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RE EXCESS PROFITS TAX

July 11, 1940
11:00 a.m.

Present: Mr. Sargent
Mr. Richardson
Mr. Chamblin
Mr. Sullivan
Mr. Foley

Sargent: Well, Mr. Secretary, the primary purpose of our visit here is to tender any cooperation that we might be able to give through the Association on the tax problem which confronts you. We realize, of course, the fact that it is necessary in many ways to provide for raising an additional amount of revenue and we appreciate also the fact that it is a very complicated job to do that in such a way as to raise the revenue in a way which will provide a measure which will be administratively as reasonably workable and do as little harm to industry as may be necessary, particularly in respect to not providing any handicaps for the defense industries which we must seek to promote.

We appreciated enormously the opportunity offered last year by you to work with you and Mr. Hanes in connection with some general tax proposals and in connection with Social Security matters. In some conferences which we held, as you know, privately and to which we never gave any publicity or anything at all, the fact that we had been in conference with you was also appreciated. We were able to work out some things which we thought afterwards were --

H.M.Jr: It was helpful.

Sargent: Resulted in improvements, and we are very willing and desirous, if it would be agreeable to you, to work in the same way with this excess profits tax.

H.M.Jr: The work you gentlemen did with us on Social Security was distinctly helpful. Well, Mr. Sullivan is the man for the Treasury and we have got to the point that you gentlemen saw yesterday. Let me ask you gentlemen, is the Government - the first question I want to ask - sufficiently far along so that we are actually placing contracts?

Sargent: Well, you should know better than we should, Mr. Secretary, but my own guess is that - of course, all of these conferences, we understand, outside of the fact that you keep a record for yourself, are not for publication in any way - that there is a large amount of talk about the necessity of raising a large amount of additional money, but that as a matter of fact it is physically impossible to place contracts fast enough or to provide for the completion of contracts fast enough even after the contracts are placed, to require the expenditure of any large amount of money within, say, a short period of months or anything of that sort. In other words, if you should work out a schedule of the dates when you will probably make the payments of money under all of the contracts, billions of dollars which are placed, they would probably be fairly widely spaced.

H.M.Jr: Well, that is the impression I had, but the people you are in contact with - this proposed legislation on excess profits, is that holding them back at all?

Sargent: Well, I don't think that is holding it back as much as some other things. For example, the question of specifications and tolerances in connection with many contracts is a very great deterrent, and I understand that Mr. Nelson is doing some work endeavoring to get that straightened out.

We have run across, for example, many instances where specifications are either woefully incomplete or over-complete. For example, I

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heard the other day a story - you hear many such stories, undoubtedly - of a company which - where some Government people went to them and said, "We want to have some tanks built." "Well, what kind of a tank do you want?" "Well, we don't know exactly, but we want a tank so many feet long and so many feet wide to carry guns of a certain weight." "Have you any other specifications?" "No, we have none at all. We have a limit of price and we think you ought to be able to do it for about 200 thousand dollars," and that was all the company was given in the effort to work something out, Mr. Secretary.

H.M.Jr: It is a good story, anyway. By the time I tell it, I will improve on it.

Sullivan: I don't think you could, much.

H.M.Jr: I guess you are right.

Sargent: And then on the other hand I had a man tell me yesterday who was in charge of a large manufacturing plant that some of the Navy people came and they had specifications years ago for a certain radio which was a very fine radio, 1924, and they had the exact specifications and wanted some more radios built exactly like that. He said that today there are radios so far more efficient than that that it is perfectly silly to make that particular radio at all. We hear all sorts of incidents of that sort from our members, Mr. Secretary.

H.M.Jr: Not too good, is it?

Sargent: No, sir.

H.M.Jr: Well, I think if, John, you take these gentlemen - they were very cooperative with the Social Security thing and it is a very - it is a two way avenue, both for distributing the facts and getting your constructive criticism, and I haven't had any trouble with their working in silence, which is almost impossible in Washington.

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Sargent: We should be very glad to do whatever we can, both in considering principles of these taxes, and efforts to apply principles.

H.M.Jr: So I don't know when is a good time for you.

Sullivan: Well, I have got three different groups working in three different places now, and I am just milling around. I was asking if they were all here in Washington all of the time or --

H.M.Jr: Well, you fix it up with them. How is that, gentlemen?

Chamblin: Mr. Richardson and Mr. Sargent are both in New York.

H.M.Jr: They like to come down here.

Sargent: We can come down here any time.

H.M.Jr: They like our climate.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE JULY 11, 1940

TO Secretary Morgenthau
FROM Mr. Foley

For the Secretary's Mary

At a conference held at Mr. Sullivan's home between 8:30 and 12 o'clock Monday night, July 8th, there were present Messrs. Henderson, Nelson, Forsyth, Mayhew, Ginsburg and Biggers (who came in about 10 o'clock) representing the Advisory Commission of the Council of National Defense, and Messrs. Sullivan, Foley, Paul and Kades of the Treasury Department.

The representatives of the Advisory Commission urged that the proposed amortization allowances considered in the office of the Secretary of the Treasury at a conference earlier in the day be approved by the Treasury and submitted to Congress for enactment into law this week without waiting for the submission of an excess profits tax. Mr. Sullivan stated that he thought no time would be lost if the amortization proposal was submitted on July 22 along with the excess profits tax and opposed sending the amortization proposal to Congress separately. In answering objections that this would mean long delay while hearings were held on the excess profits tax, Mr. Foley pointed out that the two could be separated if it appeared that there would be any real delay and the execution of contracts was actually held up pending enactment of the amortization deduction. No agreement was reached as to when the amortization proposal should be submitted to Congress.

The next point considered was upon whose certification the amortization allowance would be granted by the Commissioner of Internal Revenue. Mr. Sullivan expressed the view that the initial certification of the cost and necessity of the special additional facilities should be made by the Navy and War Departments, as the case might be, and should be concurred in by the Advisory Commission. The representatives of the Advisory Commission felt that the War and Navy Departments would certify anything and that the interests of the Government would be better protected if the Advisory Commission had sole power. Mr. Foley pointed out that the Advisory Commission would have to get its information from the service departments in any event but the representatives of the Advisory Commission indicated they thought to require initial certification by the service departments would result in delay. No decision was reached as to what agency should make the certification.

A long discussion of the need for special amortization deductions took place with Mr. Henderson presenting the viewpoint of the Advisory Commission for the most part, supported by Messrs. Biggers and Nelson. Their argument ran to the effect that in order to make investment in new plant capacity attractive to private capital it was essential that the privilege of writing off such plant facilities rapidly be assured and that in this way not only would the national defense program be expedited and redundant capital utilized, but prices would be stabilized and kept from rising without the Government losing any revenue in the long run.

Mr. Sullivan stated he was not convinced as to the need for special amortisation allowances of such a liberal character, pointing out that no concern had ever refused a government contract up to date. Mr. Foley indicated he thought a distinction should be drawn between jigs, tools, dies and machinery on the one hand and the acquisition of land and construction of buildings on the other hand and that although a four-year period might be reasonable for machinery it was rather short for permanent structures. Mr. Kades felt that liberal amortisation allowances would freeze the competitive position of the larger concerns which would primarily benefit, making it almost impossible for smaller business concerns not having the benefit of the allowances to compete. In the absence of effective competition, there was little hope that prices could or would be kept at reasonable levels. Mr. Nelson thought, however, rapid amortisation was very important in stabilizing prices.

Mr. Paul declared that since, once the facilities were amortized, no further depreciation could be taken the Treasury would not lose any revenue but Mr. Sullivan feared that if the Vinson-Trammell Act were repealed and such liberal amortisation allowances permitted, the excess profits tax would not serve the purpose of checking exorbitant war-time profits and raising the revenue anticipated.

Mr. Biggers brought up the point that Mr. Jones was not willing to go through with the plan of financing as contemplated in the draft agreement of June 24, 1940 unless the War and Navy Departments would guarantee the manufacturer obtaining a loan from the RFC against loss resulting from the construction of special additional facilities, thus shifting from the RFC to the Treasury the risk of any loss. Mr. Foley pointed out that this was inconsistent with the arrangement which Mr. Jones had entered into with Mr. Knudsen, that it was not fair to the contracting officers to impose such a responsibility upon them, and that it was not fit for the RFC to make money from the national defense program as it had made profits out of unemployment.

The question of carrying over the 25 percent provision from one year to another up to 75 percent was also considered. Mr. Biggers favored this carry-over because of its flexibility and because there might not be much income in the first year, but he thought a modification might be made whereby no more than 25 percent deduction could be taken in any one year but the taking of the deduction could be postponed at least through the fifth year. It was suggested that if the principle of amortisation allowances was accepted the percentage permitted to be deducted had no true relationship to the amount of net income and that from this standpoint it would be logical to permit some form of carry-over. The fundamental question was whether four years was a reasonable measure of the emergency period and this was reconsidered in conjunction with the possibility of a carry-over without any decision being reached.

E. H. L.

Miss Chauncey:

7

Mrs. Klotz gave me this last night -
said it is very confidential - for the
diary.

She also said she thinks the attachment
goes with it.

7/12

McH

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Credit Suisse of Zurich established in New York last year an organization known as the Swiss American Corporation at 24-26 Pine Street. This is the old home of Speyer and Company, and part of this organization was transformed into the new concern. Mr. George Lindsay, formerly a Speyer partner, is the leading American officer in the Swiss American Corporation. Mr. Straessle, from the home office at Zurich, is here as the head bank's representative. The above-mentioned concern handles the security end of the Credit Suisse business in the United States. Just recently an agency of the Credit Suisse has also been opened at the same address in New York.



On receipt of this I called J. Edgar Hoover and asked him to check personally on this organization and he suggested, and I readily concurred, that we should supervise.

H. M. Jr.

COPY

June 8th.

1.

Some Soviet gold, after being sent to the Reichsbank, Berlin, is sent by the latter to the Société de Banque Suisse, Locle, (Canton of Neuchâtel), where the metal is refined and then shipped to the United States, via Geneva.

We have just learned that, following an approach made to the directors of the Société de Banque Suisse, these have pledged themselves not to take part in Soviet or German gold traffic any longer, and we ask you to watch the activities of the Société de Banque Suisse, and to let us know if this bank respects or does not respect its pledge to the French authorities.

2.

The Reichsbank is supposed to be contacting the "Crédit Suisse" of Zurich to administer the dollar holdings of Germany in the United States.

The Danish banks have endeavoured to transfer their holdings to the "Crédit Suisse" of Zurich. We wish you would secure all information as to the activities of the Crédit Suisse, and to advise us of all and any operations which would appear to be of an irregular nature.

RE DEPARTURE PERMITS

July 11, 1940.
11:30 a.m.

Present: Mr. Bell
Mr. Cairns
Mr. Young
Mr. Harris

H.M.Jr: Now, there is one ship for Casa Blanca?

Cairns: Here is a list of them. The first two have gone. The third has left but can be grabbed. From here on they are being held.

H.M.Jr: "On July 2, 1940, the Assistant Collector of Customs, Port Arthur, Texas, requested permission for the departure of the Spanish Tanker Campuzano for Malaga, Barcelona and Valencia, Spain; cargo, refined petroleum products. This request was referred to Mr. Gaston, and he personally authorized the issuance of a departure permit."

Now, is that being held?

Cairns: No, that left. The second one has gone.

H.M.Jr: "On July 5, request for a departure permit was received from the Collector of Customs, Port Arthur, Texas, for the Panamanian Steamer Loeta --"

She has gone?

Cairns: Yes.

H.M.Jr: And on July 9 --

Cairns: That is an American vessel, the Nevada, which has gone but can be detained at Key West today.

H.M.Jr: At Key West?

Cairns: Yes, if we act soon enough.

H.M.Jr: Now, wait a minute. There is another one at Port Arthur, isn't there? There are two vessels with oil?

Cairns: Three with oil.

- 2 -

H.M.Jr: Where is the third?

Cairns: July 10, the Swedish tanker, Bera --

H.M.Jr: Two were U. S. flags?

Cairns: Yes.

H.M.Jr: Two vessels with U. S. flags with oil for - going to Spain?

Cairns: Yes.

H.M.Jr: Now, which is the next one?

Cairns: The Swedish tanker, Bera, for Spain with oil.

H.M.Jr: I don't want to mix up the U. S. flag and the Swedish flag.

Cairns: Those are the only American vessels involved.

H.M.Jr: Then we have got the famous Vel-Ragnar and then we have got this Casa Blanca thing.

Harris: I think that is the next to the last there. It has sugar.

H.M.Jr: A Greek vessel with sugar for Casa Blanca. Now, the Vel-Ragnar is being held. What about this Greek vessel, is she being held?

Cairns: That is being held; one American vessel is being held, and the Swedish vessel is being held.

H.M.Jr: And the Swedish vessel?

Cairns: Yes.

Bell: Permits have been denied or delayed?

Cairns: Delayed.

H.M.Jr: I guess I have learned my lesson now so I can talk to Hull.

- 3 -

Young: The Vel-Ragnar, I understand that the Swedes are going to unload her unless she clears by one o'clock today.

Harris: That may have come from a suggestion I made to them that --

H.M.Jr: What was that?

Harris: Well, I told O'Keefe if they came in to see him to tell them that it might be just as well to put the munitions on the dock and let the boat go. They were anxious to get the boat off. So maybe they have adopted that.

H.M.Jr: Where did you hear it from?

Young: I heard it through MacMoreland, who got it from one of his Swedish friends.

H.M.Jr: Too much Smorgasbord around here.

Young: Joe Green also had it from one of his Swedes.

Harris: Well, it seemed rather silly to me to hold up a ship for - what is it, 40 or 50 tons, and that can just as well go on the next boat if it is cleared and they might just as well get their boat out.

H.M.Jr: How big a ship is this?

Harris: I imagine she has probably got 5500 tons.

H.M.Jr: And the ammunition amounts to --

Harris: 50 tons, at the most, isn't it?

Young: I don't know what the tonnage is. It is about five million rounds of ammunition.

Cairns: I just have 625 cases of ammunition.

Harris: No, it is 1625 cases.

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Young: That is just three and a quarter million and there is two million rounds of other stuff in addition.

Harris: But those aren't at the dock, are they?

Young: Along with 33,000 gas masks.

H.M.Jr: Well, we wouldn't do anything about the gas masks, would we?

Young: No, they don't require a license. They are defensive material.

Bell: It is a fine line you draw.

(Telephone conversation with Secretary Hull follows:)

July 11, 1940
11:30 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

H.M.Jr: Thank you.

Cordell
Hull: Henry?

H.M.Jr: Yes.

H: I just got -- I've been at work all morning on twenty things, including that oil ship of the Texas company, and I understand that the Maritime Commission is telling them and all like them that it's dangerous to go into that area and they're opposed to their going.

H.M.Jr: I didn't know that.

H: That they haven't got exact statutory law to put the thumb screws to them, but that that is their position so I'm inclined to think that if you would talk with them and get that information at first hand you could discourage these fellows and tell them that we -- give them the reasons that the Maritime Commission has.

H.M.Jr: Yeah, but I've got the -- to issue the license or not to issue the license.

H: Well, then, you -- yes.

H.M.Jr: You see? I mean, I can't argue with the fellows. I mean, supposing they say, well, say yes or no to us and

H: What ground can you refuse license on?

H.M.Jr: Gosh, I don't know. I guess just not do it, that's all.

H: What do you think of your lawyer talking with the Maritime Commission and seeing if there is -- see if you can get a toe hold on that license thing.

- 2 -

H.M.Jr: Well

H: I'd like to see them discourage it in every way possible, I just

H.M.Jr: Well, let's put it this way. If after talking to the Maritime Commission, I decide not to let American flagships -- give them clearance for any reason, you see?

H: Yeah.

H.M.Jr: Would you feel perfectly happy about it?

H: Why, I'd feel all right.

H.M.Jr: That's all I want to know.

H: Your lawyer will

H.M.Jr: Well, I've got plenary power.

H: I see. You have that power so there's no comeback no matter what your ground is.

H.M.Jr: No.

H: I see.

H.M.Jr: I'm all right on that.

H: Yes, all right, Henry.

H.M.Jr: Now, just a minute while I've got you, please.

H: Yeah.

H.M.Jr: That takes care of these U.S. flagships, you see, with oil. Now we're holding a Swedish ship loaded with oil for Spain.

H: Well, now, I suggested this a while ago to somebody, it came in, representing I think Maxwell's office, maybe. I said, we have already issued a license and that's little stuff and we could just in order to not have any ex post facto controversies we could let that go and notify the British so they can pick it up anywhere they want to.

- 3 -

H.M.Jr: Well, I

H: And get out of it in that fashion because that would be contraband and the British would get it for nothing.

H.M.Jr: Well, what I think is going to happen, I just got this this last minute, that the Swedes have figured out it isn't worthwhile and they're going to most likely unload it on their own initiative.

H: Oh, I see.

H.M.Jr: So that would take

H: I mean, they know they'd probably be captured.

H.M.Jr: Yes.

H: I thought that just to turn it over to the British that way would get us out of a -- the bother of dealing with an ex post facto situation.

H.M.Jr: Right. Now, we've got another Swedish vessel that's got oil on it for Spain.

H: Yeah. Now, that's like the Texas one.

H.M.Jr: Yes, but this is under a Swedish flag.

H: Yes. Well, suppose if your man after he talks with the Maritime Commission fully, -- if there's anything else I can discuss in the light of what they get over there, I'll be mighty glad to do it.

H.M.Jr: Yeah. And then we've got a Greek vessel with sugar for Casa Blanca.

H: Oh, I see. I see. Those things are going to become a nuisance, aren't they?

H.M.Jr: They're a nuisance right now.

H: Yeah. Well, let's keep in -- I think we need to keep in touch with this Maritime Commission and see what they've got on facts about danger and other things.

- 4 -

H.M.Jr: Cordell, is there some fellow over there
you'd like me to work with on this or would
you rather have me call you direct?

H: Why, it's all right to -- would you like to
work with Berle?

H.M.Jr: Berle and I get along O. K.

H: Well, all right. Suppose you just work with
him on it.

H.M.Jr: That suits me.

H: And I'll keep in touch with him.

H.M.Jr: Good.

H: Yeah.

H.M.Jr: Thank you.

H: All right, sir.

- 5 -

Harris: The Maritime Commission has no jurisdiction over a Greek ship loading sugar to Casa Blanca.

H.M.Jr: I know it, but you could see - he said this is getting to be a damned nuisance.

Harris: We reached that conclusion some time ago.

Cairns: Now, there is one simple way to take care of American vessels, if Mr. Hull wants to do it. He has got the power to make a qualified combat zone. He has never done it. All the combat zones are absolute. He can make a qualified combat zone on the coast of Spain and say that American vessels carrying the following cargoes cannot go into those zones and he can list petroleum and whatever else he wants to list.

H.M.Jr: How about a Swedish vessel?

Cairns: Then we will have to rely on the statute we are operating under now.

Harris: I checked yesterday with the British Embassy and they are not giving navicerts to any of this oil for Spain, which means that they are certainly going to be picked up. I think, Mr. Secretary, if I could suggest this, that the idea I gave you the other day is the best one. If you don't want oil to go to Spain, tell the oil people.

H.M.Jr: Well, I have started that.

(Telephone conversation with Admiral Land follows:)

July 11, 1940
11:35 a.m.

H.M.Jr: Hello.

Operator: Admiral Land. Go ahead.

H.M.Jr: Hello.

Admiral Emory S.

Land: Yes, sir. Good morning, Mr. Secretary.

H.M.Jr: How are you?

L: Very well.

H.M.Jr: I just got through talking to the Secretary of State and he said somebody told him over at the Maritime Commission that you fellows felt it would be a little dangerous for American flagships to take oil over to Spain.

L: I don't know where -- I don't know that anybody had said that.

H.M.Jr: Well, I'm just repeating what he just told me two minutes ago.

L: I don't think the question of danger came along unless you mean by that that somebody might mean that it was rather inimical to our own defense in that the oil itself would probably not reside in Spain very long but would go to some unpleasant belligerents.

H.M.Jr: No, I think they meant that the ships might be sunk.

L: Well, it didn't emanate in any way from an official source -- it may be an individual's opinion. I don't know anything about it, as a matter of fact, except that it was discussed generally there that with Italian and German submarines operating in and around Gibraltar that something might happen, but then anybody could prophesy that. Officially, there's no such action or no such opinion been expressed by the Commission. Individuals may have done so.

- 2 -

H.M.Jr: Well, now, look. We've got two American tankers and we're going to hold them up, see? Hello?

L: Yes.

H.M.Jr: With oil for Spain and I want your backing and Mr. Hull said he'd be perfectly happy if we did it.

L: (Laughs). That's all right with me, I was -- is this on the basis of danger or policy?

H.M.Jr: Policy.

L: O. K.

H.M.Jr: Policy. I'm not going to say anything publicly, but if it got into an argument, I mean, in the -- there won't be any argument, but I just want to be able to say, because Mr. Hull said I could call you up, that you're in sympathy with what we're doing.

L: Oh, yes. As a matter of policy, absolutely.

H.M.Jr: O. K.?

L: Yes, sir.

H.M.Jr: Right. Thank you.

L: All right.

- 6 -

Harris: He overlooked one very fundamental point and that is, he talked of danger. The danger lies, Mr. Secretary, not in being sunk, as I see it, but being picked up - you see, they are not navicerted and therefore they will be picked up by the British and they will be taken in either to Gibraltar or to Falmouth or some place like that, which means that you are taking an American ship into a very dangerous zone. If you take them into Falmouth, into the barred zone and then if you get an American ship sunk in those waters, then you are in trouble.

Cairns: I am afraid, Basil, that if we rely on danger, then the charge will be if there is danger Mr. Hull should make a combat zone.

H.M.Jr: What do you call it?

Cairns: Qualified combat zone.

Harris: I think that is pretty sound.

Cairns: That will be a new idea to the State Department, but that is perfectly possible, as I understand the law.

Harris: You don't want to make it just Spain, do you? Why not make it Portugal as well.

Cairns: The whole coast. The statute states the President has the power to make combat zones under such rules and regulations as he may proscribe.

Young: There isn't much point in our going over and trying to see Hull.

H.M.Jr: No.

Harris: You know that I talked with Berle yesterday and Mr. Berle's views coincide strongly with mine. He said I could state his views. I didn't bring up this thought of a qualified danger zone.

- 7 -

Cairns: That is an original thought, but I think it is possible under the statute.

Young: I think it is a darned good one.

Cairns: If you can agree on the list of commodities. American vessels are permitted to go into this zone provided they don't carry the following commodities, and we list commodities the British are apt to seize. The theory is the British might take the vessel if it has petroleum on it.

Young: Let a few go in with what you know is all right.

Cairns: You can say the vessels carrying the following commodities cannot go in.

Harris: It is easier to bar two or three.

Cairns: Say all arms, ammunition, and implements of war and petroleum, whatever else you want to say. Take everything in the President's proclamation and then add to it.

H.M.Jr: What about Casa Blanca?

Cairns: Extend the combat zone right down the coast.

(Telephone conversation with Mr. Berle follows:)

July 11, 1940
11:40 a.m.

H.M.Jr: Hello.

Operator: Mr. Berle is with Secretary Hull.

H.M.Jr: Tell him I -- who's there, on the wire now?

Operator: In his office?

H.M.Jr: No, Mr. Hull's office.

Operator: Oh. I'll ring back and get Mr. Hull's office.

H.M.Jr: What?

Operator: I'll call back and get Mr. Hull's office. I have Mr. Berle's office on the line now.

H.M.Jr: Tell the man to go in and ask Mr. Berle if he can talk to me on the phone that Mr. Hull said I should talk to Mr. Berle.

Operator: All right.

H.M.Jr: See?

Operator: Right.

H.M.Jr: Do it through Mr. Hull's secretary. Tell him that Mr. Hull said I should talk to Mr. Berle.

Operator: Right.

11:41 a.m.

H.M.Jr: Hello.

Operator: Mr. Berle.

H.M.Jr: Hello.

- 2 -

Adolph
Berle: Hello, Henry. How are you?

H.M.Jr: I'm fine.

B: That's splendid.

H.M.Jr: I was just talking to Mr. Hull about some of these ships -- were you there?

B: Right. Yes.

H.M.Jr: Now, look, we've got to get together with this stuff and we can't keep passing the buck all the time.

B: Well, that's what I think.

H.M.Jr: And I think Cabinet will be over early today -- could you come over here around four?

B: I will do so. Four o'clock.

H.M.Jr: Four o'clock, yeah. And let me just give you this thought that you can be thinking about. The boys here have developed an idea of a qualified combat zone, in which they'd specify that in that qualified combat zone such things as oil, et cetera, could not go in.

B: Yeah.

H.M.Jr: You see?

B: Yeah.

H.M.Jr: On American flagships.

B: That's right.

H.M.Jr: Because this idea -- if we're going to let all this oil go into Spain, we'll be as bad as the English were with Italy in Ethiopia.

B: Yeah. All right.

- 3 -

H.M.Jr: And somebody's got to help me on this stuff.
I mean, we can't just keep passing this thing,
you know.

B: Clearly not.

H.M.Jr: What?

B: Clearly not.

H.M.Jr: So I'll be ready at four if you'd come.

B: I'll do that with pleasure.

H.M.Jr: Thank you.

B: Right.

- 8 -

Harris: You could solve this by just simply adding petroleum to the President's proclamation as regards Spain and Portugal.

Cairns: Yes, but I think we might want to add other commodities as well. I am not in a position to speak on what commodities, but somebody in the Government ought to know.

H.M.Jr: Well, look, in the meantime we sit on everything just as we are. We don't let anything go.

Cairns: Perhaps I ought to bring that tanker into Key West, the American tanker that is due to pass Key West today.

H.M.Jr: Bring her in.

July 11, 1940
11:45 a.m.

H.M.Jr: Hello.

General
Watson: Yeah.

H.M.Jr: Henry Morgenthau.

W: Did you call me?

H.M.Jr: Oh, couple of hours ago.

W: Well, I just this second got to work. Say,
look here.

H.M.Jr: Where you been, honey?

W: I've been in there talking to the President,
boy. (Laughs).

H.M.Jr: Oh, is that so? (Laughs). You just come up
for air every two hours -- every two hours?

W: Yeah. I got a thing over from the Secretary
of State and he turned that thing down on two
counts.

H.M.Jr: Yeah. And you know what's happening?

W: What?

H.M.Jr: I just got through talking to them -- (laughs) --
and we've scared the Swedes so we think they're
going to unload the damn stuff and then we're
going to let them sail.

W: Good. Well, that's all right then.

H.M.Jr: They're going to do it on

W: He, the Secretary of State, went into consultation
with his legal adviser and he sent over here and
advised the President not to do any more. But
they promised to go into each one of those con-
tracts permitting certain cargoes to go. They're
going to study them right immediately.

- 2 -

H.M.Jr: Well,

W: So let me tell them to just take no further steps then.

H.M.Jr: No, don't -- hello.

W: Yeah.

H.M.Jr: If you'll sit tight, see, and do nothing, I think in a couple of hours I'm going to have that ammunition off the boat and do it so the Swedes won't kick.

W: All right. I won't do a move then.

H.M.Jr: You just go on and do what you were doing the last two hours.

W: (Laughs). All right. All right. 'Bye.

H.M.Jr: All right. Good-bye.

July 11, 1940

On July 2, 1940, the Assistant Collector of Customs, Port Arthur, Texas, requested permission for the departure of the Spanish Tanker CAMPUZANO for Malaga, Barcelona and Valencia, Spain; cargo, refined petroleum products. This request was referred to Mr. Gaston, and he personally authorized the issuance of a departure permit.

On July 5, request for a departure permit was received from the Collector of Customs, Port Arthur, Texas, for the Panamanian Steam LOETA for Vigo and Bilbao, Spain; cargo, fuel oil. Apparently based upon the case of the CAMPUZANO, a departure permit was issued.

On July 9, a request was received from the Assistant Collector of Customs, Port Arthur, Texas, for a departure permit for the American Steamship NEVADA for La Caruna and Bilbao, Spain, sailing the afternoon of July 9. The owner was given as the Texas Company, and the cargo as petroleum products in bulk and in packages. Upon the basis of the above two cases, a departure permit was issued. It is believed that it is possible, however, to detain the vessel at Key West today.

On July 10, a request for departure permit was received from the Collector of Customs, Port Arthur, Texas, for the American Tanker ARYAN for La Caruna and Santander, Spain. The ARYAN is a small tanker of 400 feet, and its cargo is petroleum products in bulk or in packages. No departure permit has been issued. The ARYAN plans to sail the morning of July 13.

On July 10, a request for departure permit was received from the Collector of Customs, Port Arthur, Texas, for the Swedish Motor Tanker BERA for La Caruna and Vigo, Spain. It is carrying a cargo of fuel oil and other petroleum products in bulk and in packages. It is a vessel of 6787 net tons, and wishes to sail immediately. No departure permit has been granted.

On July 10, a request for departure permit was received from the Collector of Customs, Galveston, Texas, for the Greek Vessel LACONIKOS. The LACONIKOS TWO plans to sail on July 11. No departure permit has been granted. On July 2, a departure permit was given the Norwegian Vessel MATHILDA, carrying a cargo of refined sugar from New Orleans to Casa Blanca.

The Finnish Vessel VEL-RAGNAR is awaiting a departure permit in New York Harbor. It carries 1625 cases of ammunition for the Swedish Government.

4112-
Aug-79

July 11, 1940.

Dear General Marshall:

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

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - July 6, 1940; Unfilled Orders and
Estimated Deliveries on July 6, 1940.

Part II - Airplane Engines

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These tables carry forward through July 6, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

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


FILE COPY

By Messenger 9¹⁵ on 7/12

July 11, 1940.

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Sincerely,

(Signed) H. Morgenthau, Jr.

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

(acked 7-12)

FILE COPY

By Messenger 9:15 am 7/12

July 11, 1940.

Dear Mr. Knudsen:

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

Part I - Airplanes

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May 1 - July 6, 1940; Unfilled Orders and
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Sincerely,

(Signed) H. Morgenthau, Jr.

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

MA
FILE COPY

By Messenger 9¹⁵ on 7/12

Regraded Unclassified

July 11, 1940

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July 11, 1940

34

(1) The problem is - In view of this country's intention to prepare itself for defense, do we want to allow oil (a fundamental necessity of war) to reach those countries most likely to attack us.

(2) If we prevent exportation of oil from U. S. to Canary Islands and/or Spain, whether on U. S. ships or foreign ships will this solve the problem? (No)

(3) Will not same companies who export oil from U. S. ports, if prevented, simply export from Central and South American fields?
(Probably)

(4) Who are these companies?

(1) Gulf Oil (3) Texas Co. (5) Std. of New York

(2) Shell Oil Co. (4) Std. of New Jersey (6) ?

(5) Possible Procedure -

Call representatives of above companies to Washington,
outline Government's policy and ask their cooperation.

(It is indicated they would agree.)

Have British not allow charters to British, or other
foreign flag tankers which they control, to ply in this
trade.

Have British Government seize all other oil ships
in above waters.

Basil Harris

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The downward movement in sterling continued today. From an opening of 3.73, the pound declined, with no appreciable interruption, to a low of 3.66-1/2 at the close. The latter rate was 7-1/2¢ below yesterday's final quotation.

Heavier offerings of sterling by foreign banks appeared as the feature in today's reported turnover figures.

Sales of spot sterling by the six reporting banks totaled £286,000, from the following sources:

By commercial concerns.....	£ 69,000
By foreign banks (Far East, South America and Europe).....	£ 217,000
Total.....	£ 286,000

Purchases of spot sterling amounted to £118,000, as indicated below:

By commercial concerns.....	£ 102,000
By foreign banks (South America and Far East).....	£ 16,000
Total.....	£ 118,000

The Guaranty Trust Company reported that it had sold cotton bills totaling £74,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Irving Trust Company stated that it had purchased £4,000 from the British Control at the official rate of 4.03-1/2, the funds to be used to pay for shipments of paddles.

The Canadian dollar was quoted at a slightly better rate. After reaching a discount of 1 1/4% in mid-afternoon, it reacted to 1 1/4-1/4% at the close, as compared with yesterday's closing discount of 1 1/4-5/8%.

The other currencies closed as follows:

Swiss franc	.2267
Lira	.0505
Reichsmark	.4004
Cuban peso	9-13/16 % discount
Mexican peso	.1990 bid, .2020 offered.

We purchased \$1,375,000 in gold from the earmarked account of the Central Bank of the Colombian Republic.

The Federal Reserve Bank of New York reported that the Bank of Brasil shipped \$2,434,000 in gold from Brasil to the Federal for its account as fiscal agent of the Brazilian Government.

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

\$356,000 shipped by the Midland Bank, London, to the Irving Trust Company, New York.
71,000 shipped by Samuel Montagu, London, to the Irving Trust Company, New York.
\$427,000 Total

The Bombay gold price rose the equivalent of 8¢ to \$33.89.

Spot silver in Bombay was equivalent to 43.77¢, off 3/16¢.

In London, the prices fixed for spot and forward silver were both 1/8d lower at 21-13/16d and 21-5/8d respectively. The U. S. equivalents were 39.66¢ and 39.35¢.

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¢.

There were no purchases of silver made by us today.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE 7/11/40

TO Secretary Morgenthau

FROM Mr. Foley

Subject: The Licensing of Exports of Military Equipment, etc.,
Under the Neutrality Act and Under the Embargo
Provisions, Public--No. 703--76th Congress.

I.

Both the procedure and purpose for licenses under the Neutrality Act and the Embargo Act are and should be completely different.

Under the Neutrality Act no discretion is given in connection with the granting or denial of a license for the export of arms, munitions and implements of war. Under the Embargo Act all of the materiel and equipment proclaimed by the President is not supposed to be granted a license for export unless in the discretion of the President or someone delegated to act on his behalf the proposed exportation would not be detrimental to the interests of the national defense.

II.

Once a person has registered properly under the Neutrality Act and the exportation would not violate the Neutrality Act or other law of the United States or a treaty to which the United States is a party, then the license must be issued.

The relevant provision of the Neutrality Act (Public--No. 54--76th Congress) provides as follows in Section 12(f):

- 2 -

"Licenses shall be issued by the Secretary of State to persons who have registered as herein provided for, except in cases of export or import licenses where the export of arms, ammunition, or implements of war would be in violation of this joint resolution or any other law of the United States, or of a treaty to which the United States is a party, in which cases such licenses shall not be issued; but a valid license issued under the authority of section 2 of the joint resolution of August 31, 1935, or section 5 of the joint resolution of August 31, 1935, as amended, shall be considered to be a valid license issued under this subsection, and shall remain valid for the same period as if this joint resolution had not been enacted."

III.

The purpose of the discretionary powers given to the President to prohibit or curtail exports of military equipment, etc., under Public--No. 703--76th Congress [H.R. 9850] is to protect the national defense.

The relevant section of Public--No. 703 provides as follows:

"Sec. 6. Whenever the President determines that it is necessary in the interest of national defense to prohibit or curtail the exportation of any military equipment or munitions, or component parts thereof, or machinery, tools, or material, or supplies necessary for the manufacture, servicing, or operation thereof, he may by proclamation prohibit or curtail such exportation, except under such rules and regulations as he shall prescribe. Any such proclamation shall describe the articles or materials included in the prohibition or curtailment contained therein. In case of the violation of any provision of any proclamation, or of any rule or regulation, issued hereunder, such violator or violators, upon conviction, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than two years, or by both such fine and imprisonment.

- 3 -

The authority granted in this section shall terminate June 30, 1942, unless the Congress shall otherwise provide."

Orderly and effective administration would seem to require that the issuance of a license under the Embargo Act be required prior to the issuance of a license under the Neutrality Act. If in the interests of the national defense a license is denied no license need be or could legally be issued under the Neutrality Act. The Neutrality Act provides that a license cannot be issued where it would be in violation of a law of the United States. Exportation prohibited under the Embargo Act would thus prevent the issuance of a license under the Neutrality Act.

8.14.76

44

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 11, 1940.

TO Secretary Morgenthau

FROM Mr. Foley

A long step toward solving the problem of amortizing the cost of acquiring new facilities by private manufacturers who participate in the national defense program is taken by a ruling about to be made by the Commissioner of Internal Revenue in the case of the Wright Aeronautical Corporation based upon the following facts:

1. The RFC by letter dated June 20, 1940, addressed to Wright has agreed to lend to a subsidiary of Wright the sum of \$33,500,000 to be repaid within eight years at 4 percent from the proceeds of the sale of aircraft engines to the Government on the basis of \$800.00 per engine.

2. The Wright subsidiary will receive \$33,350,000 for the purpose of constructing and equipping a new plant. The remaining \$150,000 will be expended to acquire the site for the new plant, the title to which will be either in the RFC, or in a subsidiary of the RFC, which will lease the site to the Wright subsidiary for the eight year period of the loan at an annual rental of \$6,000. The Wright subsidiary will have the option to renew the lease of the ground for eight years.

3. The loan by the RFC to the Wright subsidiary will be secured by a first mortgage on the leasehold (i.e. the buildings and the machinery) but, like railroad equipment trusts and bonds of public authorities like the Triborough Bridge Authority, will not be secured by the general credit of the Wright Aeronautical Corporation itself.

4. Since Wright Aeronautical Corporation has more than doubled its productive capacity in recent years and contemplates this further expansion only because of the existing national defense program, it can not be said that there is any reasonable certainty that the lease of the ground will be renewed at the end of the eight year period. Consequently, the Wright subsidiary is entitled to spread the cost of the buildings and the machinery (i.e. \$33,350,000) over the eight year period, without taking into account the right of renewal, under existing Treasury regulations and court decisions. This deduction under the regulations (Regulations 103, §19.23(a)-10) is in lieu of depreciation and is entirely satisfactory to Wright Aeronautical Corporation, as stated in a letter dated July 3, 1940.

P.H.F.

July 11, 1940.

MEMORANDUM FOR THE SECRETARY'S DIARY.

At 5 o'clock this afternoon there was a conference in Secretary Morgenthau's office. Those present were Secretary Morgenthau, William Knudsen and Ed Foley.

Mr. Knudsen said that Assistant Secretary of War Louis Johnson refused to sign contracts embodying suggestions agreed upon at the White House yesterday in regard to legislation to be introduced in the near future to afford special amortization treatment for additional plant facilities upon certification that such facilities were necessary for national defense purposes. Secretary Morgenthau advised Mr. Knudsen to take the matter up with Secretary Stimson. Mr. Foley confirmed Secretary Morgenthau's statement that everything Assistant Secretary of War Johnson was empowered to do, the Secretary of War also could do. Mr. Foley pointed out that an erroneous impression had grown up in Washington that the Assistant Secretary of War had certain statutory powers independent of the Secretary of War. Mr. Foley stated that we had examined the law and the Assistant Secretary of War acted under the supervision and direction of the Secretary of War.

Mr. Foley told Mr. Knudsen that Mr. Johnson of course could not incorporate provisions in the contract which were not authorized by law. However, there seemed to be no reason why Mr. Johnson could not write a letter to the other contracting party stating that if legislation were enacted to afford special amortization treatment for additional plant facilities, such legislation would be taken into consideration in connection with the contract entered into by the Army prior to the enactment of the legislation. Mr. Knudsen said that this seemed to be a practical solution since he in turn could advise the other party to the contract to proceed on this basis.

Secretary Morgenthau said that he would be willing to go with Mr. Knudsen to Secretary Stimson's office but Mr. Knudsen did not think this was necessary. Secretary Morgenthau said that he would hold himself in readiness to do everything in his power to assist Mr. Knudsen in getting contracts executed without further delay.

E. H.

July 11, 1940.

MEMORANDUM FOR THE SECRETARY'S FILE.

At 1 o'clock this afternoon there was a conference in Secretary Morgenthau's office. Those present were Secretary Morgenthau, William Knudsen and Ed Foley.

Mr. Knudsen said that Assistant Secretary of War Louis Johnson refused to sign contracts embodying suggestions agreed upon at the White House yesterday in regard to legislation to be introduced in the near future to afford special amortization treatment for additional plant facilities upon warlike purposes. Secretary Morgenthau advised Mr. Knudsen to take the matter up with Secretary Stimson. Mr. Foley confirmed Secretary Morgenthau's statement that everything Assistant Secretary of War Johnson was empowered to do, the Secretary of War also could do. Mr. Foley pointed out that an erroneous impression had grown up in Washington that the Assistant Secretary of War had certain statutory powers independent of the Secretary of War. Mr. Foley stated that we had examined the law and the Assistant Secretary of War acted under the supervision and direction of the Secretary of War.

Mr. Foley told Mr. Knudsen that Mr. Johnson of course could not incorporate provisions in the contract which were not authorized by him. However, there seemed to be no reason why Mr. Johnson could not write a letter to the other contracting party stating that if legislation were enacted to afford special amortization treatment for additional plant facilities, such legislation would be taken into consideration in connection with the contract entered into by the Army prior to the enactment of the legislation. Mr. Knudsen said that this seemed to be a practical solution since he in turn could advise the other party to the contract to proceed on this basis.

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(Continued on next page.)

WFM:bm 7-11-40

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Thursday, July 11, 1940.
7/10/40

Press Service
No. 21-55

Secretary of the Treasury Morgenthau today offered for cash subscription, through the Federal Reserve Banks, at par and accrued interest, an issue of 2-1/4 percent Treasury Bonds of 1954-56. The amount of the public offering is \$600,000,000, or thereabouts, and in addition \$50,000,000, or thereabouts, of these bonds may be sold to Government investment accounts during the next month. For the benefit of small investors, preferential allotment will be given to subscriptions for \$5,000 and under, where delivery in registered bonds 90 days after the issue date is specified. Those who enter such a subscription for preferential allotment may not enter any other subscription.

The bonds now offered will be dated July 22, 1940, and will bear interest from that date at the rate of 2-1/4 percent per annum, payable semiannually on June 15 and December 15, with the first coupon covering the fractional period from July 22 to December 15, 1940. The bonds will mature June 15, 1956, but may be redeemed at the option of the United States on and after June 15, 1954. They will be issued in two forms: bearer bonds, with interest coupons attached, and bonds registered both as to principal and interest; both forms will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

- 2 -

The bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circular issued today.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. The basis of allotment will be publicly announced. Payment for any bonds allotted must be made or completed on or before July 22, 1940, or on later allotment.

The text of the official circular follows:

UNITED STATES OF AMERICA

2-1/4 PERCENT TREASURY BONDS OF 1954-56

Dated and bearing interest from July 22, 1940 Due June 15, 1956

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED
INTEREST ON AND AFTER JUNE 15, 1954

Interest payable June 15 and December 15

1940
Department Circular No. 637

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 11, 1940.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-1/4 percent bonds of the United States, designated Treasury Bonds of 1954-56. The amount of the public offering is \$600,000,000, or thereabouts. In addition to the amount offered for public subscription, \$50,000,000, or thereabouts, of these bonds may be allotted to Government investment accounts.

II. DESCRIPTION OF BONDS

1. The bonds will be dated July 22, 1940, and will bear interest from that date at the rate of 2-1/4 percent per annum, payable on a semiannual basis on December 15, 1940, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1956, but may be redeemed at the option of the United States on and after June 15, 1954.

in whole or in part; at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery

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be made in registered bonds 90 days after the issue date will be given preferred allotment. In each such case a subscriber may not enter any other subscription, and payment must be made as provided in Section IV of this circular. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made or completed on or before July 22, 1940, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

- 5 -

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

July 11, 1940

Mr. Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

At our meeting yesterday on control of foreign funds, I was asked to find out from the State Department what I could in regard to the standing of Mr. Edmund H. Stinnes in whose behalf Kidder, Peabody and Company have filed an application for the transfer of certain securities from an account with a Netherlands concern.

This evening I have spoken with Mr. James Dunn, Advisor on Political Relations in the Department of State, who was one of the four State Department officers listed as references by Mr. Stinnes in the application.

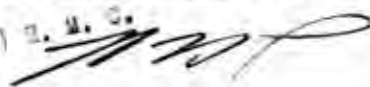
Mr. Dunn told me that it was an impertinence for Mr. Stinnes to list him as a reference. It was true that Mr. Stinnes had visited the Department on various occasions and had been received by Mr. Dunn as well as by Messrs. Messersmith and Geist, who were likewise listed in the application, and had made a display of his anti-Nazi feelings. Mr. Dunn had never considered Mr. Stinnes' remarks of sufficient value to form the basis of a memorandum. Dunn had listened to him as he is obliged to listen to many callers. He said he would "not touch him with a ten-foot pole" and even suspected him, as he did his father, of possibly being a Nazi agent. Mr. Dunn suggested that I let the other men in the State Department know that Stinnes had cited them as references.

July 12, 1940

I asked Mr. Piment this morning about Mr. Stinnes. He stated that Stinnes had a reputation for reliability and for being pro-British. Piment thought it would be safe to release any funds necessary to him for living expenses. If he, however, wanted any large amount, Piment would be a little suspicious. It should be taken into consideration, Piment said, that Stinnes may have relatives in Germany upon whom considerable pressure might be brought.

I asked Mr. Geist of the State Department what he knew about Mr. Stinnes. Geist stated that he had known Stinnes for many years in Germany; had granted him an immigration visa to come to this country; and that Stinnes was at his home for dinner last night. To Mr. Messersmith and other State Department officials Mr. Geist said that Mr. Stinnes had in recent years given much information which was helpful to us, and which was certainly not to the interest of the Nazi Government. Geist pointed out that Stinnes was seeing a number of our Government people, and had conferred with Mr. Stettinius recently. Geist does not believe that he is a Nazi agent. At the same time he insisted that he listens to Stinnes and gives no information in return. He sees no objection to our releasing funds to Stinnes. He advises against taking him into our confidence.

WHD:lsp-7/12/40

(116) E. H. C. 

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Thursday, July 11, 1940.
7/10/40

Press Service
No. 21-55

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The bonds now offered will be dated July 22, 1940, and will bear interest from that date at the rate of 2-1/4 percent per annum, payable semiannually on June 15 and December 15, with the first coupon covering the fractional period from July 22 to December 15, 1940. The bonds will mature June 15, 1956, but may be redeemed at the option of the United States on and after June 15, 1954. They will be issued in two forms: bearer bonds, with interest coupons attached, and bonds registered both as to principal and interest; both forms will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

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The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. The basis of allotment will be publicly announced. Payment for any bonds allotted must be made or completed on or before July 22, 1940, or on later allotment.

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Interest payable June 15 and December 15

1940
Department Circular No. 637

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 11, 1940.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

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in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

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4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

- 3 -

Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

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2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery

be made in registered bonds 90 days after the issue date will be given preferred allotment. In each such case a subscriber may not enter any other subscription, and payment must be made as provided in Section IV of this circular. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

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V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

- 5 -

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

AS

~~_____~~
Tientsin via N. R.

Dated July 11, 1940

Rec'd 9:27 a.m.

Secretary of State,
Washington.

122, July 11, 10 a.m.

Disposal of Tientsin silver in British Concession
for relief purposes.

A communique from the Japanese Consulate General dated yesterday is printed in today's NORTH CHINA STAR as follows: "Arrangements in connection with the disposal of the silver holdings in the British Concession as provided in the Anglo-Japanese agreement have been completed between the Japanese and British consuls general.

Accordingly, actual work to set aside pounds sterling one hundred thousand worth of silver was started on July ninth".

Yesterday's statement made by the British Consul General reads: "The Tientsin agreement provides for the setting aside of pounds sterling one hundred thousand for purposes of relief. Arrangements have not been completed and the silver will be transferred to the Chartered Bank
in

AS-2- #122, July 11, 10 a.m., from Tientsin via N. R.

in the near future pending final arrangements for its shipment abroad for purposes of sale".

Yesterday's Domei reports states that the French Consul and Japanese Consul General will meet "in a day or so" to affirm the draft agreement on the policing question in the French Concession in Tientsin, discussions of which were concluded yesterday, immediately after approval by the Gaimussy and the French Embassy in Tokyo.

Sent to Department.

Repeated to Chungking, Peiping, Shanghai. Air mail to Tokyo.

FLETCHER

DDM

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 211

DATE: July 11, 1940, 5 p.m.

Reference is made to your despatch no. 3197 of June 24, 1940.

The Department has been informed by the Treasury Department that they have been advised by the Chase Bank that the two checks referred to in the above-mentioned despatch have neither been advised, presented, nor paid. It is also stated by the Treasury that they have, moreover, issued to the Chase Bank a license allowing up to 25 percent of the Banco Francez e Italiano's balances to be paid.

HULL (FL)

EA:FL:EB

EA:EB

ECONOMIC DEVELOPMENTS

CONFIDENTIAL

PRELIMINARY DATA FOR JUNE show that consumption advanced sharply in that month, allowing for usual seasonal adjustments. Our index of the dollar value of all retail sales passed the December 1939 peak and the physical volume index equaled last year's high, also made in December. The June gain over May in these indexes resulted largely from substantial increases recorded in department store and automobile sales.

EXAMPLES:

Total Retail Trade - Seasonally Adjusted
(1929=100)

	<u>Dollar Value</u>	<u>Physical Quantity</u>
<u>1939</u>		
June	87.5	100.5
December	95.3	106.0
<u>1940</u>		
January	95.3	107.8
February	95.7	107.8
March	92.2	103.9
April	94.1	105.8
May	94.1	105.7
June	96.0	108.0

As compared with a year ago—before the war boosted production and income—dollar volume of retail trade has risen approximately 10 percent. Extent of the increases in the various areas of trade were as follows:

Percent increase in retail sales
June 1939 to June 1940

Automobiles	34
Department stores	8
Variety	5
Grocery	8
Rural General	8
Gasoline	3

SIGNIFICANCE: Consumption, which is characteristically more sluggish than production, dropped only moderately during the first quarter of this year. Under the impact of the defense program, largely psychological so far, consumption has reached last year's high although production is still below the December 1939 peak.

- 2 -

It is interesting to note that, at its June level, consumption in quantity terms was 8 percent above the 1929 average. As population also increased 8 percent during the decade, per capita consumption in June was equivalent to that of 1929. In the expansion that is now under way per capita consumption should top the 1929 figure to reach new record levels.

SUSTAINED RISE IN RETAIL SALES of automobiles during the latter two-thirds of June, after the unfavorable late May and early June showing, lifted sales for the month above the May total. This contraseasonal gain is an indication of the firm tone prevailing in consumer's markets. Coupled with the slackening in assemblies, the high rate of retail deliveries affected a substantial (90,000) reduction in dealer's stocks of new cars. Continued curtailment of production is, of course, in prospect as the model year approaches its close but the let-up will not be considerably more than the usual seasonal. The industry's position is now quite satisfactory—much more so than seemed likely a few months ago. Several independent producers have already stopped production on the current model, and indications are that the production year will be substantially over by the end of August rather than September.

EXAMPLES:

**Automobile Production, Sales, and Inventories
(1940 Model Year to Date)**

	<u>United States Production</u>	<u>Domestic Sales Plus Exports</u>	<u>New Car Inventories*</u>
	(In thousand units)		
October	312	301	155
November	352	327	180
December	452	339	273
January	448	314	407
February	394	309	492
March	417	429	480
April	432	427	485
May	391	403	473
June (preliminary)	336	425	384

*Calculated

Automobile Production, Sales, and Exports
(First 9 months of model year)
(In thousand units)

<u>Model-year</u>	<u>Production</u>	<u>Domestic Sales</u>	<u>Exports</u>
1929	4,641	3,714	454
1932	1,192	1,081	116
1935	2,941	2,544	202
1937	3,907	3,332	287
1938	2,220	1,866	272
1939	2,932	2,389	242
1940	3,553	3,067	178

SIGNIFICANCE: June's pick-up in sales assures the industry of one of the best automotive years on record; production for the year will pass the 4 million mark and may reach 4.2 million units. The first 9 months of the 1940 model year were the third best in the history of the industry, surpassed only by the production and sales records of 1929 and 1937. The gain in domestic sales this year over 1939 is close to 30 percent. Both production and sales are over 90 percent of the comparable 1937 figures, with a sizable portion of the difference between the 2 years accounted for by the low level of exports.

DIFFERENCE BETWEEN THE FACTORS THAT STIMULATED last fall's rise in industrial production and that currently under way is brought out by the following figures. All the estimates for June are preliminary. They are, however, essentially correct in the picture they give of the underlying situation.

Income Producing Expenditures That Offset Saving
(Seasonally Adjusted - Million of Dollars)

	<u>Average</u> <u>Sept.-Oct. 1939</u>	<u>June 1940</u>
Industrial Equipment & Machinery	380	460
Industrial Plant	160	200
Housing	190	200
Consumer's Credit	70	90
Foreign Balance	70	120
Government Net Contribution	260	260
Inventory Increase	280	90
Total	1,410	1,380
Index of Industrial Production	116	115

- 4 -

SIGNIFICANCE: With the production index 115 in June as against 116 average last September-October, almost all the basic factors which determine the level of activity are now higher. The important exception is net investment in inventories. It is the lessened influence of the volatile inventory factor which gives us more confidence in the soundness of the present recovery movement. We do not believe inventory accumulation is an important item in any major area other than steel consuming industries. Moreover, three of the most significant factors, equipment, plant, and government contribution, will undoubtedly move upward during the months ahead. Note that the government contribution in June was no higher than the September-October average. This item had risen to 350 in January but fell off toward the end of the fiscal year; it is expected to exceed the January level before the end of the year.

FOREIGN TRADE NOTES

Finland: A trade and payment agreement with the Soviet Union has been announced, which provides for a trade turnover of \$15,000,000 for the first year on a barter basis, Finland to supply chiefly tug boats, lighters, electrical equipment, copper wire, leather, butter, and meat, and the Soviet Union to supply chiefly wheat, rye, petroleum products, manganese ore, cotton, and tobacco.

The announced trade agreement with Germany provides for an increase of 75 percent in the trade between the two countries on a compensation basis. Finnish exports will consist chiefly of wood products, paper, ores and other minerals, and some agricultural products, against coal, coke, and various manufactured products from Germany.

Sweden: According to confidential information, the recently concluded agreement with Germany provides for the export of prescribed quantities of charcoal, pig iron, steel bars, ferro-silicate, timber, wood pulp, and iron ore, Germany paying about 15 percent below the current market price for Swedish paper. Sweden has been guaranteed 5,700,000 tons of German coal and coke and increased amounts of chemicals, manufactured goods, and special machinery. Sweden has practically abolished the restrictions on importations of non-essential goods from Germany. An interesting part of the agreement is permission granted presumably by Germany to Denmark to sell sugar and butter to Sweden.

There is a heavy credit balance in favor of Sweden in its trade with Denmark, including considerable amounts representing interest on loans. Both Denmark and Sweden desire release in England and in the United States of blocked Danish funds in amounts adequate to meet the interest payments, Sweden to guarantee that such exchange would not leave the country. Since in terms of marks Denmark is a heavy creditor of Germany, and in terms of crowns a heavy debtor to Sweden, Schacht favors a triangular arrangement which, however, is not favorably considered in Sweden because of the political implications of such an arrangement.

Germany: It appears that Germany proper will have adequate supplies of food throughout the coming year and that it is in a better position to mobilize for its own disposition the surplus supplies of continental countries.

The food policy of Germany is described as follows: (a) the German population shall exist on standard rations; (b) alien and prisoner labor in Germany to receive smaller rations of essential feedstuffs which, however, are considered as sufficient; (c) the occupied territories to provide as far as possible their own food supply; and (d) occupied territories to feed the occupying forces of Germany.

- 2 -

Japan: Plans for industrial expansion will be delayed by the German occupation of the Netherlands. It appears that industrial equipment ordered from German firms was held at Dutch ports pending negotiations with the British for the transfer of the cargo to Japanese vessels. There is also the prospect that belligerent countries will tighten the restrictions on the vital raw materials which are required in Japan for industrial expansion as well as military supplies.

The Government has recently ordered the dissolution of a new labor party which was about to be formed. It is apparently the Government's plan to incorporate the Japan Labor Union and the All Japan Industrial Bodies Federation into one of the new spiritual movements, namely, the "Serving to the Nation through Industry Association." Although the spiritual mobilization movement is regarded as a failure from the standpoint of impressing the general public with the gravity of the situation, the Government evidently feels that it is an important work and three Ministries have appropriations in the current budget to subsidize and support the spiritual leaders.

Bureau of Foreign and Domestic Commerce
July 10, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percentage increase, July 6, 1940 from—	
	July 8	Aug. 25	Sept. 16	June 29	July 6	July 8, 1939	Aug. 26, 1939
All commodities	75.6	74.8	79.3	77.1	77.5	2.5	3.6
Farm products	64.1	61.1	69.7	65.7	66.7	4.1	9.2
Foods	68.1	66.7	75.5	69.7	70.4	3.4	5.5
All commodities other than farm products and foods .	80.3	80.4	82.4	82.3	82.4	2.6	2.5
Hides and leather products .	92.8	92.6	98.3	99.9	100.3	8.1	8.3
Textile products	67.0	67.4	71.4	72.0	71.9	7.3	6.7
Fuel and lighting materials .	73.2	73.2	74.1	71.9	72.0	-1.6	-1.6
Metals and metal products .	93.3	93.5	94.9	94.8	94.9	1.7	1.5
Building materials	89.5	89.7	90.7	92.4	92.6	3.5	3.2
Chemicals & allied products .	(1)	(1)	(1)	76.0	77.1	—	—
House-furnishing goods . . .	87.0	87.0	87.1	89.9	90.0	3.4	3.4
Miscellaneous	73.3	73.1	76.1	76.9	77.0	5.0	5.3
Raw materials	68.4	66.2	73.0	70.2	70.7	3.4	6.8
Semimanufactured articles . .	74.2	74.4	82.0	77.8	78.0	5.1	4.8
Finished products	79.6	79.3	82.3	80.6	80.9	1.6	2.0

Comparable data not available.

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

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		July 12	August 30	Sept. 13	July 3	July 10
Copper, electrolytic, New York	per lb.	10 1/4	10 1/2	12	11	11 1/2
ed, prompt shipment, New York	do	4.85	5.05	5.50	5.00	5.00
do, New York	do	4.84	5.14	6.64	6.64	6.64
do, straits, New York	do	48 1/2	49 3/4	1/ 75	52	51 1/2
Rubber, plantation, New York	do	16 9/16	16 13/16	22 1/2	21	21
Wool, light native Hovs, Chicago.	do	11	11	15	12 1/2	12 1/2
Wool, 13-15 denier, 75% scriplane, N.Y. . .	per lb.	2.66	2.72	3.21	2.57	2.56
Wool, middling, aver- age, 10 markets. . . .	per lb.	9.51	8.53	9.01	10.43	10.25
Wool cloth, 60 x 64, at 1/2 inches, N.Y. . .	per yd.	4 5/8	4 5/8	5 3/8	4 3/4	4 3/4
Wool tops, Oct. 1940 futures, New York. . .	per lb.	2/82.2	2/81.5	2/111.9	91.0	89.0
Wool, raw, 960, duty free, New York. . . .	do	2.85	2.92	3.70	2.73	2.68
Wool, Acra, New York	do	4.30	4.38	6.45	4.90	4.85
Wool, Santos, No. 4, New York	do	7 1/4	7 5/8	7 3/4	7 1/8	7 1/8
Wool, cash, Chicago. . .	do	5.50	5.65	7.75	6.02	5.87
Cottonseed oil, Sept. 1940 futures, N.Y. . .	do	1/ 5.99	2/ 5.61	2/ 7.30	6.27	6.15
Wheat, Sept. 1940 futures, Chicago. . . .	per bu.	1/ .88 1/4 1/2	1/ 1/4 1/2	.85 3/8	.78 3/4	.75 3/8
Wool, good and choice, 220-240 lbs., Chicago	per cwt.	7.00	6.88	6.13	6.23	6.53
Wool, beef, medium, 750-1,100 lbs., Chi.	do	8.63	8.38	8.88	9.38	9.13

/ Nominal. 2/ October 1939 futures. 3/ December 1939 futures. 4/ September 1939 futures.

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

RE DEPARTURE PERMITS

July 11, 1940
4:45 p.m.

Present: Mr. Purvis
Mr. Young

H.M.Jr: This is going to put you on your mettle the way you have never been put before. All the cards are on the table.

Purvis: Fine.

H.M.Jr: Here is the situation. I have in my office what they call administration of ship movements. No ship can sail from the United States unless they get a permit from me.

Purvis: Quite.

H.M.Jr: And I am holding now - let me say first, there is this tremendous flow of American oil to Spain and the Canary Islands where they have a small refinery. We don't know how big it is. Now, we are, and have for the last couple of days, stopping all American flagships, which means two at the moment, loaded with oil for Spain. We haven't given them permits. We have also held up a Swedish tanker with oil for Spain. She is not going to sail. The President has asked that the five American companies doing business - he is going to have Mr. Hull ask the American companies in Venezuela and Colombia who have largely English ships, English flagships, but they are American owned subsidiaries, not to send any oil to Spain or to the Canary Islands until we can sort this thing out and - because this flow of oil is just unbelievable, which makes us believe that this is their only source of supply.

Purvis: Quite.

H.M.Jr: Now, in doing this thing, we want a hundred percent cooperation.

Purvis: Correct.

H.M.Jr: And we don't want to find out that we stopped this thing and the good old English business

- 2 -

men continue to do the same thing.

Purvis: Excuse my snickers.

H.M.Jr: I think that day is past.

Purvis: I think so.

H.M.Jr: This is tremendously important. And furthermore, through your own connections, Embassy connections and diplomatic connections, see what you can find out, what is happening to that oil picture in Spain. Now, we are doing it. Also see what you can find out about what is going on in the Canary Islands. We are also doing that. As of tonight, no American flagship is going to sail for Spain or the Canary Islands. We are going to ask the American companies to stop shipping oil out of Central and South America to Spain and we are even holding a Swedish ship. We have gone that far. This is as good a chance as I know - the English ought to jump at it and kiss us on both cheeks.

Purvis: Yes, and what you want is really a specific assurance that no British ship is going to carry oil --

H.M.Jr: In substance --

Purvis:to Spain or the Canary Islands until we have had plenty of time to sort out between us what is the proper course to take.

H.M.Jr: And I don't know whether you issue navicerts for Colombia or whether that is done from here.

Purvis: The navicerts come from the Embassy, that is right, but the navicert applications are sorted out by the Consul General in New York where the real work is done.

H.M.Jr: But is it done for this Continent, North and South America?

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Purvis: No, I would think not. I think that is confined here. But that is something we can control.

H.M.Jr: Well, let's see --

Purvis: I get you.

H.M.Jr: Well, I mean, if they don't do it, it is just the height of stupidity.

Purvis: Let me really do a job of work. You see, this is where the advantage of having a policy center to go to, as distinguished from just cabling into the air to the Ministry of Supplies. This is our business, to knock that right out like that, with such help as I need from the Ambassador, which I will get I am sure.

H.M.Jr: Frankly, I don't think you and I have ever discussed anything any more important than this, because this may be their life blood for the next two or three months and when you cable, get them - where else can they get the oil from, other than Rumania?

Purvis: That seems to be the only other place. You would like any information or surmise on that?

H.M.Jr: I want --

Purvis: Any picture they can give you that is intelligent and accurate.

H.M.Jr: Yes. And then what will happen most likely, it is getting down to rationing Spain as to what they would call their normal needs.

Purvis: Is that aviation gasoline or gasoline?

H.M.Jr: I haven't been able to find out. It is just oil. Don't let's do what Mr. Anthony Eden did. He was chairman of the committee on oil for the League of Nations when Italy

- 4 -

went to war with Ethiopia. Twice that committee was called and they never met. They never put sanctions on oil when she was fighting Ethiopia.

Purvis: That was about the only thing.

H.M.Jr: We made a study and the Government stopped them just like that. If the League of Nations committee on oil, of which Anthony Eden was chairman, had put on oil sanctions against Italy at that time, it would have just shut the thing off.

Purvis: This has an importance in the United States administration as a whole. It is a subject of discussion for the administration, in addition to your particular interest in it. It is a major point.

H.M.Jr: Well, I cleared it at Cabinet.

Purvis: Quite.

H.M.Jr: I did it and then I got a clearance at Cabinet.

Purvis: Yes.

H.M.Jr: I am not exaggerating, am I?

Young: No.

H.M.Jr: All these ships are held.

Young: It is very conservative.

H.M.Jr: We did it and then I got a clearance at Cabinet. Now, the only thing that hasn't been done yet, Mr. Hull was directed to send for the five oil companies in Central and South America, by the President, and tell them to stop shipping. Now, he hasn't done that yet. I have done my part. I want to make that plain.

Purvis: Yes.

H.M.Jr: But he was directed by the President to do this.

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Purvis: I see. These being companies with headquarters in New York but with properties in South and Central America?

H.M.Jr: That is right. I think Shell is one of them, and immediately the question came up, "Well, all right, we would do it but would England go ahead and grab the business?"

Purvis: Let me have that, will you? That is meat.

H.M.Jr: Well, I don't know anything more important. I really don't.

Purvis: I will do a job of work on that.

H.M.Jr: Because this may be the jugular vein.

Purvis: Yes. Well, by heavens, it is worth an effort, even if we were wrong. Any chance is good enough.

JT

PLAIN

STOCKHOLM

Dated July 11, 1940

Rec'd 10:20 p.m.

Secretary of State,

Washington.

720, eleventh.

In million crowns Riksbank July 6 metallic reserve 719 point 4, foreign exchange 547 point 9, note cover 2115 point 8, note circulation 1402 point 3, noninterest bearing deposits compared to January 1940 Government 94 point 2 compared 266 point 9, commercial banks 75 point 9 compared 152 point 9, others 6 point 6 compared 4 point 6. Increasing foreign exchange due principally gold sales. Cost of living index second quarter up five points to 124 involves labor wage agreement, increases 3 million crowns monthly. Private telephone communication between Sweden and Norway via Oslo resumed restricted to business calls in German, Swedish, Norwegian, Danish. Foreign office announces conclusion Swedish-German negotiation resulting in prospects substantial extension mutual trade. Swedish owned shale refineries at Tallinn expropriated by Estonian Government and protests being lodged but apparently little hope Sweden procuring supplies that source.

INFORM COMMERCE.

STERLING

NPL

July 11, 1940.

The President has
approved the holding
of the Veli-Ragnar
according to word received
by Mr Gann from Maj Smith.

^P
D.E.M.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 2:20 p.m. on July 9 the Secretary referred to me a telephone call from Mr. Robert Loree of the Guaranty Trust in New York. I reported back to the Secretary Mr. Loree's inquiry. Mr. Loree had noted that the American Export Line S.S. Exochordia was, according to the Press, scheduled to sail from New York on July 11 and would take mail, via Portugal, for European countries, including those occupied by Germany. Mr. Loree stated that his bank was worried over sending out debit and credit statements to their clients in such cities as Amsterdam, for example, lest the authorities ascertain therefrom information which might be used to the prejudice of such clients. Mr. Loree mentioned that the account of Mees and Sohne of Rotterdam showed, for an example, a debit entry involved by a payment of \$50,000 to two Dutch citizens, a man and wife, who have opened a personal account.

Mr. Loree stated that the Post Office officials had to send their mail when facilities were available, and thought that the banks were likewise legally bound. The bank's lawyers likewise advised that the bank must send out its statements.

Mr. Loree inquired, therefore, whether, with the view to protecting the interests of the bank's clients residing in occupied territory, the Secretary of the Treasury might ask the postal officials of the United States to refuse to accept mail for the occupied countries, returning it to the senders.

The Secretary of the Treasury had me repeat the above conversation in the presence of Governor Harrison of the Federal Reserve Bank later in the afternoon. The Secretary discussed the matter with a group consisting of Messrs. Harrison, Bell, Chamberlain, Foley, Bernstein and myself, and thereafter asked Governor Harrison to telephone Mr. Loree on the subject. Mr. Harrison then went into Mr. Bell's office and spoke by telephone with Mr. Loree. He told him that the Secretary, as one human being to another, could say to Mr. Loree that he hoped the banks might find some way to delay transmitting statements to clients in occupied areas. He could not, however, ask this officially. Nor could he request the Post Office Department to change its customary procedure.

Mr. Loree asked whether the desired end could be reached through some application of our freezing control. Mr. Harrison told him this had been discussed, as had I, but that we had not found any way to make the control applicable to bank statements. It was arranged that Governor Harrison and Mr. Loree would discuss this matter further upon Mr. Harrison's return to New York the following morning.

- 2 -

Yesterday afternoon Governor Harrison told me by telephone that he had talked with Loree that morning, but that the bank's lawyers insisted that the bank is responsible for sending out statements to their correspondents, and that the holding up of these statements would involve a risk to the bank. Furthermore, sending these statements to the Legations in the United States of the countries involved instead of to the clients of the bank, would not release the latter from their responsibility. The statements will, therefore, be mailed, but to correspondent banks rather than individual private customers. Mr. Loree thought that the Post Office people were a little foolish in accepting mail which they were not certain they could deliver. But if the Post Office continues to accept mail, and if the Secretary of the Treasury does not feel that he can seek a change in this policy, the Guaranty will follow the lawyers' advice and mail their usual statements. I told Governor Harrison that I would let him know if we had any further observations to make, but that I thought the matter was closed as far as the Treasury is concerned. I reported this conversation to the Secretary shortly after it took place.



JUL 11 1940

My dear Mr. McLaughlin:

I have your letter of July 10, 1940 stating that the Advisory Commission desires to have postponed the promulgation of regulations relating to costs in connection with recent changes in the Treaty amendments to the Vinson-Trammell Act [48 Stat. 905, 13 as amended by 49 Stat. 1926 and 51 Stat. 960].

Pursuant to 14 of the Act of June 24, 1940 (Public 672, 76th Cong., 2d sess.) Executive Order No. 8445 dated June 29, 1940 (5 P.R. 245) (No. 129 of July 3, 1940) was drafted by the Treasury Department for the purpose of prescribing a procedure to govern certifications by the Secretary of War and the Secretary of the Navy in respect of special additional equipment and facilities to be charged against contracts for naval vessels and army and navy aircraft.

It is now contemplated that the Secretary of War and the Secretary of the Navy and the Comptroller of Internal Revenue will issue joint rules for the administration of this Executive Order. These rules set forth the details of the procedure outlined in the Executive Order and have been drafted in cooperation with officials of the War and Navy Departments. Since they do not contain any substantive provisions relating to the determination of costs, I do not believe that they are of the character which would come within the scope of your letter.

Other than the Executive Order and the rules mentioned above, the Treasury Department has no further regulations in mind except the purely formal changes which will be required by the reduction to allowable profit by 12(b) of the Act of June 25, 1940 referred to above and which may become necessary if Senate 2464 is enacted into law. These regulations would not change the present method of determining costs or the elements which go into cost as fixed by existing regulations [P.L. 4906, 4 P.R. 2462; P.L. 4909, 4 P.R. 2733]. These regulations have been considered by congressional committees and embody an administrative practice which has been in effect since the enactment of the profit limitation law. The regulations relative to excess profits on navy contracts were issued by the Comptroller of Internal Revenue with the joint approval of the Secretary of the Treasury and the Secretary of the Navy, and the regulations relative to excess profits on army contracts for aircraft were issued by the Comptroller of Internal Revenue with the joint approval of the Secretary of the Treasury and the Secretary of War.

-2-

In view of the fact that the elements included in the cost of performing a contract conform to standard cost accounting practices and that the Congress has not even yet after mature consideration to alter the existing method of determining excess profits except to the extent provided by §4 of the Act of June 27, 1940, I doubt if it would be consistent with congressional intent to make any important modifications. However, if the American Chamber of Commerce has specific suggestions to make, I suggest that its representatives communicate with Mr. Timothy G. Murray, Room 4002 Bureau of Internal Revenue, who has been designated as chairman of a committee on the administration of the profit limitation provision. It is hardly necessary to add that if the Advisory Commission desires to discuss any point with me I shall be glad to arrange a conference for that purpose.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. William H. Balkegus
Secretary, Advisory Commission to the
Council of National Defense
Federal Reserve Building
Washington, D. C.

WLM:6
7-21-40

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

July 10, 1940.

FILE NO. 13261
APPEAR ON GENERAL COUNSEL
INK SLIT SHOWING "ACTIV"
KERN

My dear Mr. Secretary:

The Advisory Commission understands that the Treasury intends to promulgate today regulations relating to costs in connection with the recent Vinson-Trammell Act changes.

On the assumption that the Treasury is interested in the views of this Commission concerning a matter of this kind, I am directed by the Commission to suggest the desirability of postponing the promulgation of such regulations until a committee of Commission members can consult with representatives from your Department.

The Aeronautical Chamber of Commerce has presented its views to one of the members of our Commission on the question of what items and elements of cost should be considered in prospective contracts for aircraft manufacture, and the Commission will presently be prepared, if you desire, to discuss these proposals.

Sincerely,


Wm. H. McReynolds
Secretary

The Honorable,

The Secretary of the Treasury

BRITISH EMBASSY,
WASHINGTON, D.C.

July 11th, 1940

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. M. M.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
late in the evening of July 10th

On July 9th one of our aircraft
attacked U-boat east of Cape Spartivento and
claims to have sunk it.

It is reported that the French
have now agreed to reduce crews of warships at
Alexandria to a quarter in respect of combatant
ratings and to an overall reduction to one third
of the full complement. Seven French submarines
reported to have left Casablanca during the
night of July 5th to 6th.

During the night of July 8th to 9th
hostile aircraft activity increased. Attacks
directed chiefly against East and South coasts
where small number of bombs were dropped at
various places widely dispersed. Very little
damage was done. At Llanelly bombs dropped on
steel works but production not affected.
Mine-laying activities proceeded. Early on
July 9th abnormal activity noted off Dutch coast
which developed into attacks on shipping in the
Thames Estuary and English Channel. At Cardiff
docks damage estimated repairable in 48 to 60
hours, is reported. At Norwich two factories
were hit, at one of which production will be

affected to some extent. Reconnaissances of aerodromes carried out in area of Portland, Bristol, Oxford and Shoreham. During the night of July 9th to 10th enemy air activity less than usual. Some bombs dropped in Yorkshire, East Kent and at Bournemouth and Edinburgh: damage slight and casualties few. This morning some casualties caused and mains damaged at Plymouth and three aerodromes in East Anglia were bombed. Further details not at present available. Total casualties of all above operations reported as seventeen killed and sixty-one wounded.

Results of R.A.F. night raids mentioned in paragraph four of yesterday's telegram indicate that bombs burst in dockyards at Kiel and Wilhelmshaven, and very large explosions followed the attack on synthetic oil plant at Homburg. Hits observed on marshalling yards at Hamm and on six aerodromes and 30 bases in north-west Germany and Holland. Successful mine-laying also carried out. Yesterday, Blenheims attacked Sola aerodrome near Starangeo. Large numbers of enemy aircraft in the aerodrome and more than 20 fighters encountered. We lost 7. As result of enemy attacks, 9 enemy aircraft destroyed and further probable casualties; in addition, an enemy bomber was shot down off east coast of Scotland and another off Yarmouth. Six fighter aircraft lost. Last night, heavy bombers attacked oil refineries at Monheim, railway targets

at Hamm and Soest, dockyard at Wilhelmshavn and canals in northwest Germany; all aircraft returned, reports not yet available. Successful mine laying operations also carried out; all our aircraft returned.

Mercantile shipping casualties reported yesterday amount to three British ships sunk in home waters by U-boats or M.T.B.s and two others attacked; one other ship hit by bomb had to be beached. A French sloop in our hands and also a British anti-submarine vessel were damaged by bombs but can be salvaged.

Mediterranean. At Malta yesterday, an enemy bomber escorted by seven fighters was attacked and shot down by Hurricanes after which the enemy fighters were engaged without conclusive result. One of our aircraft slightly damaged.

In the Sudan, enemy has been dropping leaflets printed in Arabic, proclaiming Italy's love for Mohammedans and Mussolini as "The Protector of Islam" also that their attacks are directed against Englishmen and not Sudanese.

At six hours on July 9th Commander-in-Chief Mediterranean was about 150 miles west of Oreta - heading northwest. At ten fifteen

hours/

hours flying boat reported two Italian battleships and five destroyers about 130 miles to the north-northwest. Further air reports received later were very mixed but it appears that Italian force, which had two battleships, six cruisers and eleven destroyers, had by July 9th been joined by several more cruisers and destroyers from Augusta. As a result Italian naval force heavily outnumbered the British force in cruisers. At fifteen forty-two hours Commander in Chief reported that he was engaging enemy and wireless silence then came into force. It appears that a short and confused action followed during which the British battleship obtained one hit on the enemy battleship at very long range. Enemy soon turned away under cover of smoke and made for Messina pursued by Commander in Chief of Mediterranean, at utmost speed. At sixteen thirty-one hours all available British torpedo-carrying aircraft flew off to attack enemy. Result of this attack not yet known but damaged enemy cruiser reported in tow about 70 miles from Messina at nineteen hours. Report also received of bombing attack by aircraft on our Naval forces in Western Mediterranean yesterday. Two of these aircraft shot down by gun fire, two by fighters and seven others damaged, three seriously.

JUL 11 1940

My dear Congressman Schafer:

I have your letter of July 9, 1940 asking me "under what provision of law the Treasury Department is placing orders for the joint purchase of Bullis-Baynes airplane motors by the United States and Great Britain."

I do not know of any provision of law authorizing the Treasury Department to place orders for airplane motors either on behalf of the United States or on behalf of Great Britain, or both; and the Treasury Department has not placed any orders of any character for the purchase of Bullis-Baynes motors.

Apparently you have been misled.

Sincerely yours,

'Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable John G. Schafer

House of Representatives.

cc to Mr. Thompson

CKK:t
7-18-40
11:26

By Messenger 11/10

JUL 11 1940

My dear Congressman Schaefer:

I have your letter of July 9, 1940 asking me "under what provision of law the Treasury Department is placing orders for the joint purchase of Bells-Baynes airplanes motors by the United States and Great Britain."

I do not know of any provision of law authorizing the Treasury Department to place orders for airplane motors either on behalf of the United States or on behalf of Great Britain, or both; and the Treasury Department has not placed any orders of any character for the purchase of Bells-Baynes motors.

Apparently you have been misled.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Respectfully,
Honorable John C. Schaefer

House of Representatives

CLX:1
7-20-40

By Messenger

13259

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

FILED NO. 13259
REAR ON GENERAL COUNSEL
PINK SLIP SHOWING "ACTION"

July 9, 1940

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

My dear Mr. Secretary:

Will you please let me know under what provision of law the Treasury Department is placing orders for the joint purchase of Rolls-Royce airplane motors by the United States and Great Britain.

Sincerely yours,

John C. Schaffer

Foley

MAILED 10 JUL 12 1940

RECEIVED - GENERAL COUNSEL

July 11, 1940

General Watson telephoned me at 10 o'clock - he evidently had Colonel Maxwell at his side - to say that the President approved of the policy of not letting ammunition go to Sweden. I gathered from the conversation that he approved not letting the ammunition go on the Veli-Ragnar, but Watson said that Colonel Maxwell would go over to see Mr. Hull, and unless Mr. Hull approved we should let the steamer sail. General Watson said that I would hear from him later in the day.

This does not check with the memorandum that McKay gave me from Philip Young.

July 12, 1940
9:55 a.m.

H.M.Jr: Hello.

Secretary
Stimson: Yes.

H.M.Jr: Morgenthau speaking.

S: Yes, this is Stimson.

H.M.Jr: Good morning.

S: Good morning.

H.M.Jr: Mr. Stimson, I wondered if sometime this morning you could see Philip Young on these requests that we have now for Canada.

S: To do what?

H.M.Jr: See Philip Young? Could you see him any time this morning?

S: Yes.

H.M.Jr: What time would be good for you?

S: Well, I have only -- I have a White House appointment hanging over my head -- I can't tell just when it's going to ripen, but he can come over right off and say get him here in about fifteen minutes.

H.M.Jr: In fifteen minutes.

S: Fifteen or twenty minutes.

H.M.Jr: Have him there at quarter past ten?

S: Well, make it twenty minutes past ten.

H.M.Jr: Twenty past ten.

S: Now what's the subject? Hello.

- 2 -

H.M.Jr: It this request for these surplus munitions for Canada. Hello?

S: Yes, I'm on.

H.M.Jr: And on this Committee which the President set up is Colonel Burns, so could he be there at that time, too?

S: I'll see whether he's here. I think so, but I'm not sure.

H.M.Jr: Well, he's familiar with the subject and there's a Committee of

S: Well, I'll -- (talks aside -- is Colonel Burns available? Find out -- just open that door) You just want the conference to be personal to me and Young and Burns.

H.M.Jr: If it could be.

S: Yes. (Aside -- try and get -- no, I want him in twenty minutes) I think it'll be all right. If I find that I can't get him for any reason, I'll have word sent to you.

H.M.Jr: Well, you needn't bother. I'll have Philip Young there and I just want to, well, frankly, put it in your lap, if I may because I think if we could do something for Canada now it would

S: Well, what is he asking for?

H.M.Jr: He's asking for those 80,000 Enfields and General Marshall told us that, I think, 48,000 were available. Well, if there's 48,000 and they say they desperately need 80,000, they should have at least a quarter of a million of them.

S: Yeah. Well, Marshall himself is up at the Hill just at present. I shall want to talk to him about it and I'll see Burns too.

- 3 -

H.M.Jr: But if as I say, I can frankly lay it in your lap and then maybe Monday you could give me an answer why I'd appreciate it.

S: Hull -- this gentleman's name is Hull -- the one I saw yesterday.

H.M.Jr: Yes. C. D. Hull.

S: C. D. Hull.

H.M.Jr: Minister -- I guess, well he's Minister of National Defense for Canada.

S: Yes. All right.

H.M.Jr: I'll have Phil over there -- Philip Young over there at quarter past.

S: Yes. All right.

H.M.Jr: Thank you so much.

C O P Y O F
INCOMING CABLEGRAM

Batavia, July 11, 1940

Federal Reserve Bank of New York

New York

No. 30

ONE

New exchange regulations for Dutch East Indies will come in force next week. Unless special exemption granted all Dutch East Indies residents are to sell their dollars U.S. Currency balances (deposits cash balance et cetera) to local Dutch East Indies banks who in their turn transfer their excess funds to Exchange Control Fund which will concentrate its dollars U.S. Currency balance with you. The Exchange Control Fund is a Government fund under management of Javasche Bank.

TWO

Stocks and bonds in United States of America of Dutch East Indies residents are to be brought under custody of the American banking correspondents of the Javasche Bank, Nederlandsche Handel Maatschappij, Nederlandsche Indische Handelsbank, Nederlandsche Indische Escompte Maatschappij and the securities are to be hold* in the name of last mentioned Dutch East Indies bank who in this respect acting as agent for Exchange Control. There is no intention to liquidate these securities which are kept as a centralized exchange reserve.

THREE

In view of license system for transfers from Netherlands and Dutch East Indies accounts now in force in United States of

COPY OF
INCOMING CABLEGRAM

-2-

America we request your help to have the transfers referred to above be effected with as little delay as possible. Dutch East Indies Government will cable to this same effect to the Netherlands Minister Washington, D.C.

De Javasche Bank

*
probably means held

TREASURY DEPARTMENT
RECEIVED

AND JUL 13 PM 1 18

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

Treasury Department

TELEGRAPH OFFICE

WV

1940 JUL 11 PM 3 55

WV152 FO TWS PAID 3 MINS

BOSTON MASS JULY 11 327P 1940

HENRY MORGENTHAU JR

SECY OF THE TREASURY WASHDC

GLAD TO COOPERATE IN MATTER YOU SPOKE OF OUR OFFHAND BELIEF
BEST METHOD THROUGH OUR PRESENT EMPLOYEES. SUGGEST HOOVER CALL
ROLLAN BOSTON AND ARRANGE A MEETING TO DISCUSS MOST SATISFACTORY
PROCEDURE

JEFF COOLIDGE

354p

July 11, 1940
10:14 a.m.

J. Edgar
Hoover:

Good morning.

H.M.Jr:

Good morning. Mr. Hoover, there's a concern called the Credit Suisse, S-u-i-s-s-e, Zurich, who in New York do business under the name of Swiss American Corporation, 24 Pine Street.

H:

Yes. 24 Pine.

H.M.Jr:

Now, we have reason to believe the Germans are going to use that as their principal office to sell and liquidate seized securities.

H:

Yes.

H.M.Jr:

And I'd like you to sort of put your mind on it, you see?

H:

Fine. Well, I think we of course can do that and I think we ought to be checking into their bank accounts up there.

H.M.Jr:

Well, yes -- well, that I think we have.

H:

You have them. All right, then.

H.M.Jr:

I think we have that, but I was -- yes, because -- yes, I think we have that. They have to report to us.

H:

I see.

H.M.Jr:

But I was thinking more of their personnel and who's in the place.

H:

Right.

H.M.Jr:

That we haven't done, but their bank accounts I'm quite sure we cover.

H:

Well, we'll skip that and then we'll concentrate upon the personnel and it might be well to put a technical check over their conversations for awhile.

H.M.Jr:

I had that in mind.

- 2 -

H: To see what could be done along that line.

H.M.Jr: This information came to us from the British Embassy.

H: Yes.

H.M.Jr: And we've been suspecting it ourselves.

H: Yes.

H.M.Jr: So if you'd --

H: I'll get after that right away.

H.M.Jr: It may -- they've got to use somebody and this is as likely a person as any one.

H: Right. They have to have some front for it.

H.M.Jr: Right.

H: And we'll get after that right away and I'll let you know what the developments are.

H.M.Jr: Thank you.

H: Fine. Good-bye.

H.M.Jr: Good-bye.

July 11, 1940
10:25 a.m.

Senator
Townsend: Henry?

H.M.Jr: How are you?

T: I'm pretty good. How are you?

H.M.Jr: Well, I had a bad strawberry season.

T: Oh, pshaw. Well, I had a pretty good one.

H.M.Jr: Did you?

T: Yeah. I thought you had a good one up there.

H.M.Jr: No. We had a small crop and the prices were poor.

T: Yeah. Well, can I sell you any silver this morning?

H.M.Jr: In exchange for -- I've got some raspberries.

T: (Laughs). Can I trade you silver for raspberries?

H.M.Jr: Sure.

T: All right.

H.M.Jr: What's worrying you?

T: What I called you up for yesterday, Henry, was to know what you're going to do with these bonds but since it's public now -- so I have it.

H.M.Jr: Oh.

T: You're going to make them fourteen, seventeen years, are you?

H.M.Jr: Fourteen, sixteen.

T: Two and a quarter.

- 2 -

H.M.Jr: Yeah. Can I sell you a couple?

T: Huh?

H.M.Jr: Can I sell you a couple?

T: Yeah, we'll buy some.

H.M.Jr: What?

T: Yeah, we'll buy some.

H.M.Jr: I see. You want a little advance

T: Trade this darn silver, can we, at 35¢ an ounce for bonds.

H.M.Jr: What did you want?? Yes, you say you want a little advance information?

T: No, I wasn't trying to get advance information, I was just trying to ask you what's going to be done so I can tell my bank.

H.M.Jr: (Laughs). Oh, you've got a bank.

T: Yeah.

H.M.Jr: Well, today is the day.

T: Today is the day.

H.M.Jr: You can get up to 5,000 if you keep them for ninety days.

T: (Laughs). All right. All right, Henry, I'm much obliged and much obliged for calling me. Anything I can do for you?

H.M.Jr: Sure.

T: What is it?

H.M.Jr: Keep your sense of humor the way you've got it.

T: What?

H.M.Jr: Just keep your sense of humor. Keep that good sense of humor.

- 3 -

T: Oh, well. (Laughs). Thank you ever to much.

H.M.Jr: Good-bye.

T: Come up to see me.

H.M.Jr: I'll do that.

T: All right.

July 11, 1940
5:11 p.m.

H.M.Jr: Hello.

Operator: Mr. Foley. Go ahead.

Ed Foley: Hello.

H.M.Jr: Ed.

F: Yes, Mr. Secretary.

H.M.Jr: What I told Knudsen there about that contract and what he told us about Johnson is terribly important and I want you to write that down for me.

F: All right.

H.M.Jr: I haven't got time to dictate it, but that's terribly important.

F: All right. O. K., I'll dictate a little memorandum for the diary.

H.M.Jr: Right.

F: Right.

AMERICAN CONSULATE

Rangoon, Burma, July 11, 1940.

106

CONFIDENTIAL

Subject: Exports of Wood Oil from China to the
United States Shipped Through Burma.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to report that 436 tons of Chinese wood oil (tung oil) were shipped from Burma to the United States on the S.S. Exorook on April 24, 1940 and that 568 tons were shipped on the M.V. Excelsior on July 9, 1940.

These shipments were handled, as previous shipments have been, by the Foo Shing Trading Corporation and consigned to the Universal Trading Corporation of New York in accordance with an agreement with the Export-Import Bank for commercial credits to China to be repaid from the proceeds of sales of wood oil.

With the interruption of shipments to Haiphong, the Burma route has increased its importance as an outlet for China's shipments of wood oil. The Foo Shing Trading Corporation has been trying to ship 500 to 600 tons a month through Rangoon in order to reach a total of 5,000 tons by the end of the year. There were no shipments in May and June, but if regular shipments are made from now on, the desired total should be reached.

All the wood oil so far shipped from Rangoon has been carried by the American Export Lines and it is understood that this line has practically guaranteed to take all the wood oil given them, in spite of a general shortage of freight space now being felt in Rangoon.

The amount that can be brought in over the Burma-Yunnan road depends on the condition of the road and the expense of hauling. It was originally thought that trucks returning empty from Kunming could carry wood oil to Burma at no extra cost. It was found, however, that the amount of gasoline required to haul a full load as compared to the amount required to haul an empty truck was considerable. It was, in fact, enough to add largely to freight costs. Later it was found that if the trucks carried no more than three drums (about 1,275 pounds) the amount of gasoline consumed was very little more than for an empty truck. Accordingly shipments have been coming into Burma

loaded

Regraded Unclassified

- 2 -

loaded about two or three drums to a truck.

Since each drum averages about 425 pounds of wood oil, it would take about 33 trucks arriving each day carrying three drums apiece to make 600 tons a month. The average number of trucks coming into Burma each day appears to be above the 33 required to make this total.

There were 544 tons shipped in March, 436 in April, and 568 in July. This gives a total of 1,548 tons shipped. To make 5,000 tons by the end of the year it will be necessary to ship 3,450 tons in the next six months (counting the present month of July as a whole month) or 575 tons per month. It seems that this total might be reached barring unforeseen contingencies.

Respectfully yours,

W. LEONARD PARKER
American Vice Consul

Distribution:

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

800

CONFIDENTIAL

108

OFFICE OF FOREIGN AGRICULTURAL RELATIONS

July 11, 1940

FOR CABINET MEETING

SUMMARY OF CABLES ON FOREIGN DEVELOPMENTS

(Received from July 5 to 10, 1940)

BRAZIL: German firms are soliciting orders in Sao Paulo for delivery of German products in September and October. Contracts provide for penalties of 10 to 40 percent for failure in the fulfillment of contracts.

FINLAND: The Prime Minister announced the conclusion of a trade agreement with Germany signed in Berlin on June 29. The details have not been announced but the press states that Finnish exports to Germany will be increased possibly by seventy-five percent above the 1936 to 1939 level. Trade will be conducted strictly on a compensation basis and not in free exchange. Exports will comprise chiefly wood products, paper, minerals, and a substantial quota of agricultural products against imports of coking coal and undescribed manufactures.

FRANCE: According to a DMB report from Paris dated July 6 the German military authorities in French occupied territory have set up distribution bureaus which have ordered the sequestration of all agricultural produce, food supplies and semi-manufactured materials. It is stated that these supplies are not being exported but are being requisitioned with a view to providing for orderly distribution, and that individual shops are free to sell to their customers for their daily needs without any extraordinary control on the part of the military authorities. Shops, the owner of which are absent, are to be managed by provisional administrators. The report continues that workers and employees are forbidden to leave their jobs, or to strike, and that unauthorized raising of prices will be punished.

NORWAY: New rationing measures have been placed in effect in Norway. The maximum daily ration of butter is placed at 45 grams, or margarine at 35 grams, against individual rationing cards. The consumption of fats and fatty acids by soap factories was reduced to 65 percent of normal. Strict rationing of clothing, shoes, and leather is anticipated shortly.

Negotiations involving the sale of practically the entire Norwegian surplus of canned fish to Germany were concluded. Dried fish sales are now being discussed. Trade with Sweden and Denmark has increased somewhat although it is still unimportant. Strenuous efforts

- 2 -

are being made to increase the sales of various German products to replace similar items formerly imported from other sources.

RUMANIA: The economic loss to Rumania involved in the cession of Bessarabia and Northern Bukowina is indicated roughly by the following percentage figures based on 1938 production statistics. In total area the loss is about 5,000,000 hectares, or 17 percent, and in arable land about 3,250,000 hectares, or 23 percent. In cereal production the ceded area contributed 9,085,000 tons of wheat and 1,050,000 tons of corn in 1938, 20 percent of the total crop in both cases. The proportionate loss in this year's crop is much greater since heavy rains have damaged crops in the old Kingdom while benefiting those in usually arid Bessarabia.

Based on normal crops, other serious production losses are: potatoes 29 percent, sunflower seed 74 percent, sugar beet 32 percent, soybeans 80 percent, vineyards 22 percent, cattle 17 percent, horses 28 percent, sheep and hogs 20 percent each. Important industrial losses occurred only in the food processing industry which contributed 20 percent of total production value, principally in sugar refineries and in the lumber industry with 15 percent of total production.

The oil seed crops were produced almost entirely for export to Germany and it is understood that German buyers had already contracted for most of this year's crop and paid in advance for much of it. German circles appear far from certain as to Russia's intention to complete delivery.

Of interest to the American import trade is the loss of almost 100 percent of caracul sheep. Exports of caracul skins to the United States totalled \$600,000 in 1939. Rumania's chronic difficulty in effecting merchandise and payments to the United States will be greatly increased by the disappearance of this export item.

As regards American investments the greatest potential loss is that of the international telephone and telegraph subsidiary which as previously reported has 7 percent of its equipment in the area valued at 800,000,000 gold lei. Romania Americana has no direct investments but through its interest in Distributia, a domestic retailing subsidiary, may incur an indirect loss of \$80,000 in stocks and installations. Other American firms may incur moderate losses in uncollected accounts in the area. Due to the comparative poverty of the area the loss in future market potentialities for American goods will not be proportionate to transfer of population involved.

STRICTLY CONFIDENTIAL. Reliable information has been received that fifteen hundred carloads of sugar had been bought by the Germans, who were preparing them for shipment out of Bessarabia. The Russian authorities' attitude is indicated by their refusal up to now to allow the head of the economic section of the German Legation, Neubacher, to enter Bessarabia to look after the interests of the Germans.

- 3 -

SWEDEN: A Norwegian delegation is in Stockholm discussing a clearing agreement. Sugar rations for the period July 1 to August 4 were increased to 40 kilos per person, including 1-1/2 kilo for canning.

The Swedish Government acting on powers recently granted by the Riksdag has decreed a suspension until October 15th of provisions of law on working hours in agriculture.

UNITED KINGDOM: The British Board of Trade advises that the question of flax supplies for the United States is under active consideration and promises a decision as soon as possible.

The British Food Minister announced on July 8 that the time had come when he must ask the nation to go on to hard living, eliminate all luxuries, use fresh foods now seasonally available, and conserve canned goods. Effective July 15 hotels and restaurants may serve only one course of meat, game, poultry or fish. Tea was rationed to two ounces per capita weekly effective July 9. Margarine and cooking fats will be rationed on July 22 but amounts are as yet unspecified. Other similar measures seem likely in the near future. The foregoing measures are largely precautionary in order to keep stocks on hand for the difficult period ahead, though they imply a reduction in food supplies.

The following comments by the American Agricultural Attaché in London on developments in the Liverpool cotton market during the week ending July 5 are of interest.

(1) Liverpool Futures Market: The market has been very narrow due to the absence of outside speculative interest. July liquidation and light hedging have about balanced moderate trade offtake. Greatly restricted importing and heavy mill forwardings are causing a steady tightening in the local supply situation. All indications point to a very strong contract situation in the late summer. A scarcity of cotton around 7/8 to 15/16 staple is already pronounced. Distant months are lagging owing to the lack of speculative and straddle support. Buying of those deliveries is restrained by the great uncertainty surrounding the Control's future import policy and by the confused war situation. It cannot be said that the market is functioning successfully at the present time. The whole situation is dominated by the Government import policy which is still indeterminate. Increasing importation difficulties threaten to create an unworkable contract position in the autumn. The establishment of a broader futures contract will soon become an imperative necessity.

(2) Spot Market: Spinner demand during the past week has been much quieter, sales totalling around 35,000 bales. A fair spinner inquiry continues for desirable cotton on hand but forward business is greatly restricted by the uncertain future arrival of steamers and the difficulty in obtaining freight space and import licenses. Virtually no forward business in American cotton has been done to date, merchants being unwilling to risk new crop sales ahead until the freight quote for September onwards is announced. Forward business in South American cottons is almost impossible owing to the severe cut in import licenses.

Merchants who have sold Brazilian and Peruvian cotton ahead are in the invidious position of being unable to obtain more than 20 percent of the quantities contracted for, and many contracts will have to be cancelled. A good business has been done in West African cottons, there being no restrictions on the import of Empire growths. The basis is still tending to harden despite easier prices in most producing countries. Import buying of all growths has remained very slow. All indications point to a steady reduction in local stocks over the coming three months. Negotiations are reported to be proceeding with the Egyptian Government for the purchase of the balance the 1939 crop and the whole of the 1940 crop. If an agreement is reached the cotton will be stored in the United Kingdom as an emergency reserve.

URUGUAY: The Bank of the Republic on July 3 announced quotas of \$396,000 in controlled exchange and \$704,000 in free exchange for imports from the United States covering pharmaceuticals, chemicals, industrial and agricultural machinery, construction steel, galvanized wire, yarns, white cement, lubricants, lumber, automobile and truck parts, and tools, tobacco and other materials of prime necessity.

CONFIDENTIAL: LATEST REPORTS ON EUROPEAN CROP PROSPECTS

The following information received since July 5 supplement the reports on European crop conditions presented in this report for June 28 and July 5.

SWEDEN: Exceptionally dry weather in many sections has seriously retarded crop developments, especially hay crops. It is still too early to make a reliable prediction as to final results.

UNITED KINGDOM: Reports indicate that the British crop of early apples will be only 50 percent of normal, of Bramley's Seedling apples one-third of normal, and of pears 60 percent of normal. On the other hand, a plum crop of record proportions, apparently over 100,000 tons, is expected. No estimates are available as to grain crops, potatoes and sugar beets. However, good rains are needed generally.

ITALY: Non-Italian observers further consulted by the American Embassy in Rome express the opinion that the wheat crop will be "mediocre." The unofficial consensus of opinion at the International Institute of Agriculture is that it will be below that of last year although no estimate can be obtained as to the probable extent of the shortage. Current continued rains in the north constitute an unfavorable factor. Much still depends on the weather for the next few weeks. The Legation of one Balkan country, which exports wheat to Italy, thinks that production may be 6 million quintals below that of last year when the crop was generally understood to be about 80 million quintals although the latter figure has been considered by some observers as exaggerated. Another Balkan Legation thinks that the crop may be 10 million quintals below last year's adding, however, that this is merely an impression.

- 5 -

DANUBE BASIN; Weather throughout the Danube Basin was reported as uncertain during the past week as far as crop developments are concerned. Rainy, overcast and cool periods were interrupted by intervals of sunshine and higher temperatures, such intervals lengthening towards the weekend. In several districts, however, frequent local showers with some hail contributed to the already unfavorable crop situation. Cereals have completed the milky stage of development in southeastern districts of the Basin where harvesting will probably start by July 10. The corn crop is growing vigorously. However, despite remarkably improved appearance crop prospects are still uncertain.

HUNGARY: According to the International Institute of Agriculture in Rome the 1940 small grain acreage and production in Hungary (present frontiers including Sub-Carpathian Russia) compared with 1939 are estimated as follows:

Crop	1939		1940	
	Acrea	Bushels	Acrea	Bushels
Wheat	4,669,000	112,767,000	4,312,000	82,305,000
Rye	1,728,000	35,310,000	1,624,000	29,447,000
Barley	1,344,000	35,847,000	1,300,000	32,610,000
Oats	636,000	24,576,000	793,000	26,800,000

FRANCE: VERY CONFIDENTIAL - The American Embassy in Paris cables that the food situation in that city is already difficult and that there is every reason to believe that it will become acute shortly. An organization is being developed to centralize for the Embassy staff the discovery and purchase of certain essentials which have become almost unobtainable in the ordinary way, notably, milk, butter, eggs, potatoes, fresh vegetables and meats. The complete breakdown of normal transportation facilities is largely responsible for the existing situation. Study is being given to means of procuring regular supplies of tinned and other foods from the United States. Coal supplies are low, and deliveries almost impossible. It seems certain that no fuel oil will be available in Paris during the coming winter.

July 11, 1940
5:35 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton. Go ahead.

H.M.Jr: Hello.

Cong. Bob Doughton: All right, Mr. Secretary, how are you?

H.M.Jr: Fine. When did you get back?

D: I came in here about 3:30.

H.M.Jr: I see.

D: I just thought I'd kind of check up. I wasn't able to locate Jere and see if there's been anything doing here this week that I'd be interested in. I saw you'd had a meeting at the White House.

H.M.Jr: Yeah. Well, we tried to get hold of you each day and

D: How's that?

H.M.Jr: I spoke to your office and told them to let you know what we were doing.

D: Well, I never got word. I got word day before yesterday that I was wanted at nine o'clock, I believe, the next morning and I got it eight o'clock the night before. I was not at home that day -- out on some official matters -- and I couldn't make it then. I don't know when you let my office know, but I didn't get the word until the night before the meeting was to be at nine o'clock.

H.M.Jr: Yeah. Well

D: She sent a wire sometime

- 2 -

H.M.Jr: Well, we tried our best to get hold of you.

D: Well, how much time did you give ahead, that's what I want to find out.

H.M.Jr: Well, the second time -- you're the first man I called. I can't remember, Bob. I mean, so much has happened since then, but I called you first and

D: Well, it's all over and there's nothing we can do now, is there?

H.M.Jr: No, just what you saw in the paper and I tell you what I'd like to do. Couldn't Sullivan drop up and call on you tomorrow?

D: Yes.

H.M.Jr: What time

D: I just want to say -- I just want to get my position very plain, because it's a little embarrassing to me. I'm not criticising -- not a blaming you. When I came up here before I called and we had the meeting down there and I thought they were ready to do something and I stayed here until Wednesday and tried to get in touch with Sullivan and they said he was gone for the entire week. I couldn't get in touch with him and was no use to stay here, so I had some very pressing matters at home so I went home. I'd have been here at his disposal all last week. I saw in the paper that you said you were ready to go on any time the Ways and Means Committee was and I tried to get in touch with him. He'd already told us he'd need sixty days before that and I tried to get in touch with him and they said he was gone for the entire week on Tuesday evening.

H.M.Jr: Yeah.

D: So I couldn't do anything without getting in touch with him, you know. And then the next thing I knew the other meeting was

- 3 -

called so short that I didn't get down to that and the folks down home wonder whether or not I'm neglecting my business or whether or not I'm ignored up here. It's embarrassing.

H.M.Jr: Well, I can't do anything more than try to get hold of you and of course the pressure is on me to do something and I've just got to go ahead and -- I don't know any other way to get hold of you except through your own office.

D: Well, there's no other way, but I just was wondering if usually these things are so urgent that we couldn't get more than one day's notice.

H.M.Jr: Well, I don't even get that.

D: (Laughs). Well, I'm not complaining, but I know we wouldn't hold a meeting -- I wouldn't hold one if you were away for a week, or perhaps two or three days, without giving you more of a notice -- a day's notice.

H.M.Jr: Well, I'm sorry, Bob. I had no notice and I just had to go to town and

D: I don't know why Sullivan ran off. I was here last week and if this thing was urgent why we couldn't have had this conference last week. I came here a purpose.

H.M.Jr: Well, he didn't know. We thought there wasn't going to be any hurry and then they wanted to clean this thing up before the Convention next week. Now that's what the hurry was.

D: Well, if he wants to see me, of course, I'll always be glad to see him or you either one. But there's some matters that I want to talk over with you about it one of these days so we can get these things straight so either one of us won't be embarrassed.

H.M.Jr: Right. Well, when would you like to talk things over.

- 4 -

D: Whenever it suits you. I'll be here -- when're you going to the Convention?

H.M.Jr: I'm not going.

D: You're not going.

H.M.Jr: No.

D: Well, anytime tomorrow. I don't think I'll go until Saturday afternoon. I've got an awful lot of accumulated mail and departmental work to do here tomorrow and next day. I don't think I can get away before Saturday afternoon, so I'll run down at your convenience.

H.M.Jr: Yeah. Well, let's just see. What're you doing around eleven o'clock?

D: I'll be right at your office, if you say so.

H.M.Jr: That'll be wonderful. I'd love to see you.

D: In the meantime, if Sullivan wants to see me either before or after that, I'll be glad to see him.

H.M.Jr: Well, supposing I tell Sullivan to be up at your office at ten tomorrow morning.

D: Fine.

H.M.Jr: How's that?

D: Thank you. I'll be here at ten and I'll be down at your office at eleven.

H.M.Jr: O. K.

D: Thank you very much. Good-bye.

FOR THE PRESS

IMMEDIATE RELEASE

JULY 12, 1940

*Referred to by President
at his press conference 7/12/40.*

July 11, 1940

The President
The White House
Washington, D. C.

Mr. President:

The question whether in the light of the national defense emergency it will be necessary to raise the ceiling for hours, above which time and one half must be paid, has given me much concern.

As a soldier, the nation's defense is my primary interest. My assignment to the administration of a labor law has in no way lessened that interest.

Were there any defense need in certain industries for abrogation of the time and one half rule, nothing could keep me from so reporting. In my contacts with industry no such need has yet been demonstrated to me.

Two documents from the last war should be called to public attention:

One is the wartime report of the British Munitions Commission. The report stated that from experiments spread over thirteen and a half months, a reduction of working hours of munitions workers was associated with an increase of production. For example, in one factory hours of work were changed, first from a 66-hour week to a 55-hour week, and then to a 45½-hour week. Considering the weekly output of the 66-hour week as 100, it was found that the 55-hour week yielded a relative output of 111. The 45½-hour week yielded a relative output of 109. Thus the 45½-hour week yielded more in products than the 66-hour week and practically as much as the 55-hour week. The same results were obtained during the 13-month period in various other munitions factories.

The other document is General Order No. 13 issued by the Chief of Ordnance, United States Army, on November 15, 1917, seven months after the declaration of war when the United States was at the height of its procurement effort. The Order stated:

"In view of the urgent necessity for a prompt increase in the volume of production of practically every article required for the conduct of the war, vigilance is demanded of all those in any way associated with industry lest the safeguards with which the people of this country have sought to protect labor should be unwisely and unnecessarily broken down. It is a fair assumption that for the most part these safeguards are the mechanisms of efficiency. Industrial history proves that reasonable hours, fair working conditions, and a proper wage scale are essential to high production. During the war every attempt should be made to conserve in every way possible all of our achievements in the way of social betterment. But the pressing argument for maintaining industrial safeguards in the present emergency is that they actually contribute to efficiency. To waive them would be a shortsighted policy, leading gradually but inevitably toward lowered production."

These documents were drafted almost a generation ago. The production line techniques of industry have been greatly developed since then. Today maximum production calls for maximum efficiency of the machine. Maximum efficiency of the machine is usually obtained by using relays of workers in shifts short enough to make constantly intense effort possible.

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I think it also should be called to the public's attention that the French 40-hour week in effect from 1936 to 1938 had little resemblance to our "ceiling for hours." The French 40-hour week generally was a rigid limitation.

Germany was on an 8-hour day, 48-hour week basis from July 26, 1934, to January 1, 1939. A survey entitled "Labor Policy in Germany" appearing in the June 1940 issue of the Monthly Labor Review reports that a 10-hour day, 60-hour week began in non-defense industries after January 1, 1939, due to a labor shortage. In the more vital industries, hours up to 16 per day might be permitted by the factory inspector. But this lengthening of working hours was not successful. The article states: "Production began to fall off rapidly, accompanied by such an alarming increase of industrial accidents and stoppages as to attract the serious attention of the government authorities....The government applied the strictest measures against suspected saboteurs but also began to lighten somewhat the hard labor conditions."

Any complaints from the key defense industries that the payment of time and a half for overtime is making difficult their operation will be promptly brought to your attention. To date the Wage and Hour Division has received but three such complaints, all from small establishments.

Respectfully,

Philip B. Fleming
Administrator

U. S. COAST GUARD
COMMANDANT'S OFFICE

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Memorandum for

12 July '40

Miss Chauncey -

The attached for
your information, as
per phone request
from Miss Frazier,
this date.

Mr Bailey

The Director,
Bureau of the Budget,
Washington, D. C.

Sir:

Under date of April 24, 1939, I recommended to you, in response to Bureau of the Budget circular letter of April 14, 1939, a reorganization plan abolishing the Bureau of Marine Inspection and Navigation, of the Department of Commerce, and dividing its duties among the Maritime Commission, the Bureau of Customs (Treasury Department), and the Coast Guard (Treasury Department). On January 18, 1940, I again recommended this reorganization plan to you, stating that the enforcement of neutrality relating to merchant shipping has created a greater demand for such a reorganization than existed when I made my first recommendation. Now that national defense measures are more urgent than at any previous time in the history of our country, the need for this proposed reorganization plan becomes imperative.

Before resubmitting this reorganization plan to you I took up the matter with Rear Admiral Land, Chairman of the Maritime Commission, and Admiral Stark, Chief of Naval Operations. Both Admiral Stark and Admiral Land have given their unqualified approval to this reorganization plan, and there are inclosed herewith photostatic copies of letters from the Chief of Naval Operations and the Chairman of the Maritime Commission expressing their complete approval of this plan.

A copy of the proposed reorganization plan, together with a proposed letter of transmittal from the President to the Congress, with all supporting data and details as to the merits and advantages of the plan, are in the hands of the Bureau of the Budget. It is my understanding that the Bureau of the Budget has already made a comprehensive study of the plan.

If, after a review of the plan and corollary data previously submitted, the plan meets with your approval and you agree with me that the present national emergency makes most desirable its adoption at the

earliest practicable date, may I suggest that you lay the matter before the President. The urgency of immediate action results from the need to increase materially the national defense value of the merchant marine and to carry out more efficiently the neutrality and national defense policies of this country through the elimination of the duplication and overlapping of the functions recommended for distribution to the Maritime Commission, the Bureau of Customs, and the Coast Guard.

The adoption of this plan will be a further step to improve national defense with no increase in cost and with the probability of a saving.

Very truly yours,

Secretary of the Treasury.

Inclosures - 2.

11 July, 1940.

the Secretary of the Treasury:

In the attached letter to the Director of the Bureau of the Budget, prepared for your signature, you request the Director to again review the reorganization plan which you last submitted on January 18, 1940. I have recently gone over the entire plan personally with both Admiral Stark, Chief of Naval Operations, and Rear Admiral Land, Chairman of the Maritime Commission. You will note that in the letters of the Chief of Naval Operations and the Chairman of the Maritime Commission they not only approve the plan as being sound in principle, logical in its set-up, increasing as it does the efficiency of the Government in handling maritime affairs, but that they both stress the decided advantages of the plan in connection with the national defense. I might add that during my conferences with them, in addition to approving the plan, both Admiral Stark and Admiral Land evinced a lively interest in the reorganization plan and in its early adoption.

May I suggest that if you approve and forward the attached letter to the Director of the Budget, it would greatly facilitate its early consideration by him if you would phone Mr. Smith a personal message regarding your desire for immediate consideration. Action in the premises is required at the earliest practicable date, since if the President approves of the plan it must be forwarded to the Congress while the latter is in session, and the reorganizing authority of the President expires in January, 1941.

R. R. WANSCHKE.

JUL 11 1940

The Director,
Bureau of the Budget,
Washington, D. C.

Sir:

Under date of April 24, 1939, I recommended to you, in response to Bureau of the Budget circular letter of April 14, 1939, a reorganization plan abolishing the Bureau of Marine Inspection and Navigation, of the Department of Commerce, and dividing its duties among the Maritime Commission, the Bureau of Customs (Treasury Department), and the Coast Guard (Treasury Department). On January 18, 1940, I again recommended this reorganization plan to you, stating that the enforcement of neutrality relating to merchant shipping has created a greater demand for such a reorganization than existed when I made my first recommendation. Now that national defense measures are more urgent than at any previous time in the history of our country, the need for this proposed reorganization plan becomes imperative.

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CG-F-010 (7/11/47)

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The adoption of this plan will be a further step to improve national defense with no increase in cost and with the probability of a saving.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Inclosures - 2.

In reply refer to Initials
and No.

NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

9 July 1940

My dear Mr. Morgenthau:

I am in receipt of your letter of 9 July regarding the reorganization plan which in effect abolishes the Bureau of Marine Inspection and Navigation of the Department of Commerce and divides its duties among the Maritime Commission, Bureau of Customs (Treasury Department), and the Coast Guard (Treasury Department).

I went over the detailed plan of this some time ago as set forth by the Commandant of the Coast Guard in his memorandum of 23 May 1940.

I believe the reorganization plan proposed is sound in principle and that it is distinctly in the interest of national defense.

Yours sincerely,



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

UNITED STATES MARITIME COMMISSION
WASHINGTON

July 10, 1940

OFFICE OF THE CHAIRMAN

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

My dear Mr. Secretary:

Receipt is acknowledged of your letter of recent date, proposing the abolition of the Bureau of Marine Inspection and Navigation and the redistribution of that Bureau's duties among the Bureau of Customs and Coast Guard of the Treasury Department, and the Maritime Commission.

Some consideration and study have been made of the subject during the past two years and from time to time informal discussions have occurred with those interested in improving the administration of the Government agencies involved, as well as endeavoring to either avoid duplication of effort or reduce it to a minimum.

If the general principles are accepted as sound and the proposed reorganization put into effect, there are some minor readjustments that could readily be made in the proposed reassignment of duties which, in my judgment, would increase the effectiveness of the reorganization. Specifically, it would be more effective if the Shipping Commissioners who handle personnel matters were put under the Coast Guard instead of under the Customs Bureau.

These adjustments and division of duties can readily be worked out satisfactorily by the Coast Guard, the Customs Bureau and the staff of the Maritime Commission.

It is my belief that the reorganization plan as proposed is, on the whole, sound in principle, logical in its setup, follows correct administrative lines and will increase the efficiency of the Government in handling maritime affairs, which in turn will be for the interest of national defense.

Sincerely yours,

E. S. Hand.

RDS

GRAY

Buenos Aires

Dated July 12, 1940

Rec'd 5:10 p.m.

Secretary of State.

Washington.

291, July 12, 11 a.m.

Embassy's telegram 281, July 8, 3 p.m.

According to confidential figures obtained from the Central Bank, Argentina had an unfavorable balance of international payments in free exchange in the official market during the first 5 months of 1940 amounting to 47,000,000 pesos. Regular exports produced 365,000,000 pesos, while imports consumed 363,000,000, service of the debt and official expenditures 45,000,000 and financial services 5,000,000.

The estimate for the last 7 months of 1940 is an unfavorable balance of 387,000,000 pesos. Exports are expected to produce 145,000,000, while imports are expected to consume 482,000,000, service of the debt and official expenditures 47,000,000 and financial services 3,000,000.

The unfavorable balance of payments in free exchange through the official market in the whole year 1940 is thus expected to be 434,000,000 pesos.

ARMOUR

JRL

C O P Y

JUL 12 1940

Dear Dr. Duggan:

I should like to thank you for your letter of June 26, 1940 calling to my attention an item in the Geographical Journal for June 1940 on "The Tuman-Burns Road".

I have read the quotation in your letter carefully and found the comments contained therein very interesting.

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Isaiah Duggan,
Office of the President,
The Johns Hopkins University,
Baltimore, Maryland.

ES:md
6/29/40

S.A. HRE

W.D. W. *[Signature]* *[Signature]*
FILE COPY cc to Mr. Thompson

THE JOHNS HOPKINS UNIVERSITY

BALTIMORE, MARYLAND

OFFICE OF THE PRESIDENT

June 26, 1940

Dear Mr. Secretary,

You will recall earlier correspondence about the Yunnan-Burma Road. In the latest issue of the Geographical Journal for June, 1940, is an item, the whole of which I quote as follows:

"THE YUNNAN-BURMA ROAD"

We are indebted to Professor C. G. Beasley, of Rangoon, for the following information:

The discussion following Mr. Patrick Fitzgerald's interesting paper, "The Yunnan-Burma road," published in the March number of the Journal, revealed a quite inadequate appreciation of the success of this highway and of the volume of trade which is already passing over it. The trade now goes from the rail-head at Lashio, and in the eleven months from the first of April to the end of February 1940, commodities to the value of two million pounds sterling passed over the road from Burma to China in addition to a large volume of munitions and war supplies, the figures for which are not disclosed by the Government of Burma. A great variety of items is included in this trade, the most important single branch of which consists of motor omnibuses, vans, and lorries, with spare parts and pneumatic covers and tubes, which account for nearly half of the total trade. Other important items include petroleum, cotton piecegoods and blankets, machinery of all kinds, hardware, steel bars, drugs and medicines, and chemicals.

The success of the road has in fact exceeded all expectations, and the existing volume of commercial traffic would have been greatly increased were it not for the vital necessity of giving precedence to the passage of war supplies. No doubt the nature of this traffic is fundamentally artificial and no sound inferences can yet be drawn as to its chances of survival in normal circumstances. It is desirable however that wider publicity should be given in England to the great achievements of the Chinese in the rapid development of manufacturing activities in the western provinces, and the large part that is being played therein by the maintenance of this new link with Burma."

Sincerely yours,

Isaiah Bowman

The Honorable Henry Morgenthau, Jr.
U. S. Treasury Department,
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. C. Lyon Chandler, Assistant Cashier of the Corn Exchange Bank at Philadelphia, telephoned me at 10:45 this morning from New York. He desired to ascertain the present status of the Paris branch of Barclay's Bank, of which the Corn Exchange is an American correspondent. I told him that I had no information and referred him to Mr. Leroy-Beaulieu, giving the latter's telephone number. Mr. Chandler called back at 11:10, stating that Mr. Leroy-Beaulieu was in Washington and that his office knew nothing about banks in Paris.

When I talked with Leroy-Beaulieu in Washington this afternoon, I found that he had no information in the premises. I discussed with Mr. Liversy the propriety of the State Department sending a cable to our Embassy in France, requesting, at Mr. Chandler's expense, information as to the present status of Barclay's Paris branch bank. Liversy solicited the opinion of Mr. Clark, with which both Liversy and I agreed, namely, that the State Department should not request its diplomatic office in unoccupied French territory to seek information with respect to a British bank in territory occupied by Germany.

I telephoned the above information to Mr. Chandler in Philadelphia this afternoon. I added that I had had occasion to speak with an international banker (Dr. Somers) who is of the opinion that Barclay's branch now has its French headquarters at Vichy. I told Mr. Chandler that my informant had suggested that Mr. Frank Altschul of Lazard Freres in New York could confirm this.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In the absence of Mr. Knola, Mr. Cameron of the Federal Reserve Bank has given me the following data with respect to Italian and Russian balances in New York.

On June 13 the National City Bank paid \$105,000 to the United States Steel Export Company to the debit of the account of the Italian Fiat Company.

On June 14 the National City Bank debited the Bank of Naples Trust Company account for \$200,000 for a currency shipment.

On June 19 the Chase Bank debited the Banco Commerciale Italiano \$199,000 on a check drawn in favor of the New York Discount Corporation.

On June 21 the Chase Bank debited the Banco Commerciale Italiano \$291,000 in favor of the Standard Oil Company of New York.

On June 25 the National City debited Fiat \$85,000 for payment to the United States Steel Export Company.

On July 1, the Chase debited the Banco Commerciale Italiano a check drawn for \$599,000 in favor of the Discount Corporation.

On July 3 there was a check drawn on Chase by the Credito Italiano for \$350,000 in favor of Post and Telegraphs.

On July 9 there was a similar transaction for \$100,000. It is our understanding that these payments, and probably those to the Discount Corporation, have been for the purchase of securities, principally of the United States Government.

On July 10 the Chase Bank reported that a cash transfer had been ordered by the Rimione Adriatica di Scurta, Trieste, to the German Gold Discount Bank, Berlin, for account of the Internationale Unfall Schaden Versicherung Gesellschaft, Vienna, in the sum of \$100,000.

On July 5 the Federal paid \$50,000 to the B.I.S. by order of the Bank of Italy.

On July 5 the Federal received \$700,000 for account of the Bank of Italy from the National Bank of Romania. The Bank of Italy instructed the Federal to pay the funds to the Bank of Naples Trust in New York for the account of the Italian Exchange Institute.

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RUSSIA

On June 11 Russian balances with the Chase Bank in New York were as follows:

State Bank of Russia, dollar account, \$6,900,000; State Bank of Russia, letter of credit account, \$4,686,000; Amtorg, dollar account, \$783,000; Amtorg, letter of credit account, \$1,453,000. During the preceding week the Union Bank of Switzerland at Zurich paid \$250,000 into the State Bank's account. \$63,800 came from the Skandinaviska Bank, Stockholm. The Federal credited the account with \$200,000 by order of the B.I.S. The principal debit from the State Bank account was for \$500,000 in favor of Amtorg.

On June 18 the balances were:

State Bank of Russia, dollar account, \$6,265,000; State Bank of Russia, letter of credit account, \$4,723,000; Amtorg, dollar account, \$389,000; Amtorg, letter of credit account, \$1,556,000. There was an in-payment to the State Bank account by the Manufacturers Trust acting in behalf of the Anglo Prague Credit Bank, Bratislava, for \$134,000. There was a transfer from the Slovenska Bank, Bratislava, for \$100,000. \$300,000 was credited from the Union Bank of Switzerland. Out-payments included one to the Mesta Machine Company, Pittsburgh, for \$216,000.

On June 25 the balances were:

State Bank of Russia, dollar account, \$5,235,000; State Bank of Russia, letter of credit account, \$4,385,000; Amtorg, dollar account, \$1,266,000; Amtorg, letter of credit account, \$1,566,000. There was a transfer to the State Bank account of \$101,000 from the National Bank of Estonia. There was a similar transfer from the Central Bank of Latvia for \$107,000. There was a credit from the Bethlehem Steel Company of \$124,000. There was a payment to the Bank of Rome for \$50,000.

On July 3 the balances were:

State Bank of Russia, dollar account, \$4,783,000; State Bank of Russia, letter of credit account, \$4,007,000; Amtorg, dollar account, \$770,000; Amtorg, letter of credit account, \$1,519,000. There were credits from the Bethlehem Steel and certain rubber companies for \$119,000. There was a payment to the Union Bank of Switzerland for \$500,000. There was a payment to the Bank for Foreign Trade, Moscow, for \$50,000. There was a credit from the Bank of Chosen for \$400,000. There was a debit of \$278,000 involving payment on a note domiciled at the Chase in favor of the American Society for Jewish Farm Settlement in the U.S.S.R. There was a payment to the Russian Bank of Iran for \$150,000.

On July 10 the balances were:

State Bank of Russia, dollar account, \$5,164,000; State Bank of Russia, letter of credit account, \$3,444,000; Amtorg, dollar account, \$657,000; Amtorg,

-3-

letter of credit account, \$1,517,000. There was a transfer from the State Bank of Russia to the Netherlands branch account of Amterg for \$600,000, and a second payment of this sort for \$59,000. Credits to the State account included one from the Federal Reserve Bank, by order of the B.I.S., for \$250,000; and one from Skandinaviska Bank for \$200,000. There was a transfer from the Russian State account to the Bank for Foreign Trade at Moscow for \$50,000. There was an in-payment from the Bethlehem Steel Corporation and subsidiary companies for \$93,000. There was a payment from the Public National Bank & Trust Company of New York for \$400,000.



MEMORANDUM FOR THE SECRETARY:

JULY 12, 1940.

Re Shipping Situation.

The records of the Association of American Railroads reflect a sharp downward turn from the record figures of June.

On July 8th the number of cars of export freight lightered amounted to 840; on July 11th this had dropped to 634. On July 1st cars of export freight on hand to be lightered numbered 5125; on July 11th this had fallen to 4050.

The number of cars of export freight in railroad storage facilities is also declining, indicating a drawing on the back-log.

A further indication of the decreased volume moving into export is the fact that there were only 49 lighters on demurrage at noon July 11th.

Grain available for export at New York is unchanged from weeks past, with a little over a million bushels in railroad cars, elevators and boats.

Carloadings for the week ending July 6th, while approximately 107% of the ten year average, showed a decline of over 115,000 cars from the preceding week, due to the Fourth of July holiday and the slowing up of activity in the day and a half following the holiday.

The poor export cargo market, particularly to the United Kingdom, has been aggravated by the requirement that export licenses must be obtained on a long list of commodities. Further confusion and delay will follow inability of exporters to obtain the forms on which to make application for licenses.

Underwriters have advanced the war risk rates on cargo moving to west coast United Kingdom, Irish and United Kingdom channel ports, not east of Southampton, from 7½ to 10%.

July 12, 1940.

The Far East trade has become weaker while there is an improvement in the Australian trade.

The surplus of ships presently available for loading to United Kingdom ports has brought about a decision on the part of the British governmental authorities not to approve proposed increases in ocean freight rates from the United States and Canada, which, it had been hoped, would become effective August 1st. The only nourishment the steamship lines have obtained is an increase in the rate on bulk grain from 5/8 per quarter to 10/- and on flour from 40 to 60¢ per 100 lbs.

In spite of the fact that the regular lines are having difficulty in obtaining sufficient cargo at remunerative rates under prevailing conditions, the speculators, such as Bernstein and his former associates the General Atlantic Steamship Company, are putting vessels on the United Kingdom berth, which ships they have chartered on net form at 32½¢ per cubic foot. On this basis, and without taking into consideration possible demurrage, it requires an average rate of 50¢ per cubic foot on the cargo loaded to break even. To attain this average is extremely difficult, even with the exercise of the utmost selection in the choice of cargo because of the comparatively low level of Conference rates and there would seem to be absolutely no opportunity to obtain premium rates in the face of all the lines scrambling for cargo. One explanation offered is that there are substantial quantities of steel offering to Dublin and other Irish ports and that the General Atlantic are trying to hold the shippers of this steel up for \$25. per ton versus the Conference rate of \$10. The chances of getting any such rate have been greatly diminished by the reported action of their former

July 12, 1940.

associate, Mr. Bernstein, in quoting \$15. on the same business.

Efforts to overcome the blockade of the Mediterranean by going through the back door continue. In addition to the transshipping setup utilizing the regular lines to the Persian Gulf via the Cape of Good Hope, promoted by the Barr Shipping Company, the Isthmian Steamship Company is placing on berth from New York direct to Port Sudan and Suez, via the Cape of Good Hope, the Egyptian-flag steamer "STAR OF ALEXANDRIA". Mr. Isbrandtsen climbs on the band wagon advertising the Swedish Motor Vessel "VASALAND" from Philadelphia and New York to Bombay, Karachi and Basra, the latter port to be the base for transshipment to Turkey and other eastern Mediterranean countries. Incidentally, Isbrandtsen paid \$4.50 per deadweight ton per month for the charter of the "VASALAND".

Full cargo rates all over the world are still going down. Linseed from the Argentine to Canada can be done at \$7.00. Coal from Hampton Roads to Rio de Janeiro was traded at \$5.40 per ton. The American steamer "JOSEPHINE LAWRENCE" took \$3.00 for a round trip West Indies.

The American Export Line chartered their SS "EXAMINER" for a round trip east coast South America, July; rate not disclosed but presumed to be \$3.00 or \$3.25.

Basil Harris

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, July 12, 1940.
7/11/40

Press Service
No. 21-58

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of \$600,000,000, or thereabouts, of 2-1/4 percent Treasury Bonds of 1954-56 closed at the close of business Thursday, July 11, except for the receipt of subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery be made in registered bonds 90 days after the issue date. The subscription books will be closed for the receipt of subscriptions of that class at the close of business Saturday, July 13.

Subscriptions of either class addressed to a Federal Reserve Bank or Branch or to the Treasury Department and placed in the mail before 12 o'clock midnight of the respective closing days will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Wednesday, July 17.

-oOo-

July 12, 1940

My dear Mr. Hoover:

Thank you for your letter of July 9th containing the report of instructions to German propaganda agents. I also take this opportunity to acknowledge receipt of your letter of July 10th referring to statements made by the German Consul in New York.

I have read both of these communications with a great deal of interest.

Sincerely yours,

(Signed) H. Morganthau, Jr.

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

July 12, 1940

My dear Mr. Hoover:

Thank you for your letter of July 9th containing the report of instructions to German propaganda agents. I also take this opportunity to acknowledge receipt of your letter of July 10th referring to statements made by the German Consul in New York.

I have read both of these communications with a great deal of interest.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

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

July 12, 1940

My dear Mr. Hoover:

Thank you for your letter of July 9th containing the report of instructions to German propaganda agents. I also take this opportunity to acknowledge receipt of your letter of July 10th referring to statements made by the German Consul in New York.

I have read both of these communications with a great deal of interest.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

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

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

July 9, 1940

ack -

STRICTLY CONFIDENTIAL

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

My dear Mr. Secretary:

The following information has been received from an unusually reliable source. Within a few days it is expected that a photographic copy of the instructions as set forth below will be made available to me, and upon its receipt a copy will be furnished to you.

The report states:

"Source of proved reliability in close touch with responsible German officials in an occupied territory reported on June 15th that a confidential instruction, in substance as below, had been addressed by the Fuehrer to chiefs of propaganda sections in all regions:

'The German Armies are winning against democracies and plutocracies. It is not going to be long before this war ends victoriously and Reich dominates Europe. It is obvious that conquered territories will continue to be under protection of mighty Germany. But this victory is not going to terminate the war because the guardian of democracies and plutocracies will remain undestroyed. The war will continue against U.S.A., on British and French ships, and with our brave Navy in order that America shall pay for crimes she committed against Germany during and after World War, as well as at present time. The punishment given will be as successful as everything else undertaken by German Nation and victorious Army.

-2-

'My Party Comrades, I command you emphatically to be reserved in territories so far conquered and to preserve a correct attitude toward the minorities and the conquered nations. This correct attitude is to be maintained until day I myself fix. This day will come and will be the day of reckoning.'"

The foregoing quotation is a memorized version. A photograph of the actual instructions, barring accidents, should be available in due course.

With expressions of my very best regards, I am

Sincerely yours,

J. Edgar Hoover

BY MESSENGER

EDGAR HOOVER
DIRECTOR

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

July 10, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

Information has been received from a confidential source that about July 1, 1940, an official in the office of the German Consul in New York, New York, while conferring with an individual who inquired whether shipments from Marseilles, France, were controlled by the French or Germans, replied that they were controlled by the French but that "...we will be able to do much more about such things in approximately two weeks."

Further, the Consulate official reportedly also stated that the invasion of England would "...probably start next week" and that they "...expected peace within a month."

Sincerely yours,

J. E. Hoover

BY SPECIAL MESSENGER

JUL 12 1940

PERSONAL AND CONFIDENTIAL

My dear Mr. Hoover:

In your letter of July 1, you advised me that Otto H. Loberbeck is reported to have taken a pro-Nazi and anti-American position.

Mr. Loberbeck formerly was in the Treasury Department but he was transferred to the Federal Works Agency when the Public Buildings Branch of the Procurement Division of the Treasury was transferred to the Federal Works Agency under Reorganization Plan No. 1, effective July 1, 1939. You will no doubt wish to furnish advice to Mr. Carmody of your report on this man.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable J. Edgar Hoover,
Director,
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

WFT:WBS

By Messenger 10¹⁵

JUL 12 1940

PERSONAL AND CONFIDENTIAL

My dear Mr. Hoover:

In your letter of July 1, you advised me that Otto H. Loverbeck is reported to have taken a pro-Nazi and anti-American position.

Mr. Loverbeck formerly was in the Treasury Department but he was transferred to the Federal Works Agency when the Public Buildings Branch of the Procurement Division of the Treasury was transferred to the Federal Works Agency under Reorganization Plan No. 1, effective July 1, 1939. You will no doubt wish to furnish advice to Mr. Carnody of your report on this man.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable J. Edgar Hoover,
Director,
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

ENTIRE

By Messenger

Regraded Unclassified

JUL 12 1939

PERSONAL AND CONFIDENTIAL

My dear Mr. Hoover:

In your letter of July 1, you advised me that Otto H. Leverbeck is reported to have taken a pro-Nazi and anti-American position.

Mr. Leverbeck formerly was in the Treasury Department but he was transferred to the Federal Works Agency when the Public Buildings Branch of the Procurement Division of the Treasury was transferred to the Federal Works Agency under Reorganization Plan No. 1, effective July 1, 1939. You will no doubt wish to furnish advice to Mr. Carnody of your report on this man.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable J. Edgar Hoover,
Director,
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

RECEIVED

By Messenger

Regraded Unclassified

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J. EDGAR HOOVER
DIRECTOR

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

July 1, 1940

W. Thompson
PERSONAL AND CONFIDENTIAL

BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

Information has been received by this Bureau from a confidential source with reference to one Otto H. Loverbeck, who is employed as an architect by the Treasury Department. This man is reported to have taken a pro-Nazi and anti-American position. His wife is reported to be in Germany.

The above is being forwarded to you for your information.

With expressions of my highest esteem and best regards,

Sincerely yours,

J. E. Hoover

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 12, 1940.

TO Mr. White
FROM Mr. Gass
Subject: The German Food Situation.

1. There is no convincing evidence that the food situation in Germany will be substantially worse this winter than last. Stocks of cereals (and consequently bread rations) may be somewhat smaller this year, but supplies of butter, eggs and meat will be larger.

2. The weight of opinion is that German rations, as established last winter and maintained since then with only minor changes, are sufficient to maintain health and efficiency. ^{1/} They provide only a very dull diet, and when the supply of fresh vegetables is interrupted — as last winter —, these rations no doubt create serious dissatisfaction. But adequate provisions are made for the special needs of heavy laborers and soldiers; so long as these special provisions can be maintained, there will be little loss of physical efficiency in essential war industries or at the front.

3. The general adequacy of the German food supply finds no parallel in the areas occupied by the German armies. Poland is starving, while the cream of her able-bodied population has been drafted for work on German farms. There is a serious shortage of food in Belgium. The Netherlands and Denmark will no doubt be short of breadstuffs by winter. France will also get a taste of hunger this winter if — as apparently provided by the armistice — she must support the German army of occupation.

^{1/} The Department of Agriculture dissents, partially, from this judgment: see Foreign Agriculture, April 1940, especially page 195.



"I GAVE YOU A NICE PLACARD IN EXCHANGE, DIDN'T I?"

A cartoon by Low which appeared in London Friday Times Wide World Radiophoto, passed by British censor Low © all countries

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At 10:15 this forenoon I talked by telephone with Mr. Cameron of the Federal Reserve Bank at New York. I referred to the three cablegrams, of which copies of two had been provided us, which the Federal had received from the Netherlands Bank in recent days, and which have not yet been answered. Cameron had told me that yesterday a further message had been received from the Netherlands Bank, inquiring as to the receipt of the three messages in question.

I told Mr. Cameron that I had submitted to the Secretary of the Treasury a memorandum reporting the question which confronted the Federal Reserve Bank in regard to these telegrams, considering the instruction which the Bank had received on May 14 from the Netherlands Bank to the effect that thereafter the Federal should no longer execute instructions sent to it on behalf of the Netherlands Bank when such instructions were despatched from the Netherlands. The Secretary had not commented upon this subject, and I did not feel that I should press him for an expression of opinion on a matter which was primarily for the Federal Reserve Bank to decide.

I told Mr. Cameron that two days ago Governor Harrison had talked with me on this subject during a conversation by telephone primarily on another matter. It had been understood that I should inquire of the Netherlands Legation in this city as to whether there was any objection to published documents in regard to our control of funds being sent to the Netherlands Bank. I told Cameron that I had this morning spoken with Mr. Molekamp, Commercial Counselor of the Netherlands Legation, on this subject without mentioning any inquiry that had been received by the Federal. I had told Mr. Molekamp that, following my long service in Europe and my contacts with the various Finance Ministers and Central Bank Governors, I had assumed the task of keeping them provided currently with such published Treasury documents as could properly be forwarded to them. The question now came to my mind as to whether I should endeavor to supply the Netherlands Bank at Amsterdam with copies of our Control proclamations, regulations, licenses et cetera.

Mr. Molekamp confirmed that his Embassy had no direct contact with the Netherlands Bank. At the same time he saw no reason why this Treasury of a neutral country should refrain from making documents of the type under reference available to the Netherlands Bank. He was positive that the German Embassy had already provided Berlin with full information and documentation on this subject, so that the question of our getting information into the hands of enemies of the Netherlands which the latter otherwise would not receive, did not arise.

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In my conversation with Mr. Cameron I gave the foregoing information. I told him that while I could not speak for the group which handles our freezing system, I felt that the majority thereof would see no reason for the Federal Reserve replying to the cablegrams under reference. If he wanted my personal opinion, I did not hesitate to recommend that all of the messages so far received be answered. I saw, of course, the objection to carrying out anything which might be considered an instruction, in view of the "stop order" from the Netherlands, which has not yet been rescinded. I observed, however, that it should be perfectly proper to let the Netherlands Bank know whether an actual credit transaction in its favor had been consummated, and furthermore, to let the Bank have published information concerning policies directly affecting it. I did not consider that answering these messages would put the Federal under any obligation to carry out instructions with respect to specific transactions. Decisions on these could be taken, if the question should arise. In the meantime, I personally thought that messages of the type under reference could be acknowledged without any harm to anyone, and should be acknowledged. Mr. Cameron understood the spirit in which I was offering this personal opinion. He said he would discuss the matter with his colleagues, and would let me know what they decide to do. In the meantime, I said I would do nothing toward forwarding documents to the Netherlands Bank.

July 13, 1940

Mr. Cameron told me by telephone at 11:30 this morning that the Federal Reserve Bank had decided yesterday not to respond to any of the cablegrams so far received from the Netherlands Bank, Amsterdam. I informed Mr. Molekamp of this decision and the latter indicated his approval of this decision.



STRICTLY CONFIDENTIAL

Extra copies sent by ordinary mail

AIR MAIL

AMERICAN CONSULATE

Rangoon, Burma, July 12, 1940

STRICTLY CONFIDENTIAL

Subject: Deliveries for Shipment Through Rangoon of
Petroleum Products Ordered by Chinese
Government Under Export-Import Bank Credits.

The Honorable
The Secretary of State.
Washington.

Sir:

I have the honor to report that a total quantity of 120,445 drums, or 6,393,183 American gallons, of petroleum products of American origin, chiefly motor gasoline but including some lubricating and diesel oil, has been imported into Rangoon between July 26, 1939, and June 19, 1940, by the Standard-Vacuum Oil Company and the Texas Oil Company for delivery to the Chinese Government, which is understood to have financed the purchase of the entire quantity upon the basis of credits extended by the Export-Import Bank. Details relating to the combined importations by these two companies appear in an enclosure submitted herewith. The share of each company was approximately one half the total.

Shipments arriving in Rangoon are stored temporarily by the American companies, and delivery of the Chinese Government is effected by placing stocks aboard railway cars in accordance with the requirements of the Fooching Trading Company, which arranges for their shipment by rail to Lashio and thence into China by motor truck over the Burma-Yunnan Highway. Of the total quantity imported, delivery has been made of all but about 10,000 drums (530,000 gallons), which remain in storage at Rangoon. Approximately 10,000 drums which have been delivered are understood to be stored at Lashio awaiting transportation by truck into China. The balance, therefore, of approximately 100,445 drums (5,333,183 gallons) may be regarded as the minimum quantity which has already been shipped to China.

Within the past few weeks deliveries and shipments from Rangoon have been accelerated considerably. Since the latter part of June, 1940, shipments from Rangoon have been made at the average rate of 1,200 drums a day. It is expected, therefore, that stocks remaining in Rangoon will be cleared in the near future.

Respectfully yours,

W. LEONARD PARKER
American Vice Consul

Distribution:

1. Original & four copies to Department; 2. Copy to London;
3. Copy to Chungking; 4. Copy to Yunnanfu.

Combined Statistics Relating to Arrivals of Petroleum Imported into Hongkong by the Standard-Vacuum Oil Company and the Texas Company for Delivery to the Chinese Government

Name of Steamer	Date of Arrival at Hongkong	Motor Gasoline		Lubricating Oil		Diesel Oil	
		Drums	U. S. Gallons	Drums	U. S. Gallons	Drums	U. S. Gallons
Hannah Moller	July 26, 1939	8,000	424,000	-	-	-	-
Klary	September 26, 1939	5,000	265,000	-	-	-	-
eeSteel Age	October 18, 1939	3,000	159,000	-	-	-	-
eeEast Gustata	October 27, 1939	5,270	279,310	986	54,230	125	6,930
eeMalay City	December 8, 1939	-	-	474	20,070	-	-
eeSteel Ranger	December 20, 1939	3,607	191,171	-	-	996	54,760
eeSteel Inventor	December 26, 1939	5,883	311,799	-	-	-	-
Proclumant	February 7, 1940	8,530	452,090	-	-	-	-
Lyder Bagum	February 21, 1940	18,563	983,839	-	-	-	-
eeSteel Norbar	March 5, 1940	-	-	-	-	1,102	60,610
Probus	March 7, 1940	7,690	407,570	-	-	-	-
Sandviken	March 29, 1940	18,563	983,839	-	-	-	-
eeSteel Age	April 9, 1940	-	-	1,115	61,325	-	-
German	May 4, 1940	14,000	742,000	-	-	-	-
Uthire	June 19, 1940	17,540	929,620	-	-	-	-
Totals		115,646	6,199,928	2,575	143,225	2,224	122,380
GRAND TOTALS		120,445 drums	6,393,183 U.S. Gallons				

*Drums of motor gasoline contain 55 U.S. gallons, and drums of lubricating and diesel oil contain 55 U. S. gallons.

**These are American vessels which brought their cargoes directly from the United States; the other vessels carried cargoes of American origin transhipped at Hong Kong.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, July 12, 1940.
7/11/40

Press Service
No. 21-58

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of \$600,000,000, or thereabouts, of 2-1/4 percent Treasury Bonds of 1954-56 closed at the close of business Thursday, July 11, except for the receipt of subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery be made in registered bonds 90 days after the issue date. The subscription books will be closed for the receipt of subscriptions of that class at the close of business Saturday, July 13.

Subscriptions of either class addressed to a Federal Reserve Bank or Branch or to the Treasury Department and placed in the mail before 12 o'clock midnight of the respective closing days will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Wednesday, July 17.

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THE WHITE HOUSE
WASHINGTON

July 12, 1940.

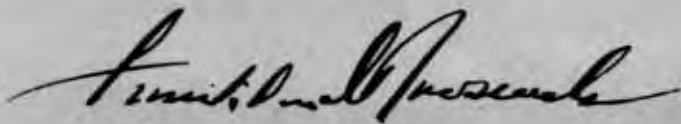
My dear Mr. Secretary:

There are pending in the present Congress a number of bills proposing to amend the unemployment compensation provisions of the Social Security Act and the Railroad Unemployment Insurance Act, as well as a proposal to create a Federal unemployment insurance system for Maritime employees.

In view of the fact that these proposals are necessarily interrelated, and involve, in some instances, far reaching precedents, it appears desirable to have a comprehensive study made and a report and recommendation submitted by the several agencies concerned covering the entire subject of the Government's participation in unemployment compensation.

It is, therefore, requested that you designate a representative to serve on an interdepartmental committee, composed of representatives of the Treasury Department, the Department of Labor, the Maritime Commission, the Railroad Retirement Board and the Federal Security Agency, the representative of the latter agency to serve as chairman, to make such a study and submit a report and recommendation to me before the convening of the next regular session of Congress.

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

GROUP MEETING

July 12, 1940
9:30 a.m.

Present: Mr. Bell
Mr. Haas
Mr. Foley
Mr. Thompson
Mr. Young
Mr. Sullivan
Mr. Cochran
Mr. Schwarz
Mr. White

H.M.Jr: Chick, I just saw this on the ticker.

"Friendly recommendation on excess profits will not be ready until late this month or early in August."

Schwarz: That is in the Wall Street Journal this morning.

H.M.Jr: Well, that is incorrect. You can get the date from Mr. Sullivan.

Sullivan: Five minutes of nine, July 22nd.

Schwarz: I put in a call for Tom Wilson on it.

H.M.Jr: How are you going to remember?

Schwarz: I will remember it.

H.M.Jr: Well, this is interesting, because this is the result of Knudsen's visit here, I think.

"The War Department moved today to stop threatened delay of at least two months in getting aircraft procurement program under way."

That isn't what we spoke about, is it?

Foley: No, but it is along those lines.

H.M.Jr: I tried to get Knudsen this morning. He is up in New York.

What have you got, Ed?

- 2 -

Foley: I haven't anything. That thing you wanted us to remind you about, FDIC --

H.M.Jr: Oh, yes.

Cochran: I have nothing important. Last night I talked with Mr. Leroy-Beaulieu quite a while. He was talking about that Martinique situation and he told me all those planes were unloaded. I don't know whether you knew it or not.

H.M.Jr: No, I did not.

Cochran: Yes, they have been taken ashore and the gold also.

H.M.Jr: The State Department sent an observer down there.

Cochran: They have had a Consul there for many years. They withdrew the Consul about three or four years ago but they had one there for many years.

H.M.Jr: They have got all the planes?

Cochran: That is what he told me and he said he thought the natives there were the most loyal of any in the Colonies, that being France's oldest Colony. He was sure they would destroy them before they would let any one else get them.

H.M.Jr: Loyal to whom?

Cochran: To France.

White: The French Government.

Cochran: Yes. And that is that shipment of gold that had come into Halifax.

H.M.Jr: Do you know how much?

Cochran: Twelve billion francs.

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H.M.Jr: What was that?

Cochran: 245 million dollars.

H.M.Jr: 245 million?

White: It is in Martinique?

Cochran: Yes.

White: It must be the natives are loyal.

H.M.Jr: How much does that make for each native?

Cochran: That is what Harry was thinking.

White: That is a quarter million dollars per native.

H.M.Jr: No wonder Edward is going to be Governor General of the Bahamas. If he takes that and they should capture Martinique, it would be worth while. It would keep Wally going for years.

What other news have you got?

Cochran: If you just have time for gossip, I will give you a little more.

(Discussion off the record)

H.M.Jr: If I had known Leroy-Beaulieu had all that, I would have seen him myself. Is that what you talked about in your room?

White: Unfortunately, no.

H.M.Jr: When do you think this gentleman is going to get here, Sir Frederick?

Cochran: It is uncertain. There is one ship, I have told Basil Harris, gets into New York today and another one gets into Halifax today or tomorrow and we don't know which one he is on and Pinsent was not going up himself. He

- 4 -

hadn't had any instructions. I just asked him if he was going.

H.M.Jr: Phil, you have got one appointment, haven't you?

Young: Yes, sir, with the Navy.

H.M.Jr: I haven't heard from this Mr. Stimson. The Vel-Ragnar hasn't yet started to take her ammunition out, but she is supposed to at 1:00 o'clock today, probably due to the heavy rains in New York.

(To Lieutenant McKay) Mac, ask Coast Guard to get off a message. I want to know, on these two American tankers that we are holding, plus the Swedish tanker, I want a description - detailed description of their cargo, what is in that cargo.

McKay: Two American tankers?

H.M.Jr: Two American tankers and one Swedish tanker. I think they are all in Texas. And then this sugar cargo that we are holding on a Greek vessel for Casa Blanca, I want a detail on that cargo also.

McKay: Commander Derby down here knows that.

H.M.Jr: If he doesn't, get it and tell him to rush.

McKay: All right, sir.

H.M.Jr: Anything else?

Young: No.

H.M.Jr: Chick?

Schwarz: I have nothing.

H.M.Jr: George?

Haas: I have nothing.

- 5 -

H.M.Jr: Harry?

White: Nothing.

H.M.Jr: Dan?

Bell: I have a number of letters to sign.

H.M.Jr: All right.

Bell: This is an approval of the return of 40 million dollars of capital funds.

H.M.Jr: Did you take care of St. James' Church?

Bell: Yes, sir.

H.M.Jr: Did you? It must have been pitiful, wasn't it?

Bell: It was. I just had to write a memorandum, that is all.

You remember some time ago the President asked you to confer with McNutt regarding an amendment to the Social Security Act.

H.M.Jr: I don't remember. Maybe that is what they were referring to.

Schwarz: That is not what they said.

Bell: That is a letter to the President reporting that you have conferred and you have agreed on the amendment and that you will follow it up.

H.M.Jr: Tell them what the publicity man told. Listen to Chick. This is a good story.

Schwarz: Mr. McNutt's public relations man called me and said that Mr. McNutt had asked him if he would get a complete and verbatim check on what the Secretary of the Treasury would say at his press conference yesterday about the McNutt income tax case. He said Mr. McNutt

- 6 -

had been to the White House and said he was going out to Chicago as a condemned man and he thought he had played ball and he deserved a break and that Pa Watson was going to call the Secretary and arrange for a statement, which is all right up to the point that it never happened, the latter part.

H.M.Jr: What did you tell him as an answer?

Schwarz: I just told him that there was no statement made and we had had no request made.

H.M.Jr: And that I talked to Pa Watson every hour on the hour.

Schwarz: Yes. Yesterday afternoon after he was supposed to have talked with Mr. McNutt --

Bell: Those are the Library of Congress letters.

H.M.Jr: Did he say anything more?

Schwarz: The public relations man said, "Maybe they didn't give me the right story."

H.M.Jr: That was funny. All I can hope is that Mr. McNutt is Undersecretary of the Treasury when I am back on the farm.

Bell: I want to talk to you about this 50 million dollar account.

H.M.Jr: You stay with me.

Schwarz: Mr. McNutt expects to leave the Government, according to his man.

H.M.Jr: Where is he going?

Schwarz: Back to Indiana. Fowler Harper has already gone out there.

H.M.Jr: On the shores of the Wabash?

- 7 -

Poley: Has Harper quit?

H.M.Jr: Yes.

Thompson: I helped Mr. Nelson prepare a resignation. He signed it but he said he wanted to give it to you in person. I am wondering if you received it.

H.M.Jr: Is he in the building?

Thompson: No. He has gone to the Federal Reserve Building.

H.M.Jr: Is his room empty now?

Thompson: Yes, Mr. Alexander was in yesterday to thank you for having placed him in Boston as Alcohol Tax Supervisor.

H.M.Jr: Did he see Sullivan when he was in here?

Thompson: I don't know.

Sullivan: You know where I live, don't you, down the alley here?

Thompson: Well, he came into my office.

Sullivan: Well, it is quite a long walk from your office to mine.

Thompson: He was very cordial.

Yesterday the National Defense Council asked for 12 stenographers from Internal Revenue, but I turned them down because we can't start wrecking our regular organization. I have helped them out by putting them in touch with people.

H.M.Jr: Who have been discharged?

Thompson: Yes.

H.M.Jr: Yes, that is fine.

- 8 -

Thompson: So we nearly met their call by people of that type. We have too much to do in Internal Revenue.

H.M.Jr: It is the craziest thing I ever heard.

Sullivan: We don't want to let experienced people go over there.

Bell: We are going to do their accounting work over there on a reimbursement basis.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

In light trading, the downward movement in sterling was reversed today. From an opening of 3.66-1/4, the pound advanced by stages to a high of 3.71 at the close.

Sales of spot sterling by the six reporting banks totaled £157,000, from the following sources:

By commercial concerns.....	£ 38,000
By foreign banks (Europe, South America and Far East).....	£119,000
Total.....	£157,000
Purchases of spot sterling amounted to £113,000, as indicated below:	
By commercial concerns.....	£ 76,000
By foreign banks (Far East, South America and Europe).....	£ 37,000
Total.....	£113,000

The following reporting banks sold cotton bills totaling \$9,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 8,000 by the Bank of Manhattan
1,000 by the Bankers Trust Company
£ 9,000 Total

Sterling in the amount of £20,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£18,000 by the Bank of Manhattan (for whisky)
2,000 by the Irving Trust Company (for various commodities)
£20,000 Total

The Canadian dollar again improved, closing at 13% discount, as against yesterday's final quotation of 14-1/4%.

The other currencies closed as follows:

Swiss franc	.2268
Lira	.0605
Belchmark	.4004
Cuban peso	9-7/8% discount
Mexican peso	.1990 bid, .2020 offered

- 2 -

We purchased \$1,000,000 in gold from the earmarked account of the Central Bank of the Uruguayan Republic.

The Federal Reserve Bank of New York reported that the Bank of Canada made two shipments of gold totaling \$12,360,000 from Canada to the Federal for its own account, for sale to the U.S. Assay Office at New York.

Gold in Bombay was priced at the equivalent of \$33.77, off 12¢.

The Bombay spot silver quotation was equivalent to 43.57¢, off 3/16¢.

In London, spot silver was fixed at 21-3/4d, off 1/16d. The forward price was 21-1/2d, off 1/8d. The U.S. equivalents were 39.54¢ and 39.09¢ respectively.

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 one purchase of silver amounting to 100,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In a lifeless foreign exchange market, sterling opened at 3.70-1/2, moved within a narrow range, and closed at 3.71, unchanged from yesterday's final rate.

Sales of spot sterling by the six reporting banks totaled £143,000, from the following sources:

By commercial concerns.....	£ 8,000
By foreign banks (Far East and Europe).....	£135,000
Total.....	£143,000

Purchases of spot sterling amounted to £55,000, as indicated below:

By commercial concerns.....	£ 33,000
By foreign banks (South America and Europe).....	£ 22,000
Total.....	£ 55,000

According to a Dow-Jones news item from Berlin, an official news agency despatch from Geneva reported that the French Government intended to tie the franc to the American dollar at a rate to be determined later, and that the franc was to be separated completely from the British pound. Prior to the German invasion of France, the Bank of France's official franc-dollar rates were 43.70 to 43.90 (equivalent to .0228-7/8 and .0227-3/4 per franc respectively). In a cable received by us from France a few days ago, it was mentioned that "for the present" the Bank of France would maintain the official quotations given above.

The other currencies closed as follows:

Swiss franc	.2267
Canadian dollar	12-7/8% discount
Lira	.0505
Reichsmark	.4004
Cuban peso	9-7/8% discount
Mexican peso	.1990 bid, .2020 offered

We purchased \$7,000,000 in gold from the earmarked account of the Central Bank of the Argentine Republic.

The Federal Reserve Bank of New York reported that the Bank of England shipped the following amounts of gold from England to the Federal:

24,816,000 representing two shipments to be earmarked for account of the Bank of England.

1,075,000 for account of the Bank of Finland, disposition unknown.

25,891,000 Total

- 2 -

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

\$541,000	shipped by Sharps and Wilkins, London, to J. P. Morgan, New York.
59,000	shipped by the Societe Generale de Credit Industriel et Commercial, London, to the Central Hanover Bank and Trust Company, New York.
<u>18,000</u>	shipped by The Chase National Bank, London, to its head office at New York.

\$618,000 Total

Gold in Bombay was priced at the equivalent of \$33.81, up 4¢.

The Bombay spot silver quotation advanced the equivalent of 3/16¢ to 43.77¢.



CONFIDENTIAL

July 12, 1940
10:08 a.m.

H.M.Jr: Hello.

Jesse
Jones: Hello, Henry.

H.M.Jr: How are you?

J: Pretty good. How are you?

H.M.Jr: All right. I didn't like the way you looked the other day. I thought you looked kind of

J: I was tired. My God! I've been going on this treadmill here.

H.M.Jr: Yeah. Jesse, I thought you'd like to know this. Ed Foley has been working with the lawyers for Curtiss Wright -- we gave them a ruling and when he gave it to them he said, you know, we haven't heard a thing from the R.F.C., and we're just sitting here waiting to hear from them.

J: Yeah.

H.M.Jr: Now, I don't know what -- I just thought I'd pass it along to you.

J: Well, we hadn't heard from them. I didn't know he was waiting to hear from us.

H.M.Jr: Well, I'm talking in connection with this new plant.

J: Yeah.

H.M.Jr: Well, they evidently are waiting to hear from you -- I'm just passing it along.

J: Yeah. Well, we hadn't heard from Ed. We didn't know that we were expected to send anything.

H.M.Jr: Well, he told me this last night.

- 2 -

J: Yeah.

H.M.Jr: Well, don't you think you could send for them.

J: What?

H.M.Jr: Don't you think you could send for them?

J: Why, certainly.

H.M.Jr: Yeah.

J: Why, sure. It's -- this thing that we were talking about over at the White House, that's got everybody up in the air and we've got to get it straightened out before the boys can

H.M.Jr: Well, will you send for Curtiss Wright?

J: For Curtiss Wright?

H.M.Jr: Yes. It's Curtiss Wright I'm talking about.

J: Oh, I see.

H.M.Jr: No, it's they that said that they're ready but they're waiting to hear from you.

J: And you've given them what?

H.M.Jr: A ruling on how they can depreciate this plan.

J: Uh-huh. Can we have a copy of that?

H.M.Jr: Sure. And would you like to have Ed explain it?

J: Yeah. I think if you'll send it over here -- have him send it over here and let us study it and then call Ed if there's any question in our minds about it and then we'll get hold of the other fellows.

H.M.Jr: O. K.

- 3 -

J: How did your bonds go?

H.M.Jr: Oh, beautifully. Beautifully.

J: When did you make the allotments?

H.M.Jr: Well

J: You haven't made them yet, huh?

H.M.Jr: No. We won't make them before Monday.

J: Have you closed it?

H.M.Jr: We closed it last night but you can still get \$5,000 worth.

J: Can, huh?

H.M.Jr: Yeah. Individual subscription if you keep them for ninety days.

J: If you'll hold them for ninety days.

H.M.Jr: Yeah. You can get \$5,000 and Mrs. Jones can get \$5,000.

J: All right. I'll send the word now.

H.M.Jr: And we can take that up until Saturday afternoon.

J: O. K. Well, I'll attend to that.

H.M.Jr: Right. What else can I sell you? --
One other thing, Jesse, I mean, do you think that that Packard thing on Rolls Royce will be able to go through?

J: Well, I don't know. I want to talk to you about that today if I can have some time with you or somebody, because we're pretty doubtful about the British part of it. We don't think that our law permits us to build except in our own defense program.

- 4 -

H.M.Jr: Well Knudsen asked -- he was over here yesterday and he asked Foley and me about that and Foley told him it was legal.

J: Well, we doubt it. Knudsen explained it to me last night and I talked to him as late as ten o'clock because we had -- he called me yesterday afternoon and said that it had been straightened out. Well, when we got to digging into it and I called him last night and he said he'd be in New York today. But I do want to talk to you or Ed or somebody about that.

H.M.Jr: Ed's the fellow. If you'll tell me now when you want him I'll have him over there. He can bring over the Curtiss Wright ruling, too.

J: Tell him to come over here then about eleven-thirty.

H.M.Jr: Eleven-thirty.

J: And I'll be all set.

H.M.Jr: I'll have him at your office at eleven-thirty.

J: Thank you.

H.M.Jr: Thank you.

J: Good-bye.

July 12, 1940
10:12 a.m.

H.M.Jr: Ed.

Ed Foley: Yes, Mr. Secretary.

H.M.Jr: I just got through talking with Jesse Jones and I told him that we'd sent a ruling -- given them a ruling on the Curtiss Wright, and they were sitting around waiting to hear from him.

F: Right.

H.M.Jr: Well, that seemed to surprise him.

F: I see.

H.M.Jr: So he said if we'd send the ruling over, he'd study it. So I said, how are you getting along with Packard?

F: Yeah.

H.M.Jr: Well, he said, as late as ten o'clock last night he talked with Knudsen and he, Jones, doesn't think it's legal as far as the English are concerned. So I made an appointment for you to see Jesse at eleven-thirty this morning at which time you can discuss the legality of this Packard thing and also the Curtiss Wright ruling.

F: Right.

H.M.Jr: But there's where the neck of the bottle is and when I was tipped off that Jones had given this story to Krock to throw it on me, you see, I think that that tip was much better than

F: Than Bob's?

H.M.Jr: Than Bob Kintner's saying it was Biggers.

F: Yeah.

- 2 -

H.M.Jr: Because the neck of the bottle -- well, here's two instances -- Curtiss Wright and Jones and they're both being held up by Jones.

F: Right. O. K. I'll go over at half past eleven and then I'll give you a report.

H.M.Jr: O. K.

F: All right.

H.M.Jr: Thank you.

July 12, 1940
10:53 a.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Hello.

Wm. S.
Knudsen: Yes.

H.M.Jr: Morgenthau.

K: Yes, sir.

H.M.Jr: How are you?

K: Fine, sir.

H.M.Jr: Mr. Knudsen, the reason I called you was this. I was kind of worried about the Curtiss Wright contract because Foley told me last night that we gave them a ruling and they've been sitting around and hadn't heard from Jesse Jones, so I called him up this morning and he seemed to be surprised to hear that Curtiss Wright were waiting to hear from him. Hello?

K: Yes.

H.M.Jr: So Mr. Foley is on his way over now to see Mr. Jones. See?

K: Yes.

H.M.Jr: To kind of stir him up a little bit, and then while I had him on the phone I said, well, what about Packard. So he said he'd talked to you late last night and he's still worried that what you're trying to do is illegal. See?

K: Yeah.

H.M.Jr: So Foley is going to talk to him about that also.

- 2 -

K: But you see, Mr. Morgenthau, we can't really give Curtiss Wright that order until they get this bill passed. We can only give them a letter. But I think that enough work has been done so that there won't be much delay in the plant itself. The surveys are started, we've got the options and all the preliminary work has been done.

H.M.Jr: Well, their lawyers told Foley yesterday that they're just sitting there waiting to hear from Jesse Jones.

K: Well, then, he must have had some dealings with Jesse Jones that I don't know about.

H.M.Jr: Well, what I'm trying to do is to be helpful so I called him up, you see, to kind of stick a pin in him.

K: Yeah. Is that Hotchkiss?

H.M.Jr: What?

K: Is that Hotchkiss?

H.M.Jr: Is that hard?

K: No. Is his name Hotchkiss?

H.M.Jr: The lawyer, yes.

K: Well, I'll get him on the telephone down here today. What I'm down here for, I'm trying to settle with Purvis the last part of the Packard deal.

H.M.Jr: Oh. That's what you're doing now.

K: Yes. Packard is all set and now I'm trying to get Purvis to agree to the financial arrangements that were made.

H.M.Jr: Well, is Jesse Jones set on the Packard deal?

K: What's that?

H.M.Jr: Is Jesse all set?

- 3 -

K: Why Jesse is worried about the point that we spoke about yesterday and when he called me last night, I said, you haven't anything to worry about. I've been talking with the Secretary and Mr. Foley and they all feel that in getting this separate corporation with a lease that the British Government is doing no business with the holding company -- it's doing business with the Packard Motor Company who leases from the other company.

H.M.Jr: Well, he's still worried so I sent Foley over there -- he's going over there now.

K: Uh-huh.

H.M.Jr: But he's still worried about that.

K: Well, I was worried myself until I talked to Foley and afterwards to you.

H.M.Jr: Yeah.

K: But I can't see that there are any legal complications now if we go that route, and Packard is willing to go that route.

H.M.Jr: I see. Well, I wanted to let you know what I did and I thought I'd been a little bit helpful.

K: Thank you very much, sir.

H.M.Jr: Thank you.

BJS

PLAIN

LONDON

Dated July 12, 1940

Rec'd 11:25 a. m.

Secretary of State,
Washington

2116, July 12

FOR TREASURY FROM BUTTERWORTH:

The London press this morning carries the British Treasury's announcement of Phillips' visit, most commentators suggesting that problems arising out of France's fall will be the chief topics discussed, while several point out that financing of British purchases in the United States will be another subject of consultation. The MANCHESTER GUARDIAN City Editor suggests that the recent break in Wall Street prices has made liquidation of British dollar assets wasteful and says "it remains to be seen whether a provisional alternative can be devised." This writer notes, however, that the French collapse has resulted in many new problems and that there is "no lack of urgent and weighty questions calling for discussion. The invitation should not, in other words, arouse any hopes of pending American credits to this country." THE TIMES City Editor notes that "one of the original

-2- 2116, July 12, from London

original signatories of the Tripartite Agreement is now occupied by Germany and the present meeting has no definite objective beyond a discussion of technical and other questions between the American and British Treasuries. The field of possible topics is obviously very wide; it may include, among other things, some consideration of the possibilities of coordinating British purchases in the United States with the United States own arms programme. THE EVENING STAR also mentions the disposal of French orders for war materials and concludes that the "disposal of French gold and other convertible holdings in the United States including L450,000,000 belonging to the Bank of France" is pertinent in this connection.

KENNEDY

TFV

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, telephoned me this forenoon from New York in regard to the article appearing in today's Herald Tribune concerning the visit of Sir Frederick Phillips. Leroy-Beaulieu was concerned with the suggested agenda, as specifically set forth in the article.

I reminded Leroy-Beaulieu that when he was with me yesterday evening I had told him that Sir Frederick Phillips was coming over, and he said he was aware of this. I told Leroy-Beaulieu this morning that we had issued a communique at noon, and the British simultaneously in London, and I read the text thereof to him. I told him that there had been no agenda discussed in advance, and that there had been no exchange of views with London on any agenda. Only this morning had we made a few notes ourselves as to topics to be brought up.

Leroy-Beaulieu was especially concerned over the report that the Tripartite Agreement would be under discussion, as well as French gold. I reminded Leroy-Beaulieu that Phillips had visited the Treasury in 1937, a year after the Tripartite Agreement, and that we have constantly had contact directly with him. Furthermore, I explained, the invitation had been extended Sir Frederick weeks ago, long before the French capitulation.

Leroy-Beaulieu asked me if we have received anything directly from Matthews on the subject of German demands with respect to gold, securities, valuables et cetera, in occupied French territory. I told him that we knew nothing of this aside from the press story. Leroy-Beaulieu took pains to point out that this was a British story. At the same time he was anxious to obtain any information which we might receive.

Referring to the designation of Ambassador Leon to act as liaison officer between the French and German Governments, Leroy-Beaulieu volunteered that the two financial experts who were accompanying him were entirely dependable, and not Nazis by any stretch of imagination. One of these I knew slightly, Mr. Barnaud, of the banking firm of Werne and Company. The other is a career man in the French Ministry of Finance.



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BRITISH EMBASSY,
WASHINGTON, D.C.
July 12th, 1940.

Secret and Personal.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary.

Very sincerely yours,



The Honourable

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

Telegram despatched from London early on the morning of July 12th.

British aircraft carrier and armed merchant cruiser in collision July 9th in dense tropical storm in the South Atlantic. No casualties but the armed merchant cruiser badly damaged. British cruiser bombed and hit in the Mediterranean July 9th. Several casualties and captain killed. Confirmed that the Mediterranean Fleet suffered no casualties either in material or personnel in the fleet action July 9th, but force was bombed at intervals this day without result. Four enemy aircraft shot down, 7 others damaged.

2. Casualties at Norwich July 9th were 16 killed 17 wounded. Enemy bombing activity yesterday occurred South Wales, southwest England and on convoys in Thames estuary and east Channel. Casualties in second locality alight. In Wales bombs were dropped on docks at Pembroke, Cardiff and Swansea, and on a Royal Ordnance factory. Twelve persons killed; extent of damage not yet known. Operational training in Baltic maintained same level; mine laying carried out off the east coast. Numerous flights of transport aircraft from Cologne. area to aerodromes in the Low Countries, leading

to Le Bourget and Lisieux.

3. Royal Air Force day bombing yesterday much hindered by lack of cloud cover. Omer, however, was bombed. In enemy attack on convoy in Thames estuary by 1 bomber, escorted by 10 Messerschmidts, enemy lost 1 fighter (confirmed) probably 4 more, and was driven off. Large force of about 120 enemy aircraft approached a convoy between Dover and Dungeness from the direction of Calais. Interception by 5 squadrons of British fighters resulted in 7 enemy fighters, 2 bombers destroyed (confirmed), 7 fighters, 4 bombers probably destroyed. Total result of fighter operations July 10th 12 enemy aircraft destroyed certain, 17 probable. Our casualties 2 Hurricanes lost, 2 badly damaged. Royal Air Force night bombing operations 10th/11th July abandoned through unfavourable weather. Fleet Air Arm attacked port Augusta during night and sank 1 destroyer.

4. Yesterday enemy aircraft active against convoys in Irish Sea, off Portland and in the Thames, but very little damage. British shipping losses reported; 1 ship by air action. Neutrals, 2 Dutch ships by aircraft, 1 by U-Boat, 1 from unknown cause; 1 Latvian ship sunk by air action.

5. Mediterranean. Air attacks on Catania Messana recently have not drawn any fighter defence, although attacks pressed home with the intention of inducing fighters to take to the air. Further movements of fighter squadrons from the North to the South of Italy reported indicating probability

that Italians consider further attacks in the North unlikely.

6. Sudan. Police garrison of the frontier post at Kurmuk about seventy strong, forced to retire before enemy attack of 300 Colonial troops supported by light artillery and machine guns. Garrison inflicted 50 casualties in a stout fight and sustained one killed six missing. Italians thought to have withdrawn from Kurmuk same day, our police patrols now reconnoitring with the intention of re-occupying the town.

East Africa. British Moyale was being heavily attacked 1900 hours on the 10th by Italian regular troops considerable artillery, mortar and light machine gun fire, and post now partially surrounded. Reinforcements and aircraft are being sent to assist the defense.

7. Units of French fleet still capable of service:

(A) Under British control. At Portsmouth: Battleship "Courbet". One light cruiser and five torpedo boats being commissioned under White Ensign. Two submarines. Plymouth, battleship "Paris". One light cruiser two destroyers and one torpedo boat being commissioned under White Ensign. Two defective submarines. Swansea: One submarine (just off the stocks). Dundee: one submarine. Alexandria (partly demilitarised and with reduced crews):

Battleship "Lorraine". Suffren, Duquesne, Tourville and Inguay Trouin eight-inch cruisers. Lynx light cruiser. Three destroyers. One submarine.

(B) Not under British control. At Le Verdon: one large destroyer (possibly incomplete).

Brest: One obsolete battleship.

Vendres: Three destroyers.

Cette: Three light cruisers.

Toulon: Battle cruiser "Strasbourg" (possibly damaged). Five light cruisers. Six 6-inch cruisers, one destroyer.

Dakar: Battleship "Richelieu" (disabled). Two light cruisers. One destroyer. Seven armed merchant cruisers. Two submarines.

Casablanca: Battleship "Jean Bart" (not yet completed). One six-inch cruiser. 10 destroyers, 13 submarines (7 at sea).

Oran. 5 light cruisers, 2 destroyers, 2 of these vessels sunk. Six submarines.

Bizerta: 1 destroyer, 7 submarines.

Bouasse: 2 submarines.

Bfag: 4 8-inch cruisers, 8 light cruisers, 2 torpedo boats 3 submarines, some or all of these ships may be at.....or may have arrived at Toulon.

Beirut: 5 submarines.

Martinique: 6-inch cruiser "Mail Bertin". Aircraft carrier "Bearn".

Gusdeloupe: Training cruiser "Jeanne

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d'Ara".

~~Ara~~: 1 armed merchant cruiser.

~~Saint~~: 6-inch cruiser "La Motte
Picquet". 1 armed merchant cruiser.

There are two light cruisers and possibly
7 destroyers and 22 submarines unaccounted
for.

Later.

Damage sustained by British cruiser
referred to in third sentence was slight and
did not prevent her from taking part in engage-
ment with Italian fleet.

BRITISH EMBASSY,
WASHINGTON, D.C.

July 12th, 1940

Personal and
Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Moran

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London on the evening of July 12th, 1940.

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British fleet at sea in Eastern Mediterranean was bombed and constantly shadowed during July 11th. No further details available. At midday on the same day His Majesty's destroyer Kestrel returning with naval force in Western Mediterranean was torpedoed by enemy submarine and sunk. Number of casualties not yet known. As a result of enemy air activity off Portland July 11th His Majesty's yacht Warrior II was sunk. Promising attack on U-boat by H.M.S. Devilfish July 10th followed up attacks in the same vicinity by His Majesty's destroyers Havelock and Harvester; this attack probably successful. Two British transports have arrived at Iceland with troops.

2. Royal Air Force bombing operations yesterday carried out by 36 Blenheims on aerodromes in north-east France and Holland, barges on Furness canal and oil targets and aluminium works in north-west Germany. Large concentration of barges between Furness and Dunkirk was bombed also Boulogne aerodrome where 5 aircraft on the ground believed damaged. All Blenheims except one returned. Last night 55 aircraft attacked industrial plants and railway targets in north-west Germany. Three bombers missing.

3. Enemy air activity yesterday directed against east coast between Great Yarmouth and Flamborough Head, Portland and Portsmouth. At Bridlington station an ammunition dump was blown up

and

Regarded Unclassified

and goodyard set on fire. About fifty fighters 188 and bombers attacked shipping in Portland area. No damage on land; two ships slightly damaged in addition to casualty mentioned in paragraph 1. Similar number of aircraft attacked Portsmouth 18.00 hours. Little naval damage done but two barges half loaded with ammunition were sunk. Several fires caused many buildings damaged. Total casualties from these raids 27 killed, 52 injured. Enemy aircraft lost 13 bombers, 10 Messerschmidt 110s (confirmed) 12 bombers, 3 fighters (unconfirmed). One seaplane also destroyed. Of the above two confirmed and one probable claimed by anti-aircraft at Portland. Our casualties 5 aircraft. During night of July 11th/12th ineffective hostile raids mostly by single aircraft on the coastal districts of east and south west. Few bombs dropped except in Dartmouth district where 29 H.Be. fell. Present reports give no serious damage or casualties.

4. Shipping losses reported yesterday as follows:- 1 Finnish ship torpedoed and sunk, 1 unknown ship torpedoed reported by aircraft.

5. Malta raided on July 10th by 20 aircraft. Bombs dropped on dockyard Wielda and Manoel Islands area. Slight military damage few casualties. Two enemy aircraft shot down for certain and another probable. Aden. Aircraft from Aden dropped two tons of bombs on railway workshops at Birsadwa July 8th and on Mascara aerodrome on July 9th and July 10th. Direct hits scored on hanger and two or three fighters on the ground. Egypt. Enemy aircraft bombed Sidi Barrani July 10th. One Lysander aircraft destroyed

otherwise/

Regarded Unclassified

-3-

otherwise no damage or casualties. East Africa. Counter attack on British Moyale by our troops from south regained escarpment but touch with our garrison not yet established. Our casualties 10 killed 16 wounded. Those of enemy not known but believed heavy.

6. Further reports on effects of our bombing raids on Hamburg and elsewhere have been received. They mention destruction of administrative buildings, severe damage to largest drydock and to bridge connecting Hamburg and Harburg. Reported air raids have made working conditions so difficult that several factories have closed and fuel will no longer be stored at Hamburg. Reports from neutral countries state that our constant air attacks make it difficult for the Germans to assemble troops and stores for operations against the United Kingdom and that former extreme optimism of quick and successful invasion of England is now changed in certain high quarters in Germany to one of hesitation.

July 12, 1940

12:30 p.m.

Present:

Mr. Bell
Mr. Foley
Mr. Young
Mr. Cairns
Mrs. Klotz

HM, Jr: We will do one (Bell), two (Foley) and three (Young.) Start on oil. What's the situation on the three tankers?

Mr. Bell: Three tankers. Two of them are chartered by the Texas Company and the other is chartered by the Spanish Oil Monopoly, as I understand it. It is costing the Texas Company \$3,000 a day and, of course, they are rather anxious to get these ships released. We have statistics as to what the cargo is, but Cairns has it. I have not got it.

They have made applications to the British Embassy for navicerts -- sometime ago -- late in June, but they have not been granted. That might be one out for delaying, but you can't use it as an excuse to these people.

HM, Jr: You can tell them this -- think about it and we can talk it with Berle -- "Of course we don't want to embarrass you" and so forth and so on, "we are prepared to buy the cargo. The President just told me so. I wonder who Knox has that he can count on. Well, that's that. Let's go around the table.

Mr. Bell: Well, you buy it. All right. But they won't be satisfied with that. They may be satisfied so far as these two cargoes are concerned, but they are going to raise other questions. First, they will lose the contract which is very valuable to them, and, second, they will probably go into some other country to get their oil.

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HM,Jr: No, they will not.

Mr. Bell: Roumania is cut off at the present time.

HM,Jr: "We are studying the law".

Mr. Bell: I think you can delay it.

(Mr. Cairns came in at this point.)

Mr. Bell: Cairns has a memorandum on his conference. Very short.

(Mr. Cairns gave the attached memorandum to the Secretary which the Secretary read. When about half way through, HM,Jr spoke on the phone to Secretary Knox and a copy of his conversation follows this page.

July 12, 1940
12:45 p.m.

H.M.Jr: Hello.

Operator: Secretary Knox.

H.M.Jr: Hello.

Frank
Knox: Hello, Mr. Secretary.

H.M.Jr: Yeah. Here is a good hot one for you.

K: Yeah.

H.M.Jr: You heard me at Cabinet yesterday -- that I reported I was holding these shipments of oil to Spain.

K: Yeah.

H.M.Jr: Well, we're still holding them and it's all oil going to Spanish Monoply under contract from the Texas Company.

K: Texas?

H.M.Jr: Yeah. Texas Oil.

K: Yeah.

H.M.Jr: Now we're still holding them and the President just called me -- evidently somebody had been talking to him or else -- at least, he said he had this idea over the night, that if we ran into difficulty, he thought under the new law the Navy could buy the cargo and store it in the Virgin Islands or Puerto Rico or some place where they needed it for strategic purposes.

K: You mean the cargoes.

H.M.Jr: The cargoes.

K: Yeah.

- 2 -

H.M.Jr: Now Mr. Berle is coming over here at 2:15 to confer with us and this is costing the Texas Company \$3,000 a day per ship, demurrage, you see.

K: I didn't get that last sentence.

H.M.Jr: Well, it's going to cost the Texas Company -- you see, they're paying demurrage on each ship \$3,000 a day.

K: I see.

H.M.Jr: So I may have to move fast.

K: Yes.

H.M.Jr: What help can I get from you?

K: Well, as to our using this oil?

H.M.Jr: Yeah. Buying it.

K: Well, if the President says buy it, I suppose we'll buy it.

H.M.Jr: Right. Now who could come over at 2:15 and sit with me in case we decide to buy it

K: Do you want a technical man or can Compton cover that?

H.M.Jr: Compton would be fine.

K: All right. I'll have Compton there.

H.M.Jr: But he'd better have a blank check in his pocket.

K: (Laughs). Well, I don't think we can move as fast as that. Besides you'll have to give them the check. (Laughs) Well, you aren't serious about that, are you?

H.M.Jr: What, about moving today?

K: No. About the check.

- 3 -

H.M.Jr: No, I'm not. No, but, I mean, just so that he's

K: Well, I'll start right in and have a talk with him.

H.M.Jr: Well, I mean, they might be thinking where they want it because I mean we may have to move on it today. That's all.

K: Yeah. And you may have to buy it.

H.M.Jr: And we may have to buy it. Hello? Hello? Hello?

Operator: Navy.

H.M.Jr: I was cut off from Mr. Knox.

Operator: You're connected, sir.

H.M.Jr: Hello.

Operator: I mean I have my connection

Treasury
Operator: Operator, ring him back, please.

Operator: Well, I don't know how I can ring him back.

H.M.Jr: Hello.

Operator: Just a moment. Go ahead.

H.M.Jr: Hello.

K's. sec'y: Mr. Morgenthau.

H.M.Jr: We were cut off.

K's. sec'y: Just a second, sir.

K: Hello, Mr. Secretary.

H.M.Jr: I'm afraid we were cut off.

K: Cut off, yes.

H.M.Jr: Well, if Compton will come over here

K: Do you want him to come to your office.

H.M.Jr: My office.

K: All right. At 2:30?

H.M.Jr: 2:15.

K: 2:15.

H.M.Jr: And Berle will be here representing the State Department.

K: All right, fine. I'll have a talk with Stark and talk to Compton before he comes.

H.M.Jr: Thank you. God, I'm glad you're here. It's a breath of fresh air.

K: (Laughs). Thank you very much.

H.M.Jr: I would have had to argue for six months recently and then I wouldn't have got anything.

K: Really?

H.M.Jr: Sure.

K: Well, perhaps a newspaperman's training helps to make the decisions.

H.M.Jr: Well, you know, a newspaperman and a farmer get together -- we make hay.

K: (Laughs). That's right.

H.M.Jr: All right.

K: All right.

H.M.Jr: Thank you.

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Mr. Cairns: We will need a Presidential Proclamation.

HM, Jr.: What do you mean, a Presidential Proclamation? God! You always -- gee whiz! Can't we get along without a Presidential Proclamation? Are you serious?

Mr. Cairns: I am serious. The President listed the commodities that would be held.

Mr. Foley: He did not say oil was a strategic material.

HM, Jr.: What if the Navy buys it? Texas don't want to sell it, let the ships wait, if the ladies will excuse me, until Hell freezes. If they want to sell, I buy it today.

Mr. Cairns: I thought this was Colonel Maxwell's.

HM, Jr.: You still want a Presidential Proclamation?

Mr. Cairns: No.

HM, Jr.: All right. Be good then. That's a swell idea of the President's.

Mr. Bell: Where do we go from there?

HM, Jr.: Did I tell you the moral of this thing? Harold Ickes sat on helium for three to six months and the State Department did everything possible -- and the President is back of me and I am going to sit on this oil.

HM, Jr.: This "hot" oil.

HM, Jr.: Did I tell you what Berle said yesterday? I said, "If I go to Atlanta I want to go for a good reason." So he said, "Well, I would rather go to Atlanta than a concentration camp."

Mr. Young: Hear the joke about Hitler calling up Ford, thanking him for not manufacturing the Rolls Royce? He thanked him and said he would like to have him manufacture

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some tanks for Hitler. Henry said, I would manufacture them, but I don't know whether I could deliver them because of the British blockade. Hitler said, I'll take care of that. He said, Ship them f.o.b. Detroit and I will pick them up there.

(At this point, HM,Jr concluded reading Mr. Cairns' memorandum.)

HM,Jr: Well, I think what we will do, we will have a little talk at 2:15 with one Compton, one Berle. Tell them the President said to sit tight. If they don't like this thing, we will buy the cargo.

Mr. Cairns: They will ask whether you are prepared to buy 72,000 tons per month.

HM,Jr: You tell them the Treasury is on a 24-hour basis. Were they nasty?

Mr. Cairns: Oh, no! No!

Mr. Bell: Cairns said they were very nice and very cooperative.

HM,Jr: What do you gents think?

Mr. Foley: I think we have two jumps. We will take one.

HM,Jr: Which one?

Mr. Foley: This one about these three ships. Buy these cargoes and then see what we can do.

Mr. Cairns: I think we should tell them we will not grant any departure permits. If they want to dispose of this cargo, we will take it, but any future cargoes we will not make any commitments.

HM,Jr: After all, let's do a little mathematics. To date, how much for the first six months? They have had 72,000 tons.

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Mr. Foley: Average.

HM, Jr: Average. A month. Which is double
what they had in '35

Mr. Foley: ...37

HM, Jr: so on that basis they ought not to
get any more for the rest of the year.

Mr. Cairns: That wasn't only Franco.

HM, Jr: Well, 52,000.

Mr. Bell: You haven't got the picture here. We
don't know the normal requirements of Spain. This is just
what the Texas Company supplies.

Mr. Cairns: They supply all of it, they say.

HM, Jr: That's wonderful!

Mr. Bell: Puleston is trying to get some statistics
before the 2:15 conference.

HM, Jr: I don't want Puleston at the 2:15 meeting.
He is not to attend the meeting.

All right? All set?

Want to take five minutes now?

Mr. Foley: I went over there

HM, Jr: Excuse me. Miss Chauncey, make a note
that pursuant to my phone call to Jesse Jones, this morning,
Mr. Foley went over to see him.

Mr. Foley: I went over there and he had Hamilton
and Schram in the office. I gave him a copy of the request
for Commissioner's ruling from Curtiss-Wright and gave him
copy of our regulation. Explained the legal background for
it and gave him copy of the proposed closing agreement and he
was terribly interested and said they had not talked to him
about this method.

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HM,Jr: Who had not?

Mr. Foley: Curtiss-Wright. I said that probably was true, but this was merely a minor adaptation of the proposal he had submitted to them in writing and this was entirely satisfactory insofar as they were concerned and we are concerned as to the tax problem. This would enable them, without any change in the law at all, to amortize the leasehold interest over a period of eight years. And he asked some questions about some of the properties in New York that he was familiar with and he asked if he could keep a copy of the law. He had overlooked it. He said, "Like a lot of things, it came to him too late."

HM,Jr: This is his own real estate?

Mr. Foley: Yes. I told him his trouble was he did not have a good lawyer.

HM,Jr: Did you?

Mr. Foley: Sure! He said, "I need a lot of them."

So, on the Packard thing he does not want to put it on the basis of law

HM,Jr: Before you leave Curtiss-Wright, is he going to send for those babies?

Mr. Foley: Yes. He said the trouble is we have not worked closely enough. I said, That's right. After all, these fellows are not too anxious to duplicate their facilities. We have to keep the heat on them and we have to be the moving factors.

HM,Jr: After I talked to Jones, I called up Knudsen in New York and told him you were on the way over there. He thought everything was lovely and I told him it wasn't.

Mr. Foley: That's right. So he is going to send for Curtiss-Wright and get them down here. He wants

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to have a preliminary discussion with his own people based on the information we furnished and he will have them in tomorrow or Monday and he will get in touch with us.

HM, Jr.: That's a good job.

Mr. Foley: I brought in the Arthur Krock thing too.

HM, Jr.: Did you?

Mr. Foley: Sure. The meeting was a little hostile at first, but when the meeting was all over Jesse had a different attitude than I have seen in a long time. He was friendly and happy about it.

So far as Packard is concerned, he does not want to put it on the basis of law. He admits that under 5-D they might have power to finance a plant. He raises a question as to the criticism that Congress might make if, under their National Defense powers, they constructed facilities for British needs as well as for our own needs.

HM, Jr.: Whoever thought that idea up anyway? Do you know? I wonder.

Mr. Foley: I made the broader argument about National Defense, as including defense for Great Britain, where we had absolute control under Section 120 of the productive capacity of the plant. At any time we could take contract priority. Take over the whole thing. What we are interested in and needed for National Defense was additional capacity to turn out airplane engines and the fact that some might be sold as an incident of this transaction to the British did not take away from the legal power. He said, well, he put it up to the Board. They felt a little differently about it. I said, "Let's talk about the law. Would you be willing to put it up to the Attorney General because I think I am right." He said no because even if the Attorney General approved, he would not want to do it that way. I said, "All right, Mr. Jones. If you are willing, and we have help, we have enough ingenuity in the crowd to work out another way to do the same

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thing. On such a nucleus, that's what he wanted to do.

Then he told me about some troubles he is having with Packard. Packard wants to locate it inside their own fence and they don't want to give them a mortgage on the plant so Packard is not entirely cooperative. So he has a problem there. And I suggested to him that we get together ourselves with Mr. Knudsen and work out something and then call in Mr. Purvis and see what they are willing to do with that \$25,000,000 that they are going to put up and then when we have something that is satisfactory to Purvis, Knudsen, R.F.C. and ourselves, then call in Packard and give it to them.

HM, Jr: What surprised me, when I spoke to Knudsen he said, "I came up to New York just to see Purvis to close the Packard deal." Can you make that one out?

Mr. Foley: As Jones said, "You have the tax end of it, Knudsen has the orders end, and I have the money end, and we have not worked closely enough together."

HM, Jr: It is not our fault. Why does Knudsen go up to New York to see Purvis. I suppose he had to attend a General Motors meeting.

Mr. Young: A long weekend. It's Friday.

HM, Jr: Fish day.

That sounds very good, Ed.

Mr. Foley: I thought it was good.

HM, Jr: Now, what luck did you have with Mr. Stimson?

Mr. Young: We had a nice chat. Read over the list. Had Colonel Burns there. Read over the list which is the old one revised, minus tanks plus additional items. Stimson was shocked they asked for more than the 80,000 rifles they mentioned yesterday at lunch, but I explained that it was the minimum training requirement for Canada. He asked Burns to give him complete lists of their existing

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stocks of everything, not just stuff that was on the list, but everything including ammunition for the various types, plus production schedule and dates of delivery....

HM,Jr: Good.

Mr. Young: so he could look at it himself.

HM,Jr: What did they do? Up the thing above 80,000?

Mr. Young: Yes. Kept it where it was before. At the 200,000 figure.

HM,Jr: Are you writing up today what happened this morning for Mrs. Klotz?

Mr. Young: Delighted.

HM,Jr: And this afternoon you will be seeing Knox. I think that's all to the good.

We have done a lot of Treasury business. (Laughter)
There is not a single thing we have talked here which has to do with the Treasury!

Mr. Bell: No wonder we are busy!

HM,Jr: Somebody has to spark, believe me.

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