President declared they were belligerents? Would there be any tie-in?

Bell: I don't know. I didn't hear of that until it came out in the paper.

H.M.Jr: Neither did I. But could he have laid his hands on the HVC money before? Were we tying up

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anything that he can't get today that he could have gotten yesterday due to the President's action? Take a look into it, see. Just look at it from that point.

Bell: But my suspicions were aroused on another line. I thought they had really told the Norwegian Minister that he could have free access before they consulted us and they are trying to get us to uphold that decision.

H.M.Jr: Well, if you want to see how the Norwegians act, the things they pull, read this article - read this Captain's story, the experience he had up in Narvik. He and I both - I mean, he gets this American Consul in Sweden and he doesn't even know the boat exists or is there and he calls up my friend the American Minister in Bergen and he doesn't hear from him again. What a shellacking he gives the Consulates. Read the thing.

Cochran: I will.

H.M.Jr: And he has to go to the German Consul there in Narvik to get any service. He gave it to him, too, but the American Consul in Sweden - I mean, the first thing I should think the State Department would do - there couldn't have been more than two or three boats in these ports and they would have gotten right on the job and kept a day and night watch to see that these fellows got out and got word what they should do, but for four or five days he sat around waiting to be told what he should do and he had four and a half million dollars in gold and he said finally he had to make up his own mind. He didn't know whether he did right or wrong. But he sailed.

Bell: He took quite a chance.

H.M.Jr: I take off my hat to that fellow. He was on the spot. Certainly I feel - and he certainly in a very polite way let them know what the - because I told Mr. Hull, told the President about our Consul in Bergen. I mean, the fellow ought to have been moved out of there a long time ago. I don't know who the Consul in Sweden was. Don't take it personally, Merle, you are in the Treasury.

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Cochran: No. This man in Bergen is a poet.

H.M.Jr: Ask McKay what he thinks of him. The Consul in Bergen didn't even know where the Standard Oil had their tanks. He didn't know they were three miles out of the harbor. He didn't know where their reviewing station was. He had a ship run right into the harbor and then he fusses around for half a day - he said it wasn't in the telephone book, how should he know where it was located.

White: How is his poetry, Kerle?

Cochran: He translates Swedish and Norwegian folklore into English poetry.

H.M.Jr: But Mrs. Morgenthau said, "What happens to all these brilliant boys, the ten out of a thousand who pass the examination?" She said, "We never met them when we traveled abroad." I mean, the ten who passed the examination out of a thousand for foreign service.

White: What makes you think they picked the ten most brilliant?

H.M.Jr: All right.

What else, Dan?

Bell: I just wondered if you had seen that article in the Economist.

H.M.Jr: Jay Crane said I should read it. Is it right or wrong?

Bell: I don't know whether it is right or not. They say about ten percent.

H.M.Jr: Let Harry read it for me.

Bell: Have you read it, Harry?

White: I don't know which article you are referring to.

Bell: They claim it is easier to have a free market with a small volume.

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H.M.Jr: What else do you know?

Bell: That is all.

H.M.Jr: Also continuing my suspicious nature, I just wondered what the British would get out of Norway if she lost Norway to the Germans, the territory. This is a rather interesting thing. Great Britain has 4,600,000 tons of tankers, oil tankers - incidentally, tankers are very scarce - when they went into Norway. Norway has 3,000,000 tons and we have four and a half. So she could still lose Norway and win. She has gotten hold of 3,000,000 tons of oil tankers. It is terribly important to the English. I just thought it was interesting.

Harold?

Harry?

Incidentally, you people are coming in on that Strategic Materials. Instead of 10:15, we will make it 10:30. That is you (White) and Merle. Who else is on Strategic?

White: Young, and you wanted Foley there at the time.

H.M.Jr: Are you (Foley) going to be on the Bill? Do you want to leave now? What time are you due up there?

Foley: 10:00 o'clock.

H.M.Jr: Perfectly frankly, for the sake of the bill, could I help or would it be better if I stay here?

Foley: Well, I think it would be better for you to stay here for a while.

H.M.Jr: All right.

Foley: And if I think it is necessary, I will give you a ring and you could come down, but certainly you couldn't do anything between now and the time it will come up, which may be around 1:00 o'clock.

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H.M.Jr: Well, I have got an invitation for lunch but this bill comes first. Don't hesitate to let me know, see. Do you want to go now?

Foley: Yes.

H.M.Jr: Or Dan, if you want him.

Foley: Well, I don't think so now.

H.M.Jr: Well, my only thing is "54-40 or fight." I would rather lose my bill than to give in to what they want.

Foley: Well, I arranged with William not to bring the bill up in the House today so we can see what we get out of the Senate first.

H.M.Jr: Well, I have slept on that thing and I would rather go into court than have - be dragged through the courts than to give in to what they want.

White: Does he know the compromise?

H.M.Jr: I called on you fellows here at 9:30 last night. I thought it would be nice to see you all working here.

White: We were all working until 1:00 o'clock.

H.M.Jr: Here?

Foley: No, out at Bernie's, which is most convenient for Harry. I picked up Harry and we worked out there. We had Miss McGuire and a typewriter out there. We worked until after 12:00. We have got the stuff ready.

H.M.Jr: Good.

Foley: We have a compromise in so far as the language is concerned which would give Austin and --

H.M.Jr: Where were you, at Bernie's?

Foley: Yes.

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Gaston: Do you want a wire tapped?

H.M.Jr: No, I just thought I saw all the lights here and I had half an hour here and I thought I would come in and be helpful, but they said you were out at Bernie's. Cheer up.

White: At half past nine you would have caught us drinking.

H.M.Jr: At Bernie's? All right.

Foley: I think we are all right.

H.M.Jr: There is something wrong somewhere. It is a wonderful system. They turn on all the lights in the General Counsel's office. Everything was blazing and I walked by and I said to myself that I ought to go in and give them a pat and the lights were on in the whole suite of offices.

White: You know where he got that technique, don't you? Johnny Hanes always used to have his lights on. He ordered the man on the floor - that is the way we got the story - to keep his lights burning every night.

H.M.Jr: I went by so I stopped in.

Sullivan: They still do.

H.M.Jr: Not as much as they used to. I said, "Is Mr. Foley here? All his lights are on." "Oh no, he is not there." "Well, find Dr. White." "No, we have tried all the phones and we understand they are out at Bernstein's," and I said, "Well, I didn't know, but the whole suite of offices are lighted and I thought I would say good evening."

Foley: O. K.
(Mr. Foley left the conference)

H.M.Jr: When Ed Foley hasn't got an answer, there is something wrong. And Harry hangs his head. It is all right. Come and see me later, Harry.

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White: There is a meeting at 11:00 o'clock of the Executive Committee on Commercial Policy following up your suggestion that they consider this dual rate. They apparently haven't lost much time and I said I might be late there, having this meeting, but I can send Bill Johnson.

H.M.Jr: Come in at 10:15 and it will be through quickly.

White: All right. For the first time there was going into the Bulletin the figures of a breakdown by countries of their assets, which we got in response to your request that we have all the countries instead of lumping them by area, but the figures are startling in certain instances and may raise questions which I think it would be probably better to avoid. I spoke to Chick and he agrees with me. For example, it shows that Norway has fairly large dollar balances, that Finland has substantial amounts, and that China has a very large amount and somebody may pick it up and want to know why it is that we are making loans when they have got these large amounts.

H.M.Jr: Are these new figures?

White: These are figures that we have got new, yes. They have never been published before.

H.M.Jr: Never been published before?

White: No.

Schwarz: It is a breakdown. We published it by area.

H.M.Jr: As of the 31st?

White: These figures are three months late.

H.M.Jr: I would publish them.

White: Would you?

H.M.Jr: Absolutely. That is the purpose of the Bulletin. You never can go wrong by giving information.

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Schwarz: With answers.

White: We had better be prepared to get more information on those Chinese balances. We asked about them and they gave us an explanation, which accounts for a goodly portion, but there is still a very large amount of dollar balances in the hands of the Chinese.

H.M.Jr: If we have it and it is three months old, I would put it in the Bulletin. Let them do the explaining. They might give me an answer, too. I would do it. I don't think you would ever go wrong on that as long as it is three months old. I would do it, Harry.

White: O. K.

H.M.Jr: What else?

White: That is all.

H.M.Jr: George?

Haas: I have nothing this morning.

Young: No comment.

H.M.Jr: You are getting your figures from Spain, I see - I mean Italy - the Milan figures.

Haas: Oh, Milan, yes. There wasn't much to comment on in this last cable. He said the climb was due to speculation.

H.M.Jr: But they are going down?

Haas: Yes.

H.M.Jr: Chick?

Joe?

Cochran: Pinsent is back in town. He has been away for over a month. He is coming in sometime today.

H.M.Jr: Then he can handle the thing in London. I have got a call in for Bullitt and I am checking up on this cable.

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Cochran: All right.

Sullivan: We are prepared now to arrange to dispense with duplicate tax returns next year and I think that is the matter Mr. Knollenberg was interested in, duplicate tax returns, the extra copy which is required to be filed.

H.M.Jr: Are you going to do away with them?

Sullivan: Yes, sir.

H.M.Jr: For another year?

Sullivan: That is right. I wondered if you wanted me to take it up with him the way we were doing it.

H.M.Jr: O. K. I don't remember it. You handle it.

Sullivan: All right. You asked the other day who was charged with the responsibility of enforcing the Vinson-Trammell Act. Did you want a memo just what your duty is?

H.M.Jr: Yes, I would like one.

Sullivan: I have one, a memorandum from Mr. Tarlean to me, but I will put that in more concise form.

H.M.Jr: I would like that.

Sullivan: I signed a wire for Mr. Harris yesterday to the Collector of Customs about some German Consular agents arriving in California on a Japanese steamship going to South America. Did you want to be kept in touch with that?

H.M.Jr: Herbert Gaston is handling that.

Gaston: We got a formal request from the State Department.

H.M.Jr: Anything else?

Sullivan: That is all.

Gaston: The usual telegrams went out in connection with a notice of proclamation to Customs and Coast Guard.

H.M.Jr: O. K.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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The sterling rate again moved narrowly in a quiet foreign exchange market. After opening at 3.50-1/2, the rate improved to 3.51-1/4 by noon. The closing quotation was 3.51.

Sales of spot sterling by the six reporting banks totaled £190,000, from the following sources:

By commercial concerns.....	£ 104,000
By foreign banks (South America and Europe).....	£ 86,000
Total.....	£ 190,000

Purchases of spot sterling amounted to £251,000, as indicated below:

By commercial concerns.....	£ 115,000
By foreign banks (Europe).....	£ 136,000
Total.....	£ 251,000

The following reporting banks sold cotton bills totaling \$7,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 5,000 by the Guaranty Trust Company
1,000 by the National City Bank
1,000 by the Chase National Bank
£ 7,000 Total

The Guaranty Trust Company reported that it had purchased £10,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used to pay for shipments of rubber.

Evidence that pressure against the guilder has lightened was afforded today by the advance in the rate for that currency to .5313. The final quotation was .5311-1/2.

The belga, which fell from .1690 to .1684 yesterday, quickly returned to the higher rate this morning following the report that the Belgian Cabinet had withdrawn its resignation. It closed at .1688.

The other important currencies closed as follows:

French francs	.0199
Swiss francs	.2242-1/2
Canadian dollars	15% discount

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We sold \$215,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

We purchased the following amounts of gold from the banks indicated:

\$1,000,000 from the Netherlands Bank
534,000 from the Central Bank of Peru
<u>\$1,534,000 Total</u>

The Federal Reserve Bank of New York reported that the Netherlands Bank had made two shipments of gold totaling \$6,208,000 from the Netherlands. This gold is consigned to the Federal Reserve Bank, to be earmarked for the Netherlands Bank's account. These shipments are the first which the Dutch central bank has made directly from the Netherlands since February 17.

The State Department forwarded to us a cable stating that the Chase Bank, Hong Kong, shipped \$2,267,000 in gold from Hong Kong to the Chase National Bank, San Francisco, for sale to the U. S. Mint there.

The Bombay spot silver quotation rose the equivalent of 5/16¢ to 41.66¢.

The prices fixed in London for spot and forward silver both declined 1/8d to 20-13/16d and 20-3/4d respectively. The U. S. equivalents were 32.84¢ and 32.46¢.

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

We made four purchases of silver totaling 300,000 ounces under the Silver Purchase Act. Of this amount, 50,000 ounces represented a sale from inventory, and the remaining 250,000 ounces consisted of new production from foreign countries, for forward delivery.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 26, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *[Signature]*
 Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

April 15: Argentina continues to sell corn to the United Kingdom and Continental Europe in good quantities.

April 16: Canada sold just slightly less than 10,000,000 bushels of Canadian wheat to the United Kingdom.

April 18: There were a few small lots of American wheat sold from the Pacific Coast to Europe for export. Canadian business is at a standstill.

Portugal is in the market for American wheat but will not send boats to the Pacific Coast. There are still about 750,000 bushels of American wheat at Montreal that were subsidized on previous programs and held there for exportation to Europe later. It is quite probable that the firms owning this wheat will be able to get the Portugal business.

Argentina continues to sell wheat in good quantities. Shipments from there last week amounted to 3,500,000 bushels, with Brazil taking 1,000,000 and the Continent 2,500,000. It is evident that the last Government crop estimate of 118,000,000 bushels on Argentine wheat is too low.

April 19: There was one cargo of American wheat sold to go from Montreal to Portugal. This was wheat that was previously subsidized and has been stored in Canada. The Portuguese government is interested in two more cargoes that are in store there.

Export business in Canadian wheat was estimated at 200,000 bushels, mostly in small lots.

England has announced a reduction in the amount of freight room allotted to cotton from 100,000 bales monthly to 50,000 bales, beginning May 1. This,

Secretary Morgenthau - 2

together with warmer weather and rather good showers in the South, accounted for some weakness in the cotton market.

April 20: Export business in American grain was negligible with Canada reporting a few small lot sales.

It is reported that spring grain planting up to April 10 in Russia was much behind the planned acreage. The situation is especially bad in the Ukraine.

April 23: There was no export business reported in American grain and only a few small lots of Canadian wheat were reported sold to Continental Europe.

England has been a good buyer of Argentine wheat during the past few days. With very little wheat remaining for export in that country, it is quite probable that their futures market will show a steady advance.