

DIARY

Book 274

June 19 and 20, 1940

- A -

	Book	Page
Allis-Chalmers Manufacturing Company		
Federal Bureau of Investigation report - 6/20/40.....	274	223
American Potash Chemical Company		
Federal Bureau of Investigation report - 6/20/40.....		304

- B -

Banque Francaise Italienne pour l'Amerique du Sud		
See War Conditions: France		
Business Conditions		
Economic Developments: Noble (Commerce Department)		
report - 6/20/40.....		242

- C -

Canada		
See War Conditions: Airplanes (Engines)		
Chambrun, Rene de		
See War Conditions: France		
China		
See War Conditions		
Communist Party		
Federal Bureau of Investigation statement on attitude		
toward joining armed forces in United States -		
6/20/40.....		302

- F -

Federal Reserve Bank of New York		
See War Conditions		
Federal Reserve Board		
Legislation in connection with foreign accounts:		
Bell tells H&W bill has been drafted and Treasury		
assistance is requested - 6/20/40.....		263
Ford Motor Company		
For complete change of plans, see War Conditions:		
Airplanes (Engines)		
France		
See War Conditions		
Freight Shipments		
Haas memorandum - 6/19/40.....		112

- G -

Gold		
See also War Conditions: France; Syria		
Japan: Shipments to United States and authenticity of		
Bank of Japan's statements with regard to gold reserves		
discussed by Cochran and Nisiyama, financial representative		
in United States - 6/20/40.....		250
Great Britain		
See War Conditions: United Kingdom		

- I -

Book Page

Inter-American Bank
See Latin America
Iran
See War Conditions

- J -

Japan
See Gold

- L -

Latin America

Program to be presented to FDR discussed by
representatives of State, Treasury, Agriculture,
and Commerce - 6/19/40

a) HMLr's letter to FDR - 6/20/40.....	274	232
b) Suggested legislation.....		119,121,236
c) HMLr: "The longer I listen, the graver are my doubts"		120

Inter-American Bank:

Supervisory Committee to advise on policy matters: Discussed at group meeting - 6/20/40.....		289
Draft of bill to establish: See Book 275, page 165		

Leroy-Beaulieu, Marc (Lieutenant)		
"No report as yet": American Embassy, Berlin - 6/19/40..		134
See also Book 277, page 76		

- M -

McReynolds, William H. Comptroller Generalship again discussed by HMLr and McReynolds - 6/19/40.....		102
Morocco See War Conditions: Foreign Funds Control		
Mt. Sinai Hospital HMLr and General James C. Magee discuss participation in mobilization plan - 6/19/40.....		96

- N -

National Defense Commission Treasury Department requested to make available auditing and accounting facilities - 6/20/40.....		176
---	--	-----

- P -

Philippine Islands Procurement and disbursement services of Treasury offered - 6/20.....		240
--	--	-----

Scandinavia
 See War Conditions: Shipping
 Ship Movements
 Shipping
 Ships
 See War Conditions
 Silver (Tientsin)
 See War Conditions: China
 Switzerland
 See War Conditions
 Syria
 See War Conditions

- T -

Taxation
 National Defense: HMJr suggests stamp so that "people
 will see that money they are paying is for national
 defense" - 6/20/40..... 274 182
 a) Discussed at group meeting - 6/20/40..... 271
 Tea
 See War Conditions: China

- U -

United Aircraft Corporation
 See War Conditions: Airplanes
 United Kingdom
 See War Conditions

- W -

War Conditions
 Airplanes:
 Engines:
 Ford: HMJr asks Knudsen to release statement to
 newspapers, emphasizing that Edsel Ford absolutely
 agreed in Washington to participate in contract;
 Knudsen acquiesces - 6/19/40..... 157
 a) HMJr so informs Purvis..... 160
 b) Text of Knudsen's statement - 6/20/40..... 299
 c) See also Purvis-HMJr conversation - 6/25/40:
 Book 275, page 260
 Jacobs: Resumé of steps of Canadian negotiations -
 6/19/40..... 145
 Rolls Royce:
 Griffon: Mead inquires what steps have been taken
 to secure drawings, samples, et cetera..... 164
 a) HMJr tells Young to take no action - 6/19/40.. 162
 Merlin: HMJr asks FDR and Budget to set aside
 \$2 million out of the \$100 million emergency funds
 made available to the President to pay for
 royalties - 6/20/40..... 300

War Conditions (Continued)

Airplanes (Continued):

Progress report: "Unfilled orders and estimated deliveries, May 1 - June 15, 1940" - transmitted to Chief of Staff Marshall and acknowledged by him - 6/20/40..... 274 190,193

United Aircraft Corporation: Correspondence between Treasury and Corporation relative to agreement "granting to corporations designated by the Government non-exclusive licenses to manufacture for and to sell to the Government any aviation engine ****": Copies to McReynolds - 6/19/40..... 42

a) Draft of agreement as of June 7th..... 46

Ward (J. Carlton) sends third report from Portugal on situation as to production of aviation engines in France - 6/19/40..... 1

a) For Knudsen-HMJr discussion of first report see Book 275, pages 255 and 265

Canada: See War Conditions: Airplanes (Engines)

China:

Tea: Report on export situation - American Consulate General, Hong Kong - 6/19/40..... 65

Cessation (complete) of transit traffic to China feared: Report of American Consul, Hanoi - 6/19/40..... 131

Silver (Tientsin): State Department advises buying silver directly from British after title has passed to British - 6/20/40..... 253
92,251

Exchange market resume - 6/19/40, et cetera.....
Federal Reserve Bank of New York: George Harrison sends letter to Knudsen offering cooperation of New York City banks - 6/20/40..... 183

Foreign Funds Control:

Federal Reserve Board legislation in connection with foreign accounts: Bell tells HMJr bill has been drafted and Treasury assistance is requested - 6/20/40..... 263

Morocco: American Consul told "Treasury Department prepared to give prompt consideration to applications for unfreezing for purposes indicated" - 6/20/40..... 305

France:

Chambrun, Rene de: Report based on actual experience at the front - 6/19/40..... 32

Gold Shipments: Federal Reserve Bank of New York, State Department, and Treasury arrange for crediting to account of Bank of France as of June 19th gold arriving June 20th at Brooklyn Navy Yard..... 135,237

a) Matthews' cable from Paris..... 139

b) Treasury answer..... 138,216

1) London informed..... 217

c) Treasury instructions to Federal Reserve Bank of New York..... 137

d) HMJr discusses with Admiral Stark..... 147

e) Navy-Treasury announcement - 6/25/40:

See Book 275, page 350

War Conditions (Continued)

Book Page

France (Continued):

"Banque Francaise Italienne pour l'Amerique du Sud":

Leroy-Beaulieu discusses with Cochran request
from French mission in Latin America to free
accounts - 6/20/40.....

274 249

Iran:

Credit agreement with Great Britain cancelled as
result of German victory in France - 6/20/40.....

219

Purchasing Mission:

Reports (Detailed): HMJr OK's plan to send copies
to Knudsen, War Department, Navy Department, and
Division of Controls, State Department - 6/19/40..

60

Contracts: French agree to transfer to British
all now outstanding in United States - 6/19/40....

180

Securities Markets (High-Grade):

Current Developments: Haas memorandum - 6/20/40.....

254

Ship Movements:

SS NORMANDIE and QUEEN ELIZABETH: Harris' report on
possible plans for clearance - 6/19/40.....

61

Shipping:

Scandinavian resumé provided by Harris - 6/20/40....

228

Ships:

Motor Torpedo Boats: Ruling on twenty needed by
British asked of Department of Justice; Berle
tells HMJr Jackson considers it "absolutely
illegal"; only "out" is for British to say they
don't need boats although HMJr tells Early they
are needed more than anything else - 6/20/40.....

177

a) Resumé, May 20 - June 12.....

178

1) Discussed at group meeting - 6/20/40....

291

Switzerland:

Germany attempting to force Switzerland to join new
continental system: Report from American Consulate
General, Zurich - 6/19/40.....

222

Syria:

Gold Stock of State Bank: "Attempts being made to
ship to United States via American ship now in
Mediterranean" - 6/19/40.....

132

United Kingdom:

Military Situation: Reports from London transmitted
by Lothian and Butler - 6/19-20/40.....

165-A,E

Assets: Safeguarding in United States discussed by
His Majesty's Government, Bank of England, and
Washington Ambassador - 6/20/40.....

195

Ward, J. Carlton

See War Conditions: Airplanes

Williams, Roger (Vice President, Newport News Shipbuilding Company)

Admiral Stark tells HMJr Rogers is an excellent person and
asks HMJr to see him - 6/20/40.....

237

Lisbon, Portugal, June 19, 1940.

Report No. 3.

Subject: The Situation with Respect to the
Production of Aviation Engines
in France.

The Honorable

Henry B. Morgenthau,
Secretary of Treasury,
Washington, D. C.

Sir:

Note - Report No. 2 concluded the notes on the situation as observed in the Paris area. It was intended to follow with inspection of the larger key "shadow" factories erected outside the Paris area and including the overhaul station at Bordeaux. In spite of the progressive deterioration of the military situation and the tension caused by the resulting necessity for additional migrations of industrial plants from the northern area, this work was practically completed and final report in writing made to the Under Secretary of Air for France. This report took the place of a final conference, as had originally been planned, due to the critical situation which had developed and which preceded the decision to ask for an armistice by the French Army Command.

It was a fortunate circumstance that led to a chance meeting with Mr. Bernard Wait the Special Attache of the United States Treasury

Department

Department who had opened an office in Bordeaux and it was through the thoughtful cooperation of the office that it was possible to write our final report to the Under Secretary of Air for France.

It was requested of Mr. Wait that a copy of this report be sent by diplomatic pouch to your office for the purpose of a record in the United States of the suggestions and recommendations of the Commission. This was in accord with a conversation between Ambassador Bullitt and the writer reached in the United States Embassy in Paris.

After leaving Paris on Saturday June 8th we reached the Gnome-Rhone "shadow" factory at Le Mans about 125 miles southwest of Paris late in the evening. Refugees and military movements delayed the trip and evidences of past bombing were seen at the landing field in Chartres and where an alert caused all cars to halt on the road. No bombing occurred.

We inspected the factory that night. The factory was built new in September 1939. It was painted a dark brown color for protection, was protected with heavy machine guns mounted on the roof and adjacent to a large air field constructed at the same time. English Hurricane Fighters were on station there. Up the road a quarter mile a new bomb proof structure was under construction as an additional "shadow" factory. An eighth of a mile further, located in a pine grove, there had been constructed a large well planned housing development for the workers called the "City-in-the-Pines".

Precise information on this factory was difficult

to

to obtain due to the fact that the Air Ministry had recently changed its policy thereby causing a complete rearrangement of facilities with consequent dislocation of production. The original policy called for each of the several Gnome-Rhone factories to specialize on the production of certain components with the thought that this would lead to maximum efficiency. Then it was subsequently realized that bombing attack or other dislocation of production would result in paralysing all Gnome-Rhone production.

During our visit the factory was being reconverted into a complete unit for producing all parts for the Gnome-Rhone model "N" engine. The assembly was to be done in an underground factory at Ponthierry. The model "R" was to be built similarly elsewhere, likewise model "M" and similarly for additional model "N" parts. Model "N" was, at the time, the main production model.

Large quantities of machinery had just arrived and it was estimated that a period of three weeks would be required before the factory would again be in operation. It was stated that over 700 machines had been shipped in within the past week. As was also observed in most of the factories in the Paris area which were not underground, the roofs were treated to prevent the night light from being visible from above. Recently, however, several night flights of French planes had shown that the protection was not sufficient and the factory

was

4
7
was therefore not operating at full efficiency until this could be taken care of. They were operating on a temporary basis whereby they were to shut down upon warning from the military headquarters. It was explained that on the two previous nights they had received such warnings and consequently had to send their employees home with the result that very little was being accomplished except on the day shifts.

With the 700 additional machines received the previous week, they expected to employ 4000 workmen though it was stated only 1500 were at work under present conditions. There was available a manufacturing area of 200,000 square feet devoted entirely to machine shops.

The following morning we inspected the housing development of the "City-in-the-Pines". 1500 houses had been constructed of four different architectural designs. The designs were such that the house could be turned in such manner that any one of the four sides could be presented to the street. Each of the four designs was finished in four different colors thus making 64 architectural combinations skillfully mixed together. The streets were laid out in curves and beautifully landscaped which was made easy by the natural surroundings as well. We spent the night in one of these houses and found them equipped with all sanitary facilities and heat from a central system. In other words they
were

were modern and much finer than the average French house particularly for the working classes.

It is interesting to note that both the factory and the housing development as well as the landing field were constructed by the Gnome-Rhone Company at the time the war started. All three were subsequently taken over by the Government. In addition the Gnome-Rhone management had started the bomb-proof factory which will now be described.

This unit was not complete and for reasons explained had been taken over by the Government in a half finished state. The Government intended to complete the construction. The Director of the Gnome-Rhone Company stated he did not know why the construction was so far behind the schedule. He stated that the Gnome-Rhone Company had planned to complete it in April but it was learned subsequently from an army engineer that it would not be finished until August. This structure was one of several different types which are used in France for bomb-proof factories. It consisted of a massive reinforced concrete shell over 600 feet long and built like the letter D with curved side toward the sky. The base of the D was under the ground approximately 10 feet and was over 6 feet thick of solid concrete reinforced with large steel bars. At the end of the building steel rails were used for reinforcement and the entire structure had

had no windows or doors with the exception of one massive opening through which railway cars could be switched. The inner structure consisting of four floor levels was an independent structure of reinforced concrete and was not tied in with the outer envelope.

We were informed that the outer envelope would be covered with dirt and planted in grass with artificial roadways made to look like part of the normal country side when viewed from the air. The structure would be ventilated with electric fans and we were not able to learn if the source of power was independent of outside sources.

We then left for the Bordeaux area which was extremely congested with tremendous quantities of machinery and factory employees as well as refugees pouring into the area. Our first visit was to the Ford-Air factory which we were informed had originally been built for the first American Expeditionary Force as a locomotive shop. This factory was in two units. One for the production of trucks and the other for Hispano-Suiza motors. This unit was one of the "shadow" units for the production of this motor and was being set up to make complete parts only. The parts were to be assembled at Jonzac a few kilometers outside of Bordeaux. Much of the equipment came from Poissy in the Paris area and more was being brought down and installed

installed. New building construction was being planned. There was at the moment 120,000 square feet for the aircraft activities.

We were informed that the Bordeaux area had not been an important manufacturing area particularly for metal work. The pace of labor was much slower than in the north of France. There was a great shortage of tradesmen and other skilled employees. There is a complete shortage of housing facilities due in a large part to the inpouring of refugees from Belgium and northern France. There was no auxiliary source of power if bombed. This was planned for later if they could remove the unit from Poissy in time. Work was carried on twenty-four hours a day with two long shifts. The industrial leaders with whom we discussed the situation felt this to be a mistake. It was their opinion that three eight hour shifts would be much more productive and efficient. No bonus or wage incentive system was yet in evidence.

The same problem was encountered as elsewhere, namely the loss of skilled workers to the army.

This unit was depending upon the Ford factory in America to furnish the bulk of the special jigs and tooling because of the shortage of tool makers in France. In the meantime they had tooled up certain parts of the engines themselves and understood that a great deal of American equipment was on the way.

It

It was interesting to note that the new construction would use up the space allotted to the material storage yard with the result that the management was expanding into a piece of idle property adjacent thereto. The management informed us that they had been unable to get action through the Air Ministry in time and were expropriating the land themselves, advising the owner that in time he should get a requisition from the Air Ministry. They did not inform the owner until they had already started construction gangs, preparing his property. There were many other evidences of the inadequacy of the Government planning to meet the accelerated requirements of the military needs behind the lines.

The schedule for this factory was given to us roughly as follows: the complete machinery was to be received within the next three months. All machinery and tools for manufacturing the crank shaft were to come from the machine tool industry in the United States fully tooled. It was their plan to make 500 complete sets of parts per month with extra parts where they would be needed for repairs of engines. Thus in the case of cylinders they planned to make 800 per month. Their schedule called for starting shipments in August and full production by the end of the year.

They began this work at Bordeaux in September 1939 when they took over the old A.E.F. locomotive shop

shop and cleaned it up, turning it into a factory for making 40 truck engines and running gear per month. They began the aviation work six weeks before our arrival. They had ordered all the American machinery possible through a Holland firm and first consignments were then en route from the United States. They also ordered their tools through the Ford representative in the United States.

It is also intended to set up a unit for the manufacturing of the Hispano aircraft cannon. It is expected to have a total employment of 4000 people.

There will also be a large Hispano gun factory near by in the town of Saintes and the engine assembly will be carried on at the nearby town of Jonzac which we understand will be an underground factory.

The Bordeaux district will also manufacture airplane engine parts in other factory units. Thus the Bugatti factory will make crank shafts, propeller shafts and other parts.

As a result of the German invasion of the raw material centers in northern France production was down by 60% in the last six weeks caused by lack of certain raw materials. The management felt that the United States was the only possible source to look to for this missing material.

The management summed up their problem as consisting of four factors: (1) material, (2) machines
(3) tools

(3) tools, and (4) men. All four were serious, the latter only with regard to skilled workers and supervisors. It was estimated that they needed 400 additional experts in order to start the complete operation for 4000 workers. On that very day the army had announced that all men from 18 to 26 years of age were being requisitioned for the army, irrespective of their factory status.

The housing situation was so serious that we witnessed the placing of large groups of families of new workers coming down from the north into nearby emergency barrack-like structures. The Air Ministry representative stated that their review of the engine situation indicated that engines would be seriously behind airplane production in the later part of 1940 and that in two months from now it will handicap their pursuit program.

The next factory visited was the Bloch located in Bordeaux adjacent to the Ford-Air property. This unit is a Government-owned factory which was part of the nationalization program of the Front Populaire. From information obtained both from French industrial leaders and from American service representatives production in this unit had been notoriously low. Under the impetus of war conditions and with a new manager furnished by the Air Ministry production was increasing. The manager informed us however that he was still very dissatisfied with his production

production. At the time of our inspection they were switching over from the use of Gnome-Rhone engines to the American built Pratt and Whitney engines.

The model is known as 175 with Gnome-Rhone engines and it has a speed of 560 kilometers per hour at 5000 meters altitude. With Pratt and Whitney engines it was known as the 176 and had a speed of 520 kilometers at 3000 meters altitude. Later type Pratt and Whitney engines now on order of the two-speed construction would increase this performance considerably. The weight of the unit complete we were informed was 7000 kilograms. This unit has been in construction for only one and a half months and the first units were only just reaching the front. In addition to the factory in Bordeaux they had several additional manufacturing units, several of which will be referred to later. Of the workers twenty-five to thirty percent were women and it was their plan to increase them to fifty percent of the total. The manager estimates that the production was at that time approximately half of what he would expect in the Paris area. He informed us that wages were 8 francs per hour for men and 5 to 6 francs per hour for women.

Airplanes manoeuvring over-head were pointed out to us as executing an imaginary bombing attack on Bordeaux so that the military could learn to protect

Bordeaux

Bordeaux in the event of a German attack.

We then proceeded to the final assembly and test units at the large air field of Merignac about ten kilometers out of the city. Here we saw the ships put through finish assembly in one manufacturing unit and then wheeled into another large unit where the auxiliary equipment such as armament was added and the airplanes camouflaged ready for delivery to flight test.

The field was surrounded by a succession of a large military hangars as well as new and substantial barracks for Air Force enlisted personnel and for officers. Headquarters buildings were across the field and opposite from a commercial station and control tower. The entire area was heavily policed with troops.

Our next visit was at the emergency Purgeot factory in Bordeaux which had been assigned the task of making sets of engine parts. The Purgeot organization prior to the war had been making 300 cars per day and during the last war had manufactured Hispano-Suiza engines for the Government. We were informed on American authority that they were among the best of the Hispano-Suizas built during that period. However the management had requested that it be allowed to make Gnome-Rhone parts and was therefore organizing a group of small factory units scattered

scattered through the Bordeaux area for this purpose. The machinery had been ordered in America by the Allied Purchasing Commission and was coming in and as fast as it arrived it was being set up. We saw a large quantity of it in operation.

To complete their program they still needed additional machine tools and they had to complete new buildings some of which they had moved from the Paris areas. It was also necessary to recruit new workers as well as bring down a great many from the Paris areas and in addition they were lacking important items of raw materials. It is interesting to note that they were bringing from Paris to the Merignac location a factory building of 100,000 square feet which we later saw partly erected.

Mr. Purgeot complained that some of his best men were taken by the army. His schedule called for 600 sets of parts per month beginning in July 1940. Each of his factory units of which there were three in Bordeaux and one a few kilometers outside of Bordeaux at Merignac produced different parts. The assembly and test we were informed was to be done at the underground assembly base for the Gnome-Rhone "shadow" system.

He also had been assigned the manufacturing of landing gears and in one unit was to make the Amiot fuselage. The Gnome-Rhone engine model was the small model "M" used on the two-engine Potez and Breguet.

We

We had an interesting meeting with Captain Henri Pagny formerly a member of an American oil company organization and recently appointed as the Air Ministry officer in charge of contact with all American service representatives. It was very obvious to the commission that the Air Ministry had not provided in its planning for the efficient use of the American service representatives. This was confirmed by Captain Pagny. Thus it seems difficult to find out where the American equipment was being assembled, set up, overhauled or operated. It was also difficult for the Service representatives to get housing accommodations, travel permits, gasoline and the like. Much work was necessary before the Ministry could satisfactorily clear up this situation.

Captain Pagny volunteered the information that one Pratt and Whitney motor was equivalent to three Hispano-Suiza motors or four Gnome-Rhone motors in overall usefulness at the front.

The following day we set out for the city of Tarbes to inspect the main Hispano-Suiza "shadow" factory. This is located approximately 150 miles east by south of Bordeaux. This unit was designed to produce 250 engines complete including assembly and test. However, by this time the military situation had become sufficiently acute so that they were evacuating the Hispano-Suiza factory from

from the Paris quarries to which it had moved from Bois Colombes. In other words this large production unit had no sooner begun to well establish itself at the quarry before it again had to move. The loss in production is obvious.

It will also be remembered that Ford-Air had in the same period built its new factory at Poissy and had in turn been forced to move to Bordeaux. Similarly the "B-G" accessory factory was rushing its new unit in southern France as did the Turbomeca super-charger company and lastly the Gnome-Rhone Company had to move from Blvd. Kellerman which had been its main factory. There was no way of finding out whether it would have been possible to evacuate the remaining aviation units from the Paris area. It was obvious that such factories as the Gnome-Rhone forge shop at Gennevilliers with its heavy machinery could not be moved in time to prevent it from falling into German hands.

Prior to the inspection of the factory a conference was held between the Hispano-Suiza and the Ford managements to formulate a policy in connection with the plan of the American Ford unit for the manufacture of Hispano-Suiza engines or parts. A copy of their conclusions as typed by them and given to the commission is attached. The commission was asked to familiarize themselves with the reasons for these decisions so that unofficially they might be

of

16
assistance upon returning to America if additional background were asked for by the American officials concerned. The commission made it clear that their action in this case would have to be entirely unofficial; from which point of view it would be glad to be helpful in passing along the situation which it had observed first hand.

In general the commission felt that the Gnome-Rhone program had been better planned and more skillfully executed from production point of view than the Hispano-Suiza program and that while it could not draw any clean cut conclusion it felt that if anything the Hispano-Suiza engine was the better engineered of the two. From what had been observed it did not seem possible that the Hispano-Suiza production program of 1300 engines per month could possibly be obtained until well into 1941.

The Tarbes unit was originally a factory for making heavy electrical machinery. Practically 100% of the machine tool equipment had come from the United States and was practically new and of the very latest and best design. The machines had been started up by American machine tool representatives and it seemed well within possibility that the cost could approximate the figures which we had been given in Paris. It will be recalled that we were told that it cost 2700 hours to build an engine at Bois Colombe whereas they expected Tarbes to manufacture
for

for 1400 hours the same engine.

The equipment was efficiently arranged and except for certain minor shortages of raw material production was active in all departments. A number of Belgian workmen had been evacuated from Chaleroi and were at work. Some Belgian machinery also came through and was being set up in a separate building to help out in the program.

The Tarbes factory had been started in September and had 3500 employees. It was not necessary to ship the engines to Jonzac since it was fully equipped to do all the assembling. 4800 sets of forging had been ordered in American but as yet no aluminum castings. They were desirous of furnishing the patterns and an expert to go to America to obtain the castings along with the forgings since it was assumed that the enemy invasion had caused the large aluminum foundry to shut down in the Paris area.

The Tarbes factory is now 300,000 square feet in size and they were in the process of increasing it to 400,000 square feet in area. In addition to the machine shop and the testing facilities they had ^{an} exceptionally well equipped aluminum foundry and a very fine metallurgical and chemical unit. All of the heating and melting equipment was electric and was equipped with the latest type of control instruments.

18

instruments. The metallurgical laboratory included X-ray, spectrograph, and refractive index equipment, besides having the usual chemical and physical testing facilities.

The degree to which women were employed was in certain instances remarkable. We saw for the first time in our experience women who had been trained as expert scraper hands. There also were several instances of women being used as supervisors and as tool setters. One notable instance was that of a woman setting up precision machines for thread grinding. They maintain a simple vestibule school for women and young men.

The method of handling tools and gauges was of the best. Inspection equipment and storage facilities were good. Whenever tools were used they were reconditioned and reinspected automatically before again being issued. The engine test operation was, as in the case of the other plants visited, cut down to a minimum. The facilities and the instrumentation were excellent.

We next returned to Bordeaux where we inspected the principal government overhaul station for aviation engines. This also was in the process of development although during our inspection they were overhauling at the rate of five complete engines per day. This unit was carefully planned by the military in spite of, as we were informed, the factory formerly
having

19
having been a jam and preserve factory. Engines were received at one end of the property and separate production lines were maintained for the different makes of motors. Gnome-Rhone, Hispano-Suiza and Pratt and Whitney lines were already in production and a new line was being set up to get ready for the Wright engines which were beginning to come from America.

Along-side the assembly lines was a small shop for making minor parts and for doing salvage work. Two separate sets of test facilities were provided, one for liquid, and one for air-cooled motors.

We were informed by the personnel that the American motors upon overhaul plainly showed themselves to be superior to the French motors. We encountered a number of American representatives who were engaged in co-operating with the French personnel in servicing this equipment at this station. Their plan is to work up to complete overhaul of 550 engine units per month. Also on the property was a sheet metal department for repairing cowlings and other engine installation sheet metal accessories. A larger shop was being started at Limoges some distance away.

On the following day due to the fact that we had been unable for the past week to get any contact with the Under Secretary for Air because of the military restrictions and the fact that the military situation was becoming each day more seriously critical.

-20-

20

critical it was decided to complete our report and recommendations without further delay. Accordingly this was done the following day and presented at the Air Ministry office which had been moved to Bordeaux during the night. The report was first discussed with General Martinot Lagarde. Arrangements were then made for the commission to leave France via the Spanish border.

The information in this report is based upon personal observations of the writer or, where stated, was given directly to him by the officials contacted. It is believed that this is in line with your request.

Respectfully submitted,


J. CARLTON WARD, JR.

Note:

There was insufficient time for copies to be made of the memorandum referred to herein. Copies of the memorandum will be sent under separate cover.

J. C. W.

June 19

General Marshall telephoned me over the White House wire and said, "I am leaving in two minutes by airplane. I want you to do me a favor. I want you to assure me that you will do nothing about these 4-engine bombers until I see you." I said, "General, you have my assurance."

Major Smith was in my office when I talked to General Marshall.

Excerpt from Meeting held on June 19, 1940,
at 8:45 a.m., at which were present Graves,
Haas, Nelson, Young, Thompson, Gaston,
Schwarz, Harris, Cochran, White, Bell,
Foley, Sullivan and Mrs. Klotz

Foley: Yes. Do you want me to see the man first,
before eleven thirty, Knudsen?

H.M.JR: Well, here is what Mr. Knudsen said last
night. It upset me a little bit. He said,
"We are going ahead with this thing in
Curtiss-Wright on an 8-year basis, obsolescence."
I said, "Oh, Mr. Knudsen, we agreed that you
couldn't do that and when you and Stettinius
were over here, we did that whole thing."
"Well," he said, "That is what a plant should be.
I say it takes 8 years." I said, "We agreed we
couldn't do that we went all over that." He said,
"It works out that way anyway." I said, "Well,
Mr. Knudsen, we went all over that." So then
he said, "Well, this thing, if they pay back
Curtiss-Wright - I think it is 600 dollars per
unit, it will take them 8 years to pay the money back,"
but I said, "Don't you remember you and I agreed
we couldn't do it?" and then he said something
about, "You told the President about it," and I
said, "I told the President something quite dif-
ferent." So he said that he was studying the
thing personally last night and that he had Jones'
comments and ours, your memorandum which I have not
yet read and which I want to go over with you, so
he said, "Well, Foley sent me a memorandum on it."
He said, "Does that express your wishes?" and I
said, "Well, frankly, I haven't read it but I am
willing to sign my name to it sight unseen if
Foley wrote it," so then he said he wanted to
go over - he said, "Well, have you any interest
in this contract with Curtiss-Wright?" and I said,
"None whatsoever." I said, "We have got the
license." He said, "How much did they pay?"
and I said, "I don't know." So he said, "Well,
Mead said that we were going to pay \$250.00
to Rolls Royce on that license for the

- 2 -

United States and we pay a lump sum." Now, when you come, make a note. I want to write a letter to the President and the Director of the Budget to earmark "X" millions of dollars for the British Government to buy outright the Rolls Royce license, outright, you see, but I think that Mr. Knudsen - he seemed to be all mixed up on the thing.

Nelson: May I add something to that, because I argued with his men last night until one o'clock. I was talking to Carl Adams and McCabe and all of them and they are all mixed up on that, Mr. Secretary. I would suggest if we could get together with a group of those men and Mr. Foley, maybe they can work on Mr. Knudsen. I talked to Mr. Knudsen yesterday about Mr. Foley's memorandum and he seemed to be perfectly clear on it, said it looked all right to him.

H.M.Jr: Well, maybe - may I be - in the room here, strictly confidential and frank? I am going on the theory that Mr. Knudsen does business the way I do until I have proven otherwise, but you see if there was anybody else - he left me with the feeling he was trying to go back on the thing to luncheon which you were present at and trying to use the formula which he brought over here, the 8 year formula, which we told him we couldn't, and then he said I got the President to clear it. That isn't what I went to see the President about. I went to see the President on that thing that we loan these people the money and then they pay us back per unit as they deliver each unit of manufactured product. You sat in on all that stuff, and Knudsen sat in on all that thing and we drew up a contract and he wrote out a contract in his own hand. Now, we can't do what - let's call it the original Knudsen formula. We just can't do it. We can't because we explained to him that it is the law. We can't bend the law.

- 3 -

Nelson : I told them all last night.

H.M.Jr: And I talked about the thing, but I don't know the man well enough so I am giving him the benefit of the doubt and saying that he was confused. So I said, "Now, Mr. Knudsen, from the best of my memory, let me go over this thing step by step." I went over the luncheon and told him that we decided he couldn't do it and then reminded him what we could do and everything else. I reminded him why I had gone to see the President, why I had told him to clear it with the President the same day. He said, "That is right." Then I said, "You know, I don't bluff, Mr. Knudsen," and he said, "Do you think I do?" and I said, "I am not saying that you do but I don't." Does what I am saying check with what --

Nelson: Yes, but he just doesn't understand it, Mr. Secretary, and none of his men know what his conversation was with you or Foley and they are all sitting over there arguing days about this other method and I say until 12 o'clock last night I told them definitely what you had said and Mr. Sullivan and Mr. Foley and that the other was out. Now, they are still writing memoranda to each other and they are working on Knudsen on this obsolescence and depreciation. I think I drove it home, but I am not sure.

H.M.Jr: Well, there is no change. I have done nothing that you people don't know about and I am going under the theory that everybody can misunderstand, but unless - I am willing to be innocent, you see, if you get what I mean.

Nelson: I am sure, Mr. Secretary, that it is a case of his just not understanding what Mr. Foley's memorandum is about and he has not talked it over with any of his people.

H.M.Jr: Well, wouldn't --

- 4 -

Foley: Well, my memorandum - all I did was to revise the contract in the light of our conversation.

Nelson: That is right, definitely.

Foley: And I included the points that were decided here and you asked me to add to the contract, that is all.

H.M.Jr: The part I don't like about this thing is, you see, a friend of mine said, "Well, there are all these whispers coming out of the Federal Reserve that you are blocking," and all that. Well now, Knudsen told me when he heard this thing that, "This is what I have been looking for for eleven days, and now we can go ahead," and he was just as tickled as a child. Now, what I would suggest is this, Nelson. Supposing you and Foley ask Knudsen to arrange a meeting before he comes over here and get everybody in there into a room and lock the door.

Nelson: That is the thing to do, sir, and get them all of one mind.

H.M.Jr: But get him before he comes over for lunch, because I don't like to do it at lunch and I have done it all and I am not going to change, because there is no reason to change. And you and I and Foley agree it is a workable plan. Have you changed your mind?

Nelson: Not a bit. Not one iota. The plan is workable and I think it is good.

H.M.Jr: Well, I am going to add you and Foley to luncheon hour today, just because - if we have got to do this thing all over again - I mean, what the heck. What?

Nelson: Yes, sir. May I suggest if Knudsen would bring over Jack Biggers. I think everything would be straightened out.

- 5 -

Foley: Oh, no.

H.M.Jr: No?

Foley: No, I think - let's talk to him ourselves, without bringing him over because I think that is the trouble.

Nelson: Well, but they don't -

Foley: Biggers is the trouble. He has brought Blackie Smith down and Blackie has brought down a partner of his by the name of Eaton, and Knudsen won't work with Eaton or Blackie and they are trying to foist their ideas onto Knudsen. As I see it, over there Knudsen is the only one that is doing anything and the rest of them are trying to figure out what Knudsen is doing, and they are trying to draw him into the organization by putting these lawyers on him.

H.M.Jr: Do you mind my revising myself again? Up to now I like Knudsen and I trust him. Let me have Knudsen for lunch alone. Do you mind? But you two men ask Knudsen - tell him that you would like to see him before he comes over here.

Nelson: All right, sir.

H.M.Jr: And have in the room anybody you want, but you and Foley had better get together and do a little planning, would you, just as soon as I leave here?

Nelson: We will do it, sir.

H.M.Jr: If you don't mind, I think I had better have Knudsen alone because so far he and I have gotten along fine and from what he said last night he wanted to be with me alone. You don't mind?

Nelson: Not at all.

- 6 -

H.M.Jr: Ed?

Foley: I think that is better, because he is the kind of fellow that works alone anyway. He doesn't like to have a lot of people around.

H.M.Jr: If you and Ed, the minute I go out of here - I am leaving out of it John because you (Sullivan) have got all you can do on the Hill. Right? That is the only reason I am leaving you out. I think two men had better - and incidentally, Biggers was pouring a lot of stuff into Hopkins' ears which doesn't help us any either. I am convinced that when Knudsen left here he was satisfied and he told me that Jones was satisfied.

Nelson: He showed me Jones' letters. This was as late as yesterday morning. You sent me over there at eleven o'clock. I saw him and talked to him about it. He seemed perfectly happy and showed me the things in Mr. Foley's memorandum that he liked.

H.M.Jr: I would like to see Nelson and Foley at eleven thirty. At that time you can report to me. That gives you two hours.

H.M.Jr: Is Jones satisfied?

Nelson: Yes, Jones is perfectly satisfied. I saw Jones' letter and Jones' memo on this Curtiss-Wright thing and it seemed to be perfectly clear.

HM Jr: Well, just remember that, again talking very much in the room, those people who aren't doing anything, it is the easiest thing to say, "Well, we can't do it on account of the Treasury."

Nelson: May I tell you, if you have got just a minute, just what happened here and how it went astray? You

- 7 -

see, Mr. Knudsen talked to you and Mr. Stettinius was here at lunch also. Now, Stettinius went back and he got his whole group working on this same thing. Blackie and Eaton have been working with Stettinius rather than with Knudsen and that - Stettinius' group have been working on it and they won't get this idea of depreciation out of their minds. I think they did after last night. Then Mr. Knudsen hasn't communicated at all with Jack Biggers and he has been working on it. Only three people have been working on it.



DEPARTMENT OF STATE
WASHINGTON

reply refer to

June 19, 1940

My dear Mr. Secretary:

I invite your attention to the attached statement issued to the press by the Department on December 7, 1939 and particularly to the concluding paragraph thereof. In accordance with the provisions of this paragraph, military aircraft being exported to foreign purchasers may be flight delivered to those purchasers, provided that legal title to the aircraft remains with a citizen in the United States while the aircraft are being flown over United States territory. Collectors of customs may, therefore, permit such aircraft to take off from any port of exit in the United States for a foreign destination, provided that the affidavit of transfer of title required by section 2 (c) of the Neutrality Act shall not be considered as becoming effective until the aircraft has reached the territorial limits of the United States.

Sincerely yours,

Enclosure:

Statement of
December 7, 1939.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

DEPARTMENT OF STATE

FOR THE PRESS

DECEMBER 7, 1939
No. 666

FLIGHTS OF BELLIGERENT MILITARY AIRCRAFT

Since the enactment of the Neutrality Act of 1939, the Department has received frequent inquiries as to whether authorization could be obtained to make fly-away deliveries of military aircraft purchased by belligerent countries. The following statement is issued with a view to clarifying the position being taken by the Department on this question:

Section 6(a) of the Air Commerce Act of 1926, as amended, contains the following provisions: "Aircraft a part of the armed forces of any foreign nation shall not be navigated in the United States, including the Canal Zone, except in accordance with an authorization granted by the Secretary of State". The authorization referred to in this provision of law is not being granted for military aircraft purchased by belligerents since it would appear to be inconsistent with the neutral obligations of the United States to permit such aircraft to be flown within or from the territory of the United States. For the foregoing purposes, the following will be treated as military aircraft:

(1) All aircraft in Category III of the President's Proclamation of May 1, 1937, and

(2) Aircraft in Category V of the President's Proclamation of May 1, 1937, purchased by or destined for the armed forces of a foreign nation.

It should be pointed out that the above is not applicable while the legal title to the aircraft in question remains with a citizen of the United States.

32

Report of Captain de Chambrun
June 19, 1940

CONFIDENTIAL

REPORT FOR SECRETARY MORGENTHAU

*Read by
Pulitzer* 33

The following impressions are based upon observations which I was able to make between the day when the German attack began on May 10, 1940, and the fifth of June. I acted as liaison officer between the group of French armies (Seventh, First, and Ninth) and the divisions of the British Expeditionary Force which were placed under the command of General Blanchard.

During the campaign of Flanders I spent most of my time attempting to establish liaison between General Blanchard and the British divisions, hampered as I was, owing to all roads in Belgium being blocked by the fleeing refugees. (Incidentally, this exodus was "organized" methodically in every village by agents of the German Fifth Column.) I was able to examine many members of the crews of German bombers brought down either in Belgium or in France in the sectors of these British divisions. Owing to the impracticability of communicating between units, I informed only General Weygand of the result of the following investigations when I was in Paris just before taking the clipper to fly to the United States.

On May 10 the German bombing force (i.e., excluding fighting and reconnaissance planes) was comprised of nine thousand planes, all of which were placed before the attack on innumerable fields through German territory. To explain the importance of the initial attack and its subsequent repercussions, I will quote from the testimony given by one of the lieutenants acting as aircraft commander, who was brought down on the morning of May 10. His testimony was corroborated by two or three other prisoners.

Secretary Morgenthau - 2

Question: Where were you during the evening of May 9?

Answer: I was at airport No. 127a, a few miles south of Charlottenburg.

Question: How many planes were there on that particular field?

Answer: Eighteen bombers, that is to say, two squadrons.

Question: Who commanded the squadrons?

Answer: Either captains or majors.

Question: When did you receive your orders?

Answer: At midnight (ninth-tenth of May) our captain received the orders to fly my squadron, that is to say, nine bombers, to airport No. 65b.

Question: Did you know where this airport was situated?

Answer: No.

Question: How did you learn where it was situated?

Answer: A few minutes before we took off an itinerary of the flight was given to each pilot.

Question: When did you reach airport No. 65b?

Answer: At three o'clock in the morning, May 10.

Question: What happened there?

Answer: Thirty-six small calibre bombs were loaded on each plane. Each plane was refueled, and we received orders to go and bomb the railroad station of La Bassée and the airport of Lille.

Question: Did you know that Belgium and Holland were being invaded at that time?

Answer: No.

Secretary Morgenthau - 3

Question: Did you know that other raids were taking place?

Answer: No.

The other interrogations and the information received by the Royal Air Force and the French military command went to show that five thousand bombers had been put into the air on that particular morning in order to bomb Holland, Belgium, and France. The total losses sustained by the German Air Force during those raids, which according to the German expectations -- interrogations of officers subsequently captured -- should not have exceeded some fifty to one hundred planes, were 342 ships officially brought down. These five thousand planes represented the first-line planes with the best trained crews; there were at that time four thousand bombers in reserve, but there were not four thousand reserve crews in Germany sufficiently trained to be used.

Ever since this first huge onslaught, the number of objectives to be attacked became progressively fewer as the toll of German aircraft brought down by the French and British air forces increased. Starting on the twentieth of May, I found that the Germans had begun to use their reserve planes, which were not as modern as the first-line planes; some of them even lacked certain equipment, such as watches and flight instruments, etc. The morale of the reserve crews was far from good, and their training had obviously been very meagre. Some of these men had only from fifty to eighty hours of actual flying. As the Germans were forced to use 1936-1937 model bombers with inadequately prepared crews, and as the first line crews became fatigued by their constant raids, the effectiveness of the Allied fighters became

Secretary Morgenthau - 4

greater and greater. At the beginning of the campaign they were able to bring down an average of two German planes to every one British plane lost. During the last days, when they began to make use of the Defiant planes, that average increased in the favor of the British to four and five planes to one. When German bombers made a formidable effort on Callais, Boulogne, and Dunkirk (a task in which they were not successful), it was interesting to observe that they did not have enough bombers to complete the task on the other side of the Channel at Dover and Folkestone.

A few days later the Germans put into the first line all of their available aircraft, and they were only able to organize a raid of 155 bombers over Paris, of which twenty-seven were brought down. Losses sustained were well over three thousand when I left France. The official figure of losses, communicated to me confidentially by the Royal Air Force when I was in London during the last of May, was 1,487 bombers brought down by the Royal Air Force behind the Allied line. This figure did not take into account French figures. We do not know, of course, the figures for bombers destroyed on the ground in Germany and occupied Belgium and Holland. To these figures one should, of course, add the wear and tear, accidents, etc. When I left Paris, I was informed at the French headquarters by General Weygand that a message had been captured by the French second bureau, sent by Goering to the superior officers of the German Air Force, requesting them to hold out for a few more days despite the severe losses they had suffered.

All the above and many other details which I observed point to the conclusion that the German bombing force, while not completely destroyed, is

no longer, on account of the scarcity of trained crews, in a position to deliver a decisive blow to the British Empire.

As far as large scale attacks on Great Britain are concerned, the following observations should be made:

1. The morale of the Royal Air Force fighters is extraordinary. While certain reservations can be made with reference to the ability of the British infantry and artillery to fight the Germans on land, the pilots are far superior to the German pilots. They like their jobs, and they know they have the best equipment.

2. While it was difficult for Great Britain to use many fighters to protect France (the number of fighters of the advance striking force under the orders of the French command was much smaller than the number of fighters retained in England), today all the fighters which can only stay in the air for one-half to one and one-half hours because of the weight of armament and consumption of fuel, are protecting in a most efficacious way the vital objectives in Great Britain.

3. The output of fighters is increasing every day in Great Britain.

4. The Dunkirk experience, where practically all the German strength was employed to prevent traffic in one single small port, shows that it will be very difficult for the German air force to bottle up all the British sea ports. One must remember that in Dunkirk during five days and five nights, despite continuous raids, ships came with food and munitions and left with 335,000 men. Moreover, the British fighters which were based on airports

on the British side of the Channel brought down an average of some seventy-five to one hundred bombers a day over Dunkirk.

5. As against England and the British Empire, the objectives of the German bombers are innumerable (all the ports and industrial centers, Leeds, Glasgow, Sheffield, Birmingham, London, etc), whereas the Ruhr, comprised of over twenty million inhabitants engaged in making war materials, concentrated in an area seventy miles square, is the greatest target for bombing in the world. Moreover, the people of the Ruhr, who are mostly Rhinelanders and not Prussians, do not possess the warlike morale of the latter, and we know in France that the small raids made over this district have already produced a very great moral effect and caused material damage, which explains one of the reasons why Hitler has to win this war very quickly. Before I sailed, the local German radio stations were constantly sending appeals to the civil population of the Ruhr for calm and confidence, stating that although the people of Germany were suffering, their hardships were far less than those of the British and French peoples.

Were Great Britain to have at her disposal an ever increasing number of bombers, I believe that the effect of continuous raids on the Ruhr (while the German Government would have to explain the reasons for not attaining the immediate victory over Great Britain which they have announced) might well prove decisive.

The British Empire is, in my mind, very far from being beaten for the following reasons:

1. Historical -- Hitler controls today one-half of Europe and has not yet reached the British Isles; Napoleon controlled the whole of Europe and

was incapable of defeating Great Britain, which then did not have the power she has today.

2. Preparedness -- Great Britain is now just beginning to feel the possibility of defeat. All her industries which were not ready for war on September 3 are just now swinging into production. She is not tired like Germany by a campaign of several years of production on a severe war-time basis.

3. While France was fighting for Great Britain and fatiguing the German war machine, Great Britain was getting ready, and today, after France's Army's defeat and nine months of war, Great Britain has sustained only extremely minor losses, to-wit: 35,000 men (prisoners, wounded, or killed), (it is not known in this country that the British Expeditionary Force lost only 1,200 men in Norway); on the other hand, the Home Fleet has only lost two airplane carriers, one battleship, a few cruisers, and about thirty destroyers, and ten submarines. To attack the British Empire successfully, the Germans would have to employ a great air force, which they no longer have, and a considerable fleet. In this connection, it is my opinion that the Italian Fleet will not help Germany in the Atlantic. The Mediterranean is the "Mare Nostrum" of Italy, and I do not believe that Italy's dictator, who needs his fleet to control the Mediterranean, will place it at Hitler's disposal in the Atlantic. One must not lose sight of the fact that the war is not won for the Axis in the Mediterranean, where Great Britain and the French Colonies can offer a great resistance to Italy. The Arabs, who are

all sympathetic to France and Great Britain and hate the Italians, constitute a considerable strength, which the Italians would have to cope with. Moreover, she will have to take into account the strength and ambitions of Turkey, Russia, etc.

Should the European people, particularly the French, acquire the feeling that, given adequate assistance from the United States, Great Britain will not yield to Germany, they will, by their active or passive resistance to the 75 million Nazis, be able to play their part in the struggle of all the forces which today, as in 1918, are consciously or unconsciously fighting to prevent Germany from dominating the world.

This envelope contains:

41

Copy of letter of 6/19'40
to Mr. McReynolds

Copy of letter of 6/19'40
to Mr. Wilson
(both signed by Secretary
Morgenthau)

Copy of letter from Mr. Wilson
to Secretary Morgenthau, and

Mimeographed copy of 6/7'40
of the proposed Agreement
between UNITED AIRCRAFT CORP.
and the UNITED STATES.

Mc

JUN 19 1940

Dear Mr. McKeen:

I have received a letter dated June 13, 1940 from the United Aircraft Corporation in which the United Aircraft Corporation modifies its previous letter of June 4, 1940 relative to the proposed form of agreement pursuant to which the United Aircraft Corporation had offered to grant to corporations designated by the Government non-exclusive licenses to manufacture for and to sell to the Government any aviation engine of any type or model manufactured by the United Aircraft Corporation, and also granting to the Government a non-exclusive right to manufacture and use, and, under certain conditions, to sell any such engine.

On June 7, 1940 I sent you the original letter of June 4, 1940 from United Aircraft Corporation and, in accordance with my understanding as expressed in that letter, I am now sending you the original letter of June 13, 1940 from the United Aircraft Corporation together with a copy of my reply to Mr. Wilson, the President of that corporation.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. William E. McKeen
Secretary, Advisory Commission for
the Council of National Defense
Federal Reserve Building
Washington, D. C.

GLK:t
6-19-40

JUN 19 1949

Dear Mr. Wilson:

I have your letter of June 13, 1949 in which United Aircraft Corporation supplementing your letter of June 4, 1949 pursuant to which United Aircraft Corporation offered to grant to corporations to be designated by the Government non-exclusive licenses to manufacture for and sell to the Government any aviation engine of any type or model manufactured by the United Aircraft Corporation, and also granting to the Government a non-exclusive right to manufacture and use any such engine.

Your offer of June 4, 1949 (which I had understood had been approved by the Board of Directors or its Executive Committee) contained no qualification such as that contained in the last paragraph of your letter of June 13 in which you say you will not "consider any license agreement which does not provide for the payment on a satisfactory basis of royalties on parts as well as on complete engines."

Since none of the phrases in the original draft attached to your letter of June 4 which were omitted from the revised draft attached to your letter of June 13 had any relation whatever to royalties on spare parts, the relevancy of the qualification is open to question. I had been under the distinct impression that the letter of June 4 had cleared up everything, except the ratification of minor omissions from the agreement to make it conform to the draft of agreement submitted by Wright Aeronautical Corporation.

None of the drafts of clauses or agreements submitted by United Aircraft Corporation for our consideration contained any method for computing royalties upon spare parts. Hence, if the draft of agreement attached to your letter of June 4 and the draft of agreement attached to your letter of June 13 do not provide such a method, it is not because the Treasury Department was unwilling to consider the inclusion of some equitable provision but because your counsel and other representatives did not submit any suggestion.

-2-

This is quite comprehensible since under both drafts the Government or other licensee would pay a royalty for the privilege of manufacturing engines based upon the number of engines produced with a minimum lump sum regardless of the number produced, plus a series of fees for drawings, specifications, operation sheets and technical assistance; and, indeed, it would tax one's ingenuity to devise a reasonable formula justifying the payment by the Government of still additional royalties for the privilege of making spare or replacement parts for the very same engines.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury,

Mr. E. E. Wilson
President

United Aircraft Corporation
East Hartford, Connecticut.

CLK:6
6-18-40

UNITED AIRCRAFT CORPORATION

East Hartford, Connecticut

45

June 13, 1940

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

My dear Mr. Secretary:

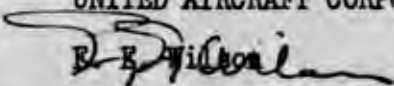
Under date of June 4, 1940 United Aircraft Corporation made its formal offer to enter into one or more license agreements for the manufacture of aircraft engines to which was attached a draft of the proposed form of license agreement. Subsequent discussions have resulted in a slight revision in this proposed form of agreement at the request of the Treasury and we now enclose herewith a revised draft of the proposed form of license agreement dated June 7th in substitution for the one enclosed in our letter of June 4th.

The phrases contained in the original draft in Articles II, III and IV thereof and which have been omitted in the draft of June 7th were not intended to alter the sense of the agreement as we understood it but simply to clarify it and it is our understanding that the elimination thereof creates no obligation on United Aircraft Corporation which would be imposed if these sentences had not been omitted.

We draw your attention to the fact that this draft does not provide a method for computing royalties upon spare parts, which has been left for later discussion. We could not, of course, consider any license agreement which does not provide for the payment on a satisfactory basis of royalties on parts as well as on complete engines.

Very truly yours

UNITED AIRCRAFT CORPORATION



President

Draft of June 7, 1940

AGREEMENT, made and entered into as of the day of
 , 19 , by and between UNITED AIRCRAFT CORPORATION, a
corporation organized and existing under the laws of the State
of Delaware, with offices at East Hartford, Connecticut, United
States of America (hereinafter referred to as "United"), party of
the first part, and , a corporation
organized and existing under the laws of the

(hereinafter referred to as the "Licensee"), party of
the second part:

IN CONSIDERATION of the mutual covenants and agreements
of the parties hereto, each does agree with the other as follows:

I. DEFINITIONS: The term "Licensed Engines" shall
mean

Wherever the term "engine" is used in this Agreement,
it shall be interpreted to mean the bare engine, fully equipped,
including magnetos, carburetors and spark plugs or the like, but
exclusive of all optional accessories which are not necessary for
the ordinary and usual operation of the engine.

Engine "type" shall be understood and defined as referring
to the general configuration of the engine without specific refer-
ence to size or ordinary details, as for example, "Vee" type, single-
row radial type, double-row radial type, in-line type, air-cooled
type, water-cooled type, etc.

The word "model" shall be understood and defined as referring to an engine of a particular type with a given number of cylinders and a given piston displacement.

II. NON-EXCLUSIVE LICENSE: United hereby grants to Licensee for the term of this Agreement a non-exclusive right and license to manufacture, assemble, use and sell to the Government of the United States, or any of its departments, agencies, or instrumentalities, Licensed Engines and spare parts therefor, including all features applicable to said engine covered by United States letters patent or applications for patents now pending or hereafter applied for which are owned or controlled by United.

III. DESIGN DRAWINGS AND SPECIFICATIONS: United will furnish to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, United States of America, within two months from the date of execution of this Agreement, drawings, specifications and information regarding assembling, testing and servicing of the Licensed Engine as and to the extent indicated below:

(1) Assembly drawings of the Licensed Engine and parts therefor.

(2) Drawings and/or acceptance specifications, to the extent available, for component parts of the Licensed Engine purchased by United from third parties in finished form, and acceptance specifications and description, to the extent available, of finished accessories, normally purchased by United from third parties for application to the Licensed Engine.

(3) Engine test specifications.

(4) Fuel and oil specifications.

(5) Engine operating instructions, overhaul and service manuals, tolerance charts, drawings and specifications for special tools, accessories, etc., used in maintenance and overhaul activities.

(6) Installation drawings and data showing general requirements for arrangement of cowlings, fuel and oil supply systems, air intakes and heaters, ventilation of accessory compartments and engine mounts.

(7) Drawings or specifications, to the extent available, of special tools, jigs, fixtures, etc., designed by United and used in the current assembly and test of the Licensed Engine.

All drawings, specifications and data referred to above shall be copies of current drawings, specifications and instructions and other data when designed or prepared by United and employed by United in current assembly and overhaul operations. Four copies of the data shall be supplied. Two copies shall be delivered in Van Dyke or carbon-back typewritten form, whichever is appropriate to the particular information supplied, in English text and dimensions as used by United, and two copies shall be delivered in blueprint form.

United further agrees to furnish to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, United States of America, at a compensation to be agreed upon and within one month from the date of receipt by United from Licensee of an order therefor, additional sets of the drawings and specifications and other data referred to in this Article.

Two copies of the drawings, specifications and other data, similar to those above referred to, of improvements, modifications

and changes in Licensed Engines, shall, during the period hereof, be supplied by United without additional compensation, it being understood that changes in design and specifications made during each quarterly period of three months shall be delivered within one month after the close of the period in which such changes were made.

IV. DETAILED MANUFACTURING DRAWINGS AND PRODUCTION DATA:

United will furnish to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, United States of America, within three months from the date of execution of this Agreement, detailed drawings, specifications and information regarding the manufacture of component parts, as manufactured by United, for Licensed Engine, and suitable information for the purchase of parts not so manufactured. Said manufacturing drawings and information shall be as follows:

- (1) Detailed drawings of engine parts including tolerance specifications for finished parts.
- (2) Material specifications including heat treating specifications.
- (3) Bills of material, production drawings, process sheets, material test specifications.
- (4) Drawings and specifications of all special tools, jigs, fixtures, etc., normally designed by United and used in the manufacture, assembly and test of parts in process.
- (5) General inspection rules used in manufacturing, including, to the extent available, drawings of inspection tools, jigs and fixtures normally designed by United.

All drawings, specifications and data referred to above shall be copies of current United drawings, specifications and instructions and other data normally designed or prepared by United

and employed by United in current manufacturing operations. Four copies of the data shall be supplied. Two copies shall be delivered in Van Dyke or carbon-back typewritten form, whichever is appropriate to the particular information supplied, in English text and dimensions as used by United, and two copies shall be delivered in blueprint form.

United further agrees to furnish to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, United States of America, at a compensation to be agreed upon, within one month from the date of the receipt by United from Licensee of an order therefor, additional sets of the drawings, specifications and other data referred to in this Article.

Two copies of the drawings, specifications and other data, similar to those above referred to, of improvements in the methods of manufacture of Licensed Engines, shall, during the period hereof, be supplied by United without additional compensation, it being understood that changes in design and specifications made during each quarterly period of three months shall be delivered within one month after the close of the period in which such changes were made.

V. SERVICES OF ENGINEERS IN LICENSEE'S FACTORY: During the term hereof United undertakes and agrees to render all reasonable manufacturing and technical assistance and servicing information and data in connection with the manufacture, assembly, testing and servicing of the Licensed Engine, and to that end, and at the request of Licensee, United agrees to furnish Licensee with the services of a reasonable number, not to exceed

(), of competent and experienced engineers to assist Licensee in the manufacture, assembly, testing and servicing of Licensed Engines and/or parts therefor.

Licensee agrees to pay to United in a manner to be agreed upon the cost of the services of any such engineer or engineers, together with all reasonable traveling and living expenses from the time he or they leave East Hartford, Connecticut, United States of America, until their return thereto, plus per cent. (%) thereof. It is further agreed that all liability for injuries to or death of any or all of such engineers, and for damages of any kind and chargeable against United, which may arise from any cause occurring in the course of the employment of such engineers while they are with or employed by Licensee, shall be paid by Licensee.

VI. PAYMENTS: Licensee agrees to make payments to United at East Hartford, Connecticut, United States of America, as follows:

A. Partial Payments:

- (a) The sum of _____ upon delivery to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, of the design drawings, specifications and information provided for in Article III hereof.
- (b) The sum of _____ upon delivery to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, of

the manufacturing drawings and production data provided for in Article IV hereof.

B. Royalties:

(a) Semi-annually during the first year of this Agreement, whichever of the following amounts is the greater:

- (1) the sum of , or
- (2) the sum of for each direct-drive Licensed Engine manufactured, assembled or sold by Licensee, and the sum of for each geared Licensed Engine manufactured, assembled or sold by Licensee.

(b) Semi-annually during the remaining years of this Agreement, whichever of the following sums is the greater:

- (1) the sum of , or
- (2) the sum of for each direct-drive Licensed Engine, manufactured, assembled or sold by Licensee, and the sum of for each geared Licensed Engine manufactured, assembled or sold by Licensee.

C. Other Payments:

Licensee agrees to reimburse United for royalties which United is required to pay in the amounts and in the manner shown on Schedule A hereto attached.

D. Conditions of Payment:

VII. REPRESENTATIVES OF LICENSEE AT UNITED PLANT:

During the term hereof Licensee may send not more than _____ () technicians or representatives to the plant of United at East Hartford, Connecticut, United States of America, to observe and study the methods employed by United in the manufacture, assembly and servicing of the Licensed Engine upon the following conditions: (1) Licensee shall pay all salaries and wages of such technicians or representatives and shall bear all traveling, living and other expense which may be incurred in this connection; (2) United shall not be required to admit such technicians or representatives to portions of its factory where work of a secret or confidential nature is in process or where prohibited from doing so by virtue of requirements made by the Government of the United States in connection with contracts for the building and developing of aircraft engines and/or accessories therefor; (3) whenever such technicians or representatives are stationed for instruction purposes, they will be under a responsible and capable leader who will secure conformance to the rules and regulations of United; (4) United will not be liable for injuries to or death of any or all such representatives while at the plant of United, or for injury, damage or loss to their property, and (5) Licensee will indemnify and hold United harmless from any such liability.

VIII. RESTRICTION ON PATENTS: It is understood between the parties hereto that no patent will be obtained or applied for by Licensee or by another with its inducement or consent, on United engines, or any drawings of parts thereof either as existing at present or as they may hereafter be improved or developed by United without the express written consent of United.

IX. ASSIGNMENT OR TRANSFER: Licensee shall not assign, transfer or sell, or permit the use of the rights hereby granted,

without the written consent of United and shall not disclose or suffer to be disclosed to another (except to the Government of the United States) any information or any designs, drawings or other data which it receives or is entitled to receive hereunder, and will, at its own expense, use every effort and take the necessary proceedings to protect United against such disclosure; provided, that nothing in this article shall prevent Licensee from furnishing drawings and specifications of individual parts to subcontractors supplying such parts.

X. MAINTENANCE OF RECORDS: Licensee shall at all times during the continuance of this Agreement, keep accurate and separate accounts containing full entries and particulars of sales of all Licensed Engines and parts provided for hereunder, and of all Licensed Engines and parts fabricated and/or assembled. United shall have access during reasonable business hours, not to exceed two investigations per annum, to the books and records of Licensee that pertain to the subject matter of this Agreement, in order to determine what sums, if any, are due it hereunder.

XI. PREVENTION OF PERFORMANCE BY UNITED: United shall not be deemed to have breached this Agreement by reason of its failure to perform any of its obligations hereunder, provided such failure shall be due to strikes, fire, acts of God or a public enemy, riots, incendiaries, interference by civil or military authorities, compliance with order of the President of the United States or other governmental agencies, delays in transit or delivery on part of transportation companies or any act or failure to act of Licensee or other cause of the same or different nature beyond control or without fault of United.

XII. CANCELLATION OF AGREEMENT: United may revoke or terminate this Agreement if Licensee shall fail to make payment of

33-

any sum required under this Agreement and shall not remedy and make good such failure or failures within thirty (30) days from the date of the mailing to it by United of a written notice of such failure.

In the event of any such revocation or termination of this Agreement, United shall be entitled to receive any and all moneys due it up to the date of such revocation or termination; and such revocation or termination shall also be without prejudice to any claim which any party hereto may have against any other for damages in respect to any prior breaches of this Agreement.

In the event that this Agreement shall be so revoked or so terminated, or upon its expiration under Article XVII hereof, Licensee further agrees forthwith to deliver to United any and all working drawings, blueprints, specifications or other papers or data, and all copies thereof in its possession or under its control, applicable for use in connection with the manufacture of the Licensed Engines, and which the Licensee is not obligated to deliver to the Government of the United States or any of its departments, agencies, and instrumentalities.

XIII. CONSTRUCTION OF AGREEMENT: This Agreement shall be construed and the respective rights of the parties hereto upon its expiration or cancellation pursuant to its terms, shall be determined under and pursuant to the laws of the State of Connecticut, United States of America.

XIV. INFORMATION TO BE SUPPLIED BY LICENSEE: In the event that Licensee shall perfect any improvement, modification or invention which may be used in connection with the manufacture of the Licensed Engine and/or parts therefor, it agrees forthwith to communicate the same to United, to grant to United, its successors and assigns, the right to use and apply the same in the manufacture of the Licensed Engine and/or parts therefor, whenever the same are or

may thereafter be manufactured, by United, its successors or assigns, and the right to include the same in any engine offered for sale by United or its successors or assigns, without charge or account thereof, and to execute any and all necessary instruments to effectuate this purpose, the cost of such instruments, if any, to be borne by United; but there shall be no additional cost to United on account of the use of any such improvement, modification or invention, and any of the same may be used by Licensee in connection with products manufactured by it without payment of any kind.

XV. NOTICES: Notices required under this Agreement shall be sent by registered mail to the respective parties at the following addresses:

United Aircraft Corporation
East Hartford
Connecticut
U. S. A.

(Licensee)

XVI. LIMITATIONS: Licensee shall not have power to bind United by any guarantee or representation that it may give or in any other respect whatsoever, or to incur any debts or liabilities in the name or on behalf of United; and the parties hereto shall not be deemed partners or joint adventurers.

XVII. EXPIRATION OF AGREEMENT: Unless sooner terminated pursuant to the provisions of Article XII hereof or extended by mutual agreement, this Agreement shall cease and terminate three years from the date first above written and upon the expiration thereof all obligations of United and Licensee hereunder shall

57

cease and terminate. The provisions of this Article XVII shall not relieve either party of any obligations existing pursuant to the terms of this Agreement at the expiration date thereof.

XVIII. GRANT TO VENDORS: United hereby agrees to grant to vendors of all raw, semi-fabricated, and/or fabricated materials used or applicable to the herein Licensed Engines the right to use, for a compensation to be mutually agreed upon, all patterns, dies, jigs, and/or fixtures owned or controlled by United which are necessary for the purpose of such fabrication at the plant of the vendor at which such patterns, dies, jigs, and/or fixtures are generally located, whenever such fabrications of materials may be desired by Licensees, provided Licensee gives United reasonable (30 days where practicable) notice prior to the commencement of the fabrication of such material, and provided such use by Licensee does not conflict with United's requirements for materials fabricated by such patterns, dies, jigs, and/or fixtures. It is understood and agreed that United has the undisputed right to change at any time and from time to time any or all of the above-mentioned patterns, dies, jigs, and/or fixtures to provide for normal changes in design and/or manufacturing processes instigated by United.

XIX. ARBITRATION: Any dispute arising hereunder shall be submitted to arbitration at the election of either of the parties hereto, upon written notice given to the other party hereto asking for such arbitration and designating an arbitrator selected by it. Within two (2) weeks from the giving of such notice, the other party hereto shall select an arbitrator and notify the first party of such election. The two arbitrators so selected shall select a third arbitrator within one month from the giving of the first above mentioned written notice. In case either of the parties fail to appoint an arbitrator within the time as set forth above, the other party shall have the right to appoint the second arbitrator, and in case the two arbitrators first

appointed are unable within the time set forth, to agree upon the third arbitrator, the third arbitrator shall be chosen by the Arbitration Association of America or its officers or board or committee authorized to act for it in such matters. The arbitration shall be conducted in New York City under the rules of the Arbitration Association of America. The decision of the arbitrators shall be final and binding on the parties hereto.

XX. MARKING: Licensee will suitably mark all Licensed Engines manufactured or assembled by it, as being manufactured by it, by name, under license from United, setting forth the applicable patent numbers and dates as specified by United.

XXI. CHANGES IN DESIGN OR CONSTRUCTION: Whenever Licensee shall make any changes in the design or construction of Licensed Engines or any part thereof, Licensee shall, as soon as practicable thereafter, furnish to United, without cost to it, full particulars of such changes, together with drawings and specifications completely disclosing the same. When such disclosure shall have been made all rights in and to such changes shall, subject to the rights granted by this Agreement, but without any other act of either of the parties hereto, pass to and vest in United to the same extent for all intents and purposes as if such changes had been made by United. Nevertheless, if deemed necessary by United to protect its interests therein, Licensee shall, upon United's request, make prompt and due applications for United States patents covering any such changes and shall diligently prosecute such applications to a conclusion, and upon the granting of any such patents shall (unless they be granted directly to United or its nominee) duly assign the same to United or its nominee without requiring the payment of any fee or royalty with respect thereto; provided, that the cost of obtaining such patents shall be for account of United.

- 14 -

XXII. RECOGNITION OF LICENSE: Licensee shall not make, manufacture, license, sell, lease or otherwise dispose of, during the term of this Agreement or at any time after its termination, any type, model or design of aeronautical engine or part thereof embodying any one or more of the basic principles of design or manufacture employed in and peculiar to the design or manufacture of Licensed Engines or parts thereof, other than such engines or parts thereof as may be manufactured either under this Agreement or pursuant to other rights, if any, expressly granted in writing to Licensee by United.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed in their respective corporate names by their respective officers thereunto duly authorized, and their corporate seals to be hereto affixed, and to be attested by their respective Secretaries or other officers thereunto duly authorized, as of the day and year first above written.

UNITED AIRCRAFT CORPORATION

ATTEST:

By _____

LICENSEE

ATTEST:

By _____

June 19, 1940

To: The Secretary

From: Mr. Young

Do you have any objection to distributing copies of the detailed reports submitted by the Anglo-French Purchasing Board to the War Department and the Navy Department, through the Liaison Committee, and to the Division of Controls of the State Department?

Further, do you have any objection to sending a copy of these statements to Mr. Knudsen, who is anxious to receive them?

The statements referred to list orders placed through the Purchasing Commission, orders placed by other sources but which have come to the knowledge of the Purchasing Commission, and inquiries pending by the Purchasing Commission.

P.Y.

Secretary said ok.



TREASURY DEPARTMENT
WASHINGTON

June 19, 1940.

MEMORANDUM FOR THE SECRETARY:

There are no new developments on the S. S. NORMANDIE and no request has been made as yet for clearance. The S. S. QUEEN ELIZABETH took on 6,700 tons of fuel oil.

We will be advised the moment either vessel applies for clearance or indicates readiness to sail.

Basil Harris.

June 19, 1940.

MEMORANDUM FOR THE SECRETARY:

There are no new developments on the S. S. NORMANDIE and no request has been made as yet for clearance. The S. S. QUEEN ELIZABETH took on 6,700 tons of fuel oil.

We will be advised the moment either vessel applies for clearance or indicates readiness to sail.

(Signed) Basil Harris

RECEIVED
NAVY DEPARTMENT
COAST GUARD
SEPT 1940

U. S. COAST GUARD
OFFICIAL DISPATCH
TRANSMIT

63

TE 19 JUNE, 1940

COAST GUARD HEADQUARTERS		CODE
FOR ACTION)		CIPHER
COMNYDI ST	T X	XX
SS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.		ACKNOWLEDGE
FOR INFORMATION)		PRIORITY
		ROUTINE
		ACKNOWLEDGE
		PRIORITY
		ROUTINE
TO		
PHONE TO		
MENSER TO		

Sent at request of the Secretary

OUTGOING HEADING

CG1SE Z QUAH 191038 QUAY P GR 17

TEXT

ADVISE WHETHER THE NORMANDIE HAS SAILED OR MAKING
PREPARATION FOR SAILING X INVESTIGATE AND REPORT
BACK IMMEDIATELY

(INFORMATION TO BE DELIVERED TO LT MCKAY PRIOR 0830 EST
SO HE MAY ADVISE THE SECRETARY)

CONFIDENTIAL

TOD 1038 JUNE 19 1940/SE NUM 1 TO NYDIST VIA T X W
CHARGES 60 CENTS FOR 2 MIN.

INITIALS OF "RELEASING" OFFICER
DUTY OFFICER

U. S. COAST GUARD

OFFICIAL DISPATCH

FROM HEADQUARTERS

DATE 19 JUNE, 1948

INCOMING HEADING

DC NR 1 Z QUAY 191120 P QUAH GR 20

FROM

COMNYDIST

(FOR ACTION)

COMMANDANT

T W X

(FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

X

ROUTINE

NITE

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

YOUR 191038 NO INFORMATION OF SAILING X NO SIGNS OF
MAKING PREPARATION FOR SAILING X WILL INFORM HQTRS
OF DEVELOPMENTS

REF:-

ADVISE WHETHER THE NORMANDIE HAS SAILED OR
MAKING PREPARATION FOR SAILING X INVESTIGATE AND
REPORT BACK IMMEDIATELY

CONFIDENTIAL

TOR 1120 JUNE 19 SE NUM 1 FM NYDIST VIA T W X

(THIS INFORMATION TO BE DELIVERED TO LT MCKAY PRIOR TO
0830, FOR SECRETARY)

Director's Record.

Initials of "ACTION" officer.

No. 693

AMERICAN CONSULATE GENERAL

Hong Kong, June 19, 1940

Subject: Proposed Increase of China Tea Exports to
The United States

The Honorable

The Secretary of State

Washington.

Sir:

I have the honor to enclose as of possible interest to the Department a memorandum of June 14, 1940, prepared by Consul John H. Bruins of this office, reporting a conversation with Mr. P. S. Witham, a British subject, who is Tea Adviser to the Chinese Government.

Reference may also be made to the report of October 12, 1939, from this office, entitled, "Chinese Tea Export Situation".

Respectfully yours,

ADDISON E. SOUTHARD
Addison E. Southard
American Consul General

Enclosures:

- 1/ Report of conversation
with Tea Adviser to Chinese
Government
- 2/ Tea Statistics

861.33

JHB:bb

In triplicate to the Department

Enclosure No. 1 to despatch No. 693
of June 19, 1940, from Addison E.
Southard, American Consul General,
Hong Kong, on the subject "Proposed
increase of China Tea Exports to the
United States."

66

June 14, 1940

MEMORANDUM

Conversation with Mr. P. S. Witham, a
British subject who is Tea Adviser to
the Chinese Government with headquarters
in Hong Kong

Mr. Witham approached this Consulate General under instructions from Dr. H. H. Kung, Chinese Minister of Finance, on the subject of increasing Chinese tea exports to the United States. He stated that until recently the United Kingdom and the British Colonies have been the most important buyers of China tea. Other important markets are the Netherlands, the Soviet Union and other European countries. Upon the outbreak of the European war, the British Government took measures to conserve and to accumulate stocks of certain foodstuffs, including tea, and to obtain supplies insofar as possible from Empire countries. The conservation of sterling exchange was a factor in the "Empire buying" part of this scheme. Beginning in January, 1940, a serious curtailment of purchases of China tea went into effect in Great Britain, at which time non-Empire tea was placed on the quota basis. On May 28, 1940, this quota was cancelled so that at present no China tea is being imported into the United Kingdom. This prohibition does not apply to British Dominions and Colonies. Recent events in Europe have practically eliminated continental European countries as purchasers of China tea and even the rather important sales to North Africa are now endangered. Efforts are consequently being made by the Chinese Government to expand its exports to the remaining available tea markets, among which are Australia, New Zealand and the United States.

He was informed that it is not the function of the Consulate General to render assistance in expanding the sales of Chinese tea in the United States. It was suggested to him that an advertising campaign in America would be the logical action to take. Mr. Witham agreed with this idea and also inquired whether there might be any possibility of including tea in the commodities traded under the American loan to China and also whether a barter arrangement might be possible. He added that under the trade relations between China and Soviet Russia, tea is one of the most important items of barter. In reply to this, he was informed that the idea of barter is not favored by American foreign policy; furthermore, that

that it is extremely doubtful whether tea would be considered an item comparable in importance with wood oil, tin and bristles, such as at present are being accepted from China in repayment of American loan funds. However, Mr. Witham was informed that this office would send in a report of his remarks to the Department of State for its consideration.

The Tea Adviser also supplied this office with statistics (attached) which he stated have been compiled by the International Tea Committee in London, indicating the total United States purchases of tea during the last decade; also indicating the amounts received from Japan and China. He stated that transportation delays had doubtless made the 1939 figure from China somewhat smaller than the actual amount, but nevertheless asserted that the conclusion to be drawn from the figures is that the total tea consumption of the United States has been increasing during the last decade, that there has been a corresponding increase in purchases from Japan, and that purchases from China have recently declined unduly. When asked to name the articles China would want in exchange for tea on a barter basis, he stated that first consideration should be given to military equipment of all kinds, trucks, and spare parts of American motor vehicles already in use in China. He also stated that the export of tea from China presents much less difficulty than is the case with essential oils and metals. He stated that the principal route of exportation is out of the unoccupied port of Foochow directly to Hong Kong, and admitted that in many cases largesse to the Japanese naval authorities is required.

JOHN H. BRUINS
John H. Bruins
American Consul

Enclosure No. 2 to despatch No 68
693 of June 19, 1940, from Addison E.
Southard, American Consul General, Hong
Kong, on the subject, "Proposed Increase
of China Tea Exports to the United States."

TEA STATISTICS

Published by the International Tea Committee, London.
(Furnished to the American Consulate General, Hong
Kong, by Mr. P. S. Witham, Tea Adviser to the Chinese
Government)

<u>Year</u>	<u>Total U.S.A. Consumption Lbs.</u>	<u>From China Lbs.</u>	<u>From Japan Lbs.</u>
1930	83,778,000	8,411,000	15,119,000
1931	85,814,000	8,792,000	16,185,000
1932	93,862,000	6,876,000	16,120,000
1933	95,710,000	8,598,000	16,887,000
1934	73,984,000	7,234,000	14,420,000
1935	85,115,000	7,407,000	13,292,000
1936	80,696,000	6,281,000	14,649,000
1937	93,252,000	7,276,000	16,763,000
1938	80,587,000	4,783,000	12,190,000
1939	96,500,000	2,279,000	14,728,000

June 19, 1940
8:45 a.m.

GROUP MEETING

Present: Mr. Graves
Mr. Haas
Mr. Nelson
Mr. Young
Mr. Thompson
Mr. Gaston
Mr. Schwarz
Mr. Harris
Mr. Cochran
Mr. White
Mr. Bell
Mr. Foley
Mr. Sullivan
Mrs. Klotz

H.M.Jr: I apologize, but I have got to go to the White House at 9:30 and I thought you wouldn't mind coming 15 minutes earlier to see my smiling countenance. Incidentally, I cleared this letter. As soon as this meeting is over, you (Cochran) can start working on it.

Did you (Thompson) tell Generalissimo McReynolds about Mr. Wright and the ten thousand dollar job?

Thompson: He thought the thing was for Mr. Wright to go back on the Curtiss-Wright pay roll. It will only be a day or two.

H.M.Jr: Mrs. Klotz, I am under the impression that Dr. Viner did a long paper for us on obsolescence and depreciation. I wish you would dig it out for me. I think Brown wrote me on the same subject.

You were asking, Harry, I think, that Brown and Viner met somewhere in Chicago and wrote me on that subject.

White: You were going to read them over for your own interest or are you going to pass them on?

H.M.Jr: No, I am thinking of calling the group in, the whole group, and make a survey of the whole situation.

White: There was some disagreement on obsolescence which I take it --

(Mr. Sullivan entered the conference.)

H.M.Jr: This is your chair, Sullivan.

Sullivan: This is more comfortable in the early morning. I was up before you were, too.

White: Now we understand why you want a soft chair.

H.M.Jr: Do you care to tell teacher what you were doing all the time?

Sullivan: Not just now. I have been up since a quarter past four.

H.M.Jr: All right, I will let it rest.

Sullivan: That will be fine.

White: That is exactly what he wants.

H.M.Jr: Where were we?

White: We were on depreciation.

H.M.Jr: I think we had better skip that now.

White: All right, we will go to obsolescence, then. I think that at that time there were some discussions that we have had with the Legal Department and there were differences in points of view, and I am wondering whether if you are going to call a meeting you might

like - I would like an opportunity, probably, to prepare another memorandum. You would have three or four then.

H.M.Jr: Well, when I get this original Viner memorandum, and the one from Brown, I want to talk to Sullivan about it, when he comes up for air, but I am thinking of calling a meeting on it, see.

White: Because there still is a difference of opinion which both the Legal Department and myself had with that memorandum.

H.M.Jr: I want to read Douglas Brown's memorandum, which I haven't read yet. As I remember, it was entirely on legal grounds, wasn't it?

Foley: No, I don't think so at all. Jake just has a different conception of the whole business.

H.M.Jr: He says it is legal.

White: Who says that?

H.M.Jr: Viner says it is the lawyer's view.

White: On obsolescence?

H.M.Jr: Yes.

White: Oh no. What did he write the memorandum on, then?

H.M.Jr: On the law. All right?

Foley: I guess so.

H.M.Jr: He was interpreting the statute, wasn't he? Am I not right?

Sullivan: Yes, I think you are, sir.

H.M.Jr: Yes, he was interpreting the law. Let's all take a look at it again. You (Mrs. Klotz) find it and make it available. I mean, when

somebody goes at me as hard as Viner does, I am not going to take the position that the Treasury is right, and I want to re-examine the thing. I don't think that is right, and I want to open it up and take another look at it, and then if it is legal I want to bring down Jim Landis and Lloyd Garrison and Greenbaum, and let them take a look at it and then let Viner bring a couple of his cohorts and we will open it up again and take another look at the package. We will bring down Douglas Brown, who, incidentally, is a peach.

Dan?

Bell:

There has arisen a question of the authority of the Federal Reserve Banks to turn over funds to foreign governments belonging to the central banks of issue, and they have been discussing the matter with the State Department, Treasury, and the Federal Reserve Board with a view to getting legislation permitting them to do that on a certification of the State Department as to the proper authority to which it should be turned over. In the discussion, there was also brought up the question of turning over all of these foreign assets held in this country to the foreign government. In other words, it is in effect enforcing the exchange control outside of the borders of the country involved. We had a conference yesterday and probably will have another one today.

I have taken the position that I think we ought to confine it certainly to the Federal Reserve Banks and the balances of the foreign governments and the central banks, even though the central banks may in some cases involve private property. I didn't think we ought to go to Congress at this time to try and get authority to turn over private property to the foreign governments to prosecute this war. Have you any thoughts on it?

H.M.Jr:

No, I put you down for 10:30, giving you a half hour. I can clear you then. This is too - I can't take it just like that.

- 5 -

Bell: I just had wondered if Congress wouldn't raise some very doubtful questions as to where we are going if we throw into their laps at this time the question of taking over private property in this country and turning it over to foreign governments.

H.M.Jr: Did you talk about it to anybody?

Bell: Yes, to Cochran.

H.M.Jr: Who favors it in Treasury?

Bell: Well, I think Bernstein favors it a little. I don't know how Harry stands on it. The State Department is a little in favor of it, not so much doing it at this time but getting the authority because we might want to do it.

H.M.Jr: Let it stew a little bit and bring it up again, will you, Dan?

Bell: There is going to be a meeting, however, today on the legislative end of it. I thought we might go for the legislation on the Federal Reserve Bank end and get it through the House, and then if the other develops, that would be something.

H.M.Jr: We will talk it over with the gang on this thing.

Bell: All right.

H.M.Jr: What else?

Bell: That is all, if I am going to see you.

H.M.Jr: Harold?

Harry?

White: The trade agreement meeting was specific on the renewal of a trade agreement with Russia. There was a good deal of discussion about it. I merely want to raise the question

to see whether you have any interest in it one way or another.

H.M.Jr: No interest.

White: So far we have taken no action.

Harris: No movement on that boat up until 8:30 this morning.

H.M.Jr: Did you know that Bell gave them 300 thousand dollars to move it last night?

Harris: No.

H.M.Jr: He did.

Bell: We released 300 thousand but there is a libel on some of the salaries and lawyers' fees.

Foley: No, arising out of the claim involved --

Bell: There was some claim against the 300 thousand.

Foley: They libeled this boat, which is owned by the same line.

H.M.Jr: Anything else?

Harris: All quiet.

H.M.Jr: I will be glad to receive a memorandum from you saying what the American ship owners are going to do between here and Europe, where they are sending their boats, and all that sort of thing. I would like to know what is going to happen.

Harris: Saying where the American ships are going?

H.M.Jr: Yes.

Harris: Well, they just aren't going - yes, I will give you a memorandum.

H.M.Jr: I also would like to know if there is any traffic between the United States and Norway

H.M.Jr: Well --

White: Did you notice in this morning's Times a news note with reference to the transfer of balances and the reason why they might be transferred?

H.M.Jr: Yes. Well, this thing from now on goes the regular routine way, see.

Cochran: All right, sir.

H.M.Jr: And then Mr. Harris can notify Customs and Public Health right away.

Cochran: All right, sir.

H.M.Jr: Special ships coming in.

Cochran: That is all.

Foley: Nathan Straus called up yesterday.

H.M.Jr: Did he invite you to go on the moonlight ride?

Foley: No. He said that their committee had agreed to report out his bill giving him 5 million dollars additional annual contribution money so he could utilize the remaining 150 million dollars of borrowing power and take care of housing for rural areas to reduce the maturities on bonds. They didn't do anything about perfecting amendments he wanted in connection with their financing of the local housing authorities. He wanted to know if you would be willing to call up Stegall and ask Stegall to consider it. The bill has been reported out 13 to 8 and I think it is - I spoke to Dan about these amendments. I think there is some question as to whether we would be willing to go along on these amendments anyway that he is asking for.

H.M.Jr: Did you get a message from me?

Foley: Yes.

and the United States and Russia on the East Coast and how are we going up to the - around Murmansk way, I mean, how are they getting stuff into Sweden?

Harris: I don't think anybody is moving at the moment.

H.M.Jr: Anything into Norway?

Harris: One boat started for Petsamo, but I think she was sunk on the way.

Cochran: We had a report of one gold shipment from Sweden coming out through Petsamo last week.

Harris: That is out by now.

H.M.Jr: Did you see that thing that ten airplanes arrived in Jugoslavia from Switzerland with gold?

Cochran: Yes sir.

H.M.Jr: Is that near any port that they could go from Jugoslavia down to anywhere?

Cochran: Well, they have a Mediterranean port but --

White: They would have a hard time getting by the Italians.

H.M.Jr: Jugoslavia has a Mediterranean port?

Gaston: Adriatic.

Cochran: Yes.

H.M.Jr: Anything else, Basil?

Harris: No sir.

H.M.Jr: George, don't I get my new engine figures today?

Haas: They should be out there now. They were just assembling them when I came in, so you will have them by nine o'clock.

H.M.Jr: Chick, I am preparing a memorandum for you. If you will see me right after lunch, I will have it for you.

Schwarz: Fine.

H.M.Jr: It is something I think you could use. What do you know, anything?

Schwarz: The only thing, I might call your attention to the Chicago Tribune Press Service story about the torpedo boats, Senate Naval Affairs Committee.

H.M.Jr: What was the gentleman's name who gave it out?

Schwarz: Was it Walsh?

Gaston: Something like Compton, I think.

H.M.Jr: What was the man's name?

Schwarz: They referred to Senator Walsh.

H.M.Jr: What was the fellow's name? What was the story?

Schwarz: About the transfer, the release of torpedo boats by the Navy to England.

H.M.Jr: Is that all it said?

Schwarz: They were trying to make it appear like a scandal, a secret.

Harris: They said you gave the permission.

H.M.Jr: Who said so?

Harris: Compton.

H.M.Jr: What was his name?

Gaston: Louis Compton.

H.M.Jr: This is for the benefit of Nelson. You got it, didn't you? You saw the story. Did you read the story?

Nelson: No, sir, I just saw the headline.

H.M.Jr: Compton says he doesn't know, all he knows is that the Secretary of the Treasury told him to do it. What a pal! I hope they call me up on the Hill, and I will say, "Mr. Compton said that. All right, did he ever talk to me? No. Well, who gave him the order? Has he got anything in writing? Well, on what authority did he do it?" Oh baby, won't he squirm then. He never talked to me about it. You might check that, Mrs. Klotz. I am 99% sure, but just check it.

Foley: He was here at a meeting.

H.M.Jr: That wasn't settled then.

Foley: It might not have been settled, but it was discussed. He was crabbing about the fact that he was only keeping two of each design.

H.M.Jr: It had already been passed on about a week or two before. I don't go down the river with him.

Sullivan: Maybe I can fix it up.

H.M.Jr: No, as a matter of fact it amused me. It was very nice. I had a nice talk with Stark about it this morning. This was just a little private conversation Nelson and I had.

John?

Sullivan: Have you heard from Mr. Thompson about the Philadelphia WPA project?

Thompson: It hasn't reached my desk. I expect it today.

Sullivan: I see. Well, I have had telephone calls from Harry Hopkins and Leon Henderson and Jerome Frank. Riefler is very much interested in its continuation, and I think we should --

- 10 -

H.M.Jr: What is it?

Sullivan: We have a large WPA project in Philadelphia --

H.M.Jr: Doing what?

Sullivan: Statistical work on income tax returns.

H.M.Jr: I don't know a thing about it.

Sullivan: I would like to talk with you before you decide to discontinue it, if you are inclined that way. I think very much --

H.M.Jr: I can't be inclined because I don't know anything about it.

Thompson: It has been running for three or four years.

H.M.Jr: Did I know about it?

Bell: Recently, I think.

Gaston: It is all WPA funds.

Thompson: The question of carrying --

H.M.Jr: Bell and Norman, they are generous.

Thompson: I think it is all right.

Sullivan: This would be a very poor time to discontinue it, I think. Senator Maloney yesterday was very much interested in a friend of yours by the name of Alexander of FAA and he spoke about having tried to get him on the Federal Reserve Board, and I said I thought there was a vacancy there.

H.M.Jr: I was saving that for Compton.

Sullivan: One of the boys telephoned down and there is a vacancy that has always existed on the Board and I advised the Senator and he said what had he better do and I said, "Well, why don't you speak to the President about it?" He said he thought he would and he wondered if the Treasury could be helpful

over there and I said I didn't know how helpful we could be openly but I would be glad to talk with you and see whether or not you had any objection. It would be quite helpful to us over there, because I think there is going to be a good deal of difficulty between --

H.M.Jr: Are you serious?

Sullivan: Yes.

White: Who is it?

H.M.Jr: There is much --

Sullivan: He is a banker.

White: What of it?

Foley: Last Saturday --

H.M.Jr: Even I couldn't swallow that.

Foley: Last Saturday Bill Douglas called me up and said that he had tried to get hold of you and said that Alexander - he brought Alexander down here.

H.M.Jr: Bill Douglas did?

Foley: Sure. He was very much interested in Alexander and he hoped you would take care of him.

H.M.Jr: Bill Douglas?

Sullivan: Yes. He packs a lot of guns around this town.

Foley: He brought him down and he was a very good friend --

H.M.Jr: I've got to call up Homer Cummings and apologize to him. I thought he brought him down.

Foley: No, Bill said he did it.

- 12 -

H.M.Jr: Strike Bill Douglas off my list for Vice President.

White: That still leaves him with enough rope.

H.M.Jr: Not where he may need it most, though.

Foley: Harry Hopkins almost nominated Bob Jackson for Vice President yesterday. Maybe it was for President. It was over at the Press Club yesterday.

H.M.Jr: Yes, I heard about it.

Foley: I never heard such a eulogy of one man as Harry gave Bob. Harry, incidentally, did a swell job. He made a very, very good speech, awfully good.

H.M.Jr: Good.

Gaston: He announced what the President was going to announce later in the afternoon.

H.M.Jr: Then you are all taken care of?

Sullivan: I'm all what?

H.M.Jr: Taken care of.

Sullivan: I don't know, what do you mean?

H.M.Jr: You got everything you asked for, didn't you, this morning?

Sullivan: I don't know. I am anxious to see that Alexander gets - if there is anything available for him outside of FAA --

H.M.Jr: I couldn't recommend him for Federal Reserve. I just couldn't do it.

White: For Federal Reserve?

H.M.Jr: I couldn't do it.

Sullivan: He was a banker before he came down here, you know.

H.M.Jr: I heard you the first time.

Sullivan: Well, he also was a campobello in the old days and it might not be bad to have one friend over there.

H.M.Jr: No, I couldn't.

Sullivan: Well, at least I tried to get rid of him.

H.M.Jr: All right.

Bell: Treasury promised to take care of him if this reorganization went through.

Sullivan: That is right, and we have to --

H.M.Jr: That is what Sullivan is squawking about. It is his responsibility.

Sullivan: No, we are taking care of him, but there is going to be a good deal of friction between him and Berkshire, I am afraid.

H.M.Jr: My money is on Berkshire. He is a tough guy. What else?

Sullivan: That is all, sir.

Nelson: The committee appointed by the President to study that question of purchasing has a tentative report. If you have any time this morning, I would like to show it to you. We haven't submitted it yet, and we will sign the permanent one this afternoon so if you have any suggestions --

H.M.Jr: Ten fifteen?

Nelson: That will be fine.

H.M.Jr: Incidentally, in talking with Stark this morning he said that he didn't know whether the English - although we told them to put in a formal request for those 20 boats, but he said if they haven't - you remember Admiral Spear stayed behind a week ago and we told Purvis to do it and Purvis said

- 14 -

he would do it that day. Could you, Phil, find out whether they have or haven't?

Nelson: I thought he had. We asked for that 15 times.

Young: I think it is done.

H.M.Jr: If they haven't, it may be too late and they have got nobody to blame but themselves. Will one of you gentlemen find out?

Young: We both will.

Nelson: Both of us.

H.M.Jr: All right.

Phil?

Young: No comments.

Cochran: The State Department wanted to send a reply to that message so after Dan and I talk it over, I will draft one up that you will probably want to see before it goes. And then this afternoon we are going to do some telephoning the last thing and I will come in if you like.

H.M.Jr: As long as the State Department knows, you can do your telephoning now and tell Mr. Harris about it now.

Cochran: All right, so you won't have to phone.

H.M.Jr: No. Let Mr. Harris handle it. If the State Department knows about it, certainly we can tell our own staff about it. So I would go right along and tell Mr. Harris about it.

Cochran: That is all.

H.M.Jr: This is something that I have been handling - you know about it don't you?

Bell: Well, I don't know.

- 16 -

H.M.Jr: Eleven thirty? Have you any meetings this morning?

Foley: No.

H.M.Jr: You come and see me at eleven thirty.

Foley: Yes. Do you want me to see the man first, before eleven thirty, Knudsen?

H.M.Jr: Well, here is what Mr. Knudsen said last night. It upset me a little bit. He said, "We are going ahead with this thing in Curtiss-Wright on an 8 year basis, obsolescence." I said, "Oh, Mr. Knudsen, we agreed that you couldn't do that and when you and Stettinius were over here, we did that whole thing." "Well," he said, "that is what a plant should be. I say it takes 8 years." I said, "We agreed we couldn't do that, we went all over that." He said, "It works out that way anyway." I said, "Well, Mr. Knudsen, we went all over that." So then he said, "Well, this thing, if they pay back Curtiss-Wright - I think it is 600 dollars per unit, it will take them 8 years to pay the money back," but I said, "Don't you remember you and I agreed we couldn't do it?" and then he said something about, "You told the President about it," and I said, "I told the President something quite different." So he said that he was studying the thing personally last night and that he had Jones' comments and ours, your memorandum which I have not yet read and which I want to go over with you, so he said, "Well, Foley sent me a memorandum on it." He said, "Does that express your wishes?" and I said, "Well, frankly, I haven't read it but I am willing to sign my name to it sight unseen if Foley wrote it," so then he said he wanted to go over - he said, "Well, have you any interest in this contract with Curtiss-Wright?" and I said, "None whatsoever." I said, "We have got the license." He said, "How much did they pay?" and I said,

- 17 -

"I don't know." So he said, "Well, Mead said that we were going to pay \$250.00 to Rolls Royce on that licence for the United States and we pay a lump sum." Now, when you come, make a note. I want to write a letter to the President and the Director of the Budget to earmark "X" millions of dollars for the British Government to buy outright the Rolls Royce license, outright, you see, but I think that Mr. Knudsen - he seemed to be all mixed up on the thing.

Nelson:

May I add something to that, because I argued with his men last night until one o'clock. I was talking to Carl Adams and McCabe and all of them and they are all mixed up on that, Mr. Secretary. I would suggest if we could get together with a group of those men and Mr. Foley, maybe they can work on Mr. Knudsen. I talked to Mr. Knudsen yesterday about Mr. Foley's memorandum and he seemed to be perfectly clear on it, said it looked all right to him.

H.M.Jr:

Well, maybe - may I be, in the room here, strictly confidential and frank? I am going on the theory that Mr. Knudsen does business the way I do until I have proven otherwise, but you see if there was anybody else - he left me with the feeling he was trying to go back on the thing to luncheon which you were present at and trying to use the formula which he brought over here, the 8 year formula, which we told him we couldn't, and then he said I got the President to clear it. That isn't what I want to see the President about. I want to see the President on that thing that we loan these people the money and then they pay us back per unit as they deliver each unit of manufactured product. You sat in on all that stuff, and Knudsen sat in on all that thing and we drew up a contract and he wrote out a contract in his own hand. Now, we can't do what - let's call it the original Knudsen formula. We just can't do it. We can't because we explained

to him that it is the law. We can't bend the law.

Nelson: I told them all last night.

H.M.Jr: And I talked about the thing, but I don't know the man well enough so I am giving him the benefit of the doubt and saying that he was confused. So I said, "Now, Mr. Knudsen, from the best of my memory, let me go over this thing step by step." I went over the luncheon and told him that we decided he couldn't do it and then reminded him what we could do and everything else. I reminded him why I had gone to see the President, why I had told him to clear it with the President the same day. He said, "That is right." Then I said, "You know, I don't bluff, Mr. Knudsen," and he said, "Do you think I do?" and I said, "I am not saying that you do but I don't." Does what I am saying check with what --

Nelson: Yes, but he just doesn't understand it, Mr. Secretary, and none of his men know what his conversation was with you or Foley and they are all sitting over there arguing days about this other method and I say until 12 o'clock last night I told them definitely what you had said and Mr. Sullivan and Mr. Foley and that the other was out. Now, they are still writing memoranda to each other and they are working on Knudsen on this obsolescence and depreciation. I think I drove it home, but I am not sure.

H.M.Jr: Well, there is no change. I have done nothing that you people don't know about and I am going under the theory that everybody can misunderstand, but unless - I am willing to be innocent, you see, if you get what I mean.

Nelson: I am sure, Mr. Secretary, that it is a case of his just not understanding what Mr. Foley's memorandum is about and he

has not talked it over with any of his people.

H.M.Jr: Well, wouldn't --

Foley: Well, my memorandum - all I did was to revise the contract in the light of our conversation.

Nelson: That is right, definitely.

Foley: And I included the points that were decided here and you asked me to add to the contract, that is all.

H.M.Jr: The part I don't like about this thing is, you see, a friend of mine said, "Well, there are all these whispers coming out of the Federal Reserve that you are blocking," and all that. Well now, Knudsen told me when he heard this thing that, "This is what I have been looking for for eleven days, and now we can go ahead," and he was just as tickled as a child. Now, what I would suggest is this, Nelson. Supposing you and Foley ask Knudsen to arrange a meeting before he comes over here and get everybody in there into a room and lock the door.

Nelson: That is the thing to do, sir, and get them all of one mind.

H.M.Jr: But get him before he comes over for lunch, because I don't like to do it at lunch and I have done it all and I am not going to change, because there is no reason to change. And you and I and Foley agree it is a workable plan. Have you changed your mind?

Nelson: Not a bit. Not one iota. The plan is workable and I think it is good.

H.M.Jr: Well, I am going to add you and Foley to luncheon hour today, just because - if we have got to do this thing all over again - I mean, what the heck. What?

Nelson: Yes, sir. May I suggest if Knudsen would bring over Jack Biggers, I think everything would be straightened out.

Foley: Oh no.

H.M.Jr: No?

Foley: No, I think - let's talk to him ourselves, without bringing him over because I think that is the trouble.

Nelson: Well, but they don't --

Foley: Biggers is the trouble. He has brought Blackie Smith down and Blackie has brought down a partner of his by the name of Eaton, and Knudsen won't work with Eaton or Blackie and they are trying to foist their ideas onto Knudsen. As I see it, over there Knudsen is the only one that is doing anything and the rest of them are trying to figure out what Knudsen is doing, and they are trying to draw him into the organization by putting these lawyers on him.

H.M.Jr: Do you mind my revising myself again? Up to now I like Knudsen and I trust him. Let me have Knudsen for lunch alone. Do you mind? But you two men ask Knudsen - tell him that you would like to see him before he comes over here.

Nelson: All right, sir.

H.M.Jr: And have in the room anybody you want, but you and Foley had better get together and do a little planning, would you, just as soon as I leave here?

Nelson: We will do it, sir.

H.M.Jr: If you don't mind, I think I had better have Knudsen alone because so far he and I have gotten along fine and from what he said last night he wanted to be with me alone. You don't mind?

Nelson: Not at all.

H.M.Jr: Ed?

- 21 -

Foley: I think that is better, because he is the kind of fellow that works alone anyway. He doesn't like to have a lot of people around.

H.M.Jr: If you and Ed, the minute I go out of here - I am leaving out of it John because you (Sullivan) have got all you can do on the Hill. Right? That is the only reason I am leaving you out. I think two men had better - and incidentally, Biggers was pouring a lot of stuff into Hopkins' ears which doesn't help us any either. I am convinced that when Knudsen left here he was satisfied and he told me that Jones was satisfied.

Nelson: He showed me Jones' letters. This was as late as yesterday morning. You sent me over there at eleven o'clock. I saw him and talked to him about it. He seemed perfectly happy and showed me the things in Mr. Foley's memorandum that he liked.

H.M.Jr: I would like to see Nelson and Foley at eleven thirty. At that time you can report to me. That gives you two hours. X

Nelson: All right, sir.

H.M.Jr: Right? It gives you two hours. ✓ ~ ~ ~

Nelson: Then our ten fifteen date --

H.M.Jr: No, that is your own business unless you have to go across.

Nelson: I thought you wanted us to go over with the men.

H.M.Jr: I do. I will cross that off.

Nelson: All right, sir.

H.M.Jr: But I mean this job of selling this thing all over again to everybody over in that shop is just - I haven't got the strength to do it.

Nelson: Well, I worked until one o'clock last night

- 22 -

trying to sell it to another group.

H.M.Jr: Is Jones satisfied?

Nelson: Yes, Jones is perfectly satisfied. I saw Jones' letter and Jones' memo on this Curtiss-Wright thing and it seemed to be perfectly clear.

H.M.Jr: Well, just remember that, again talking very much in the room, those people who aren't doing anything, it is the easiest thing to say, "Well, we can't do it on account of the Treasury."

Nelson: May I tell you, if you have got just a minute, just what happened here and how it went astray? You see, Mr. Knudsen talked to you and Mr. Stettinius was here at lunch also. Now, Stettinius went back and he got his whole group working on this same thing. Blackie and Eaton have been working with Stettinius rather than with Knudsen and that - Stettinius' group have been working on it and they won't get this idea of depreciation out of their minds. I think they did after last night. Then Mr. Knudsen hasn't communicated at all with Jack Biggers and he has been working on it. Only three people have been working on it.

H.M.Jr: Well, it is a nice job for you and Foley.

Nelson: All right, we will do it.

H.M.Jr: Ed? Eleven thirty.

Herbert?

Gaston: Well, I wanted to talk about this matter --

Foley: I have a couple of letters here. I am not through.

H.M.Jr: What letters? I have got to go. I have got to go to the White House. Leave them with Mrs. Klotz. After I leave, tell Mrs. Klotz about them.

- 23 -

Gaston: You won't have time now, but I wanted to raise this question about the oil shipments to Spain. I will talk with Harris and Cairns and Foley if you don't mind.

H.M.Jr: Will you, please?

Gaston: Perhaps I could see you later about it.

H.M.Jr: Sure, tell Mac.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Sterling opened at 3.58-3/4, about 3¢ lower than yesterday's close. It moved within a narrow range all day and closed at 3.57-1/2.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £245,000, from the following sources:

By commercial concerns.....	£ 75,000
By foreign banks (Europe, Far East and South America).....	£129,000
By the Federal Reserve Bank of New York (for Yugoslavia).....	£ 40,000
Total.....	£245,000

Purchases of spot sterling amounted to £209,000, as indicated below:

By commercial concerns.....	£116,000
By foreign banks (Europe, South America and Far East).....	£ 93,000
Total.....	£209,000

The following reporting banks sold cotton bills totaling £4,000 to the British Control on the basis of the official rate of 4.02-1/2:

£3,000 by the National City Bank
1,000 by the Guaranty Trust Company
£4,000 Total

The Irving Trust Company reported that it had purchased £9,000 from the British Control at the official rate of 4.03-1/2, the funds to be used to pay for rubber shipments.

The Swiss franc, which has remained in the neighborhood of .2242 for some time, strengthened to .2255 this afternoon. It was reported that most of the demand for this currency emanated from Switzerland. Today's purchases may represent a Swiss repatriation of capital induced by the feeling in that country that the present situation in Europe makes an invasion of Switzerland less likely. New York trading in Swiss francs was described as light. The closing rate for that currency was .2247.

The other currencies experienced no appreciable movement and closed as follows:

Canadian dollar	19-7/8¢ discount
Lira	.0505
Reichsmark	.4000
Cuban peso	10% discount
Mexican peso	.1818 bid, .2000 offered

CONFIDENTIAL

93

- 2 -

We purchased \$20,700,000 in gold from the earmarked account of the Bank of France.

The Federal Reserve Bank of New York reported that the Bank of Canada, Ottawa, shipped \$2,025,000 from Canada to the Federal for its own account, for sale to the U.S. Assay Office at New York.

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

\$50,000 shipped by the Chase National Bank, London, to its head office at New York.
40,000 shipped by Samuel Montagu & Co., London, to the Central Hanover Bank and Trust Company, New York.
\$90,000 Total

The report of June 12 received from the Federal Reserve Bank of New York, giving the foreign exchange positions of banks and bankers in its district, revealed that the total position of all currencies was short the equivalent of \$18,095,000, a decrease of \$1,144,000 in the short position. The net changes in the positions are as follows:

Country	Short Position June 5	Short Position June 12	Decrease in Short Position
England	\$ 5,981,000	\$ 5,283,000	\$ 698,000
Europe	8,760,000	8,100,000	660,000
Canada	135,000 (Long)	248,000 (Long)	113,000 (Increase in Long Position)
Latin America	180,000	81,000	99,000
Japan	3,606,000	3,827,000	221,000 (Increase)
Other Asia	816,000	996,000	180,000 (Increase)
All others	31,000	56,000	25,000 (Increase)
	<u>\$19,239,000</u>	<u>\$18,095,000</u>	<u>\$1,144,000</u>

It is interesting to note that the short position in sterling was reduced by only \$698,000 in the week under review, even though Britain's new exchange regulations, greatly diminishing the utility of free sterling, came into effect during this period. The sterling commitments of two reporting institutions, incidentally, account for nearly 80% of the total short position in that currency.

The Bombay gold price rose the equivalent of 66¢ to \$35.45.

Spot silver in Bombay was equivalent to 43.97¢, up 1-1/8¢.

In London, spot silver was fixed at 23-1/8d, off 1/8d. The forward quotation, however, rose to 21-15/16d, up 7/16d, reportedly on the purchase of forward silver by Indian interests. The U.S. equivalents were 42.04¢ and 39.88¢.

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

The only purchase of silver made by us today consisted of 40,000 ounces from the Bank of Canada under our regular monthly agreement.

June 19, 1940
10:32 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles. Go ahead.

Sumner
Welles: Good morning, Henry.

H.M.Jr: Good morning.

W: Henry, would it be possible for you to attend a meeting this afternoon at 3:30 to take up that report to the President?

H.M.Jr: At 3:30?

W: Yeah.

H.M.Jr: Sure.

W: That will be fine.

H.M.Jr: Now, I tell you what I'd like to do though. It's at 3:30?

W: Yes.

H.M.Jr: I'd like to see you a little bit before.

W: I'll be entirely at your service.

H.M.Jr: Well, supposing I come to your office at 3:15.

W: All right, Henry.

H.M.Jr: And then you can give me a little of this background because there's so much intrigue going on I can't understand it.

W: Intrigue?

H.M.Jr: Intrigue.

- 2 -

W: What way?

H.M.Jr: Well, you never know -- they do that in Washington.

W: (Laughs) I've heard the word before, but I didn't know that it had got into this business. All right.

H.M.Jr: Well, I'll drop by your office at 3:15 and then I take it we go in to see Mr. Hull at 3:30, is that it?

W: He's not going to be here. He's leaving.....

H.M.Jr: Oh.

W: to go up to Boston.

H.M.Jr: I see.

W: But the rest will be here.

H.M.Jr: I'll be there -- I want fifteen minutes head start.

W: Grand.

H.M.Jr: All right.

W: Good-bye and thanks.

June 19, 1940
10:40 a.m.

H.M.Jr: Hello.

Operator: General Magee.

H.M.Jr: Right. Hello.

General James
C. Magee: Good morning, Mr. Secretary.

H.M.Jr: Good morning, General. I just got back from the White House. I'm sorry that I couldn't keep my end of the appointment.

M: Well, that can't be helped, I know that.

H.M.Jr: General, what I wanted to ask you, did Admiral McIntire talk to you about this Mt. Sinai Hospital?

M: Yes, that's why I called you.

H.M.Jr: Yes.

M: Now, I'll try to explain the situation.

H.M.Jr: Please.

M: You know in the last war, we had fifty base hospitals, or general hospitals as they're now called, sponsored under the auspices of the Red Cross by various large institutions throughout the country, of which Mt. Sinai was one. Well, after the war, for reasons that there's no use discussing, that plan was departed from. But here during the past year we found we had to go back to it and finally secured authority. But under the mobilization plan we're only allotted at present thirty-two general hospitals.

H.M.Jr: I see.

- 2 -

M: Well, now -- and some evacuation of some general, I mean, some surgical. Well, now in approaching institutions in an effort to have them sponsor these units, we felt that for sentimental reasons influenced in certain instances by geographical considerations that we ought to offer them first of all to the institutions that fostered those fifty original ones. Now, of course, that would have taken in Mt. Sinai and Yale and others if we had had the fifty to go around.

H.M.Jr: Yes.

M: But we haven't. However, I know this, that the thirty-two hospitals that are allocated to us under the mobilization plan is an entirely insufficient number. I have made representations to the War Department and have been most insistent and I believe I am on the path to a correction, and instead of thirty-two we should have a hundred and two to begin with.

H.M.Jr: Yes.

M: Now, Mt. Sinai is certainly one of the hospitals that we would not think of passing by. We want to avail ourselves of their capacity just the same as we do of Yale University and of Roosevelt Hospital and a great many other fine institutions throughout the country. But as it is at present, I'm not able to approach them because I haven't got anything to offer them.

H.M.Jr: Well, General, isn't this the situation -- I mean, you going now from 180,000 to 400,000 men and certainly with the Army more than doubling what they thought they were going to have thirty days ago, they certainly must provide more hospitals.

M: Well, what this is, this is a little bit different from that. This is not a peacetime proposition at all.

- 3 -

H.M.Jr: I understand.

M: You see, in peace time our hospitalization is taken care of by our fixed general hospitals. This is based entirely on the P. & T., which calls for a million three hundred thousand men.

H.M.Jr: Well, I went all through that with General Marshall but

M: And none of these would be called to active duty until some time after mobilization was declared.

H.M.Jr: But, you see, here's -- who decides how many hospitals -- who makes that decision.

M: Well, that is decided by the General Staff, but I think their figures were wrong -- this is in confidence, of course.

H.M.Jr: I understand.

M: Because I've taken it up with them and I was talking to G-3, the Plans and Training, last week about it and have official letters in. I don't anticipate any trouble -- I think we'll get it, but it's slow. But none of those hospitals will be called until after mobilization was declared. The rate at which they will be called, I think, is too slow. That's another point I brought up.

H.M.Jr: But is it under that plan you're only allowed thirty-two hospitals, is that it?

M: Yes.

H.M.Jr: Only thirty-two.

M: Yes.

H.M.Jr: And you want

M: I think -- my computations show that for the P. & T. without any augmentations, we need a hundred and two.

H.M.Jr: Well, what are the chances, you think, of that?

M: Oh, I think we'll get it. You see, after all it's just paper organizations at present and not costing the Government a cent and I don't see any reason why they should object to having them established, because we're certainly going to need them. And the medical profession throughout the country is very insistent that they be given some word as to how they can help.

H.M.Jr: That's right.

M: And I'm very, very anxious to have them.

H.M.Jr: Well, what -- am I not correct that Mt. Sinai rated very high in

M: Oh, yes, that was a splendid unit.

H.M.Jr: Yes.

M: Yes, that was a splendid unit, and there are other institutions in New York, too, that are

H.M.Jr: Well, you see my father is Honorary Director of this hospital and he sent it down and he'd like me very much to do it and I'd like to do it because I know it's such a splendid organization.

M: Oh, yes. As it is now, I couldn't approach them without writing to some other hospital and say, well, I offered this to you, but I'm going to take it away from you now.

H.M.Jr: I see.

M: I can't do that very well.

H.M.Jr: You think it's a matter of a week or ten days, maybe.

M: Oh, it may be longer than that, I don't know. I can't tell how fast the staff will work,

- 5 -

but when I made the original allocation, I talked it over with my Plans and Training and reserve officers and so on and we made what seemed the justest application. Now, I know that it hasn't been satisfactory to a number of very important institutions. They feel that they're capable of much bigger things than they have been asked to do so far.

H.M.Jr: Would it be at all helpful if I mentioned it to General Marshall? I see him all the time.

M: Why yes, that's all right.

H.M.Jr: Not just as to Mt. Sinai, but that you need more hospitals.

M: Well, tell him I was discussing it with you and my needs call for a good many more.

H.M.Jr: Or would you rather I didn't.

M: Well, it's all right. Of course, I don't know how he would take it. I've already made an official report and I don't know whether he would think that I was trying to bring outside pressure to bear upon his decision on that, you know.

H.M.Jr: Uh-huh.

M: But I certainly just as soon as I get the authorization, and I'm sure it will come through in reasonable time, why Mt. Sinai is one of those that we'll approach promptly.

H.M.Jr: Good.

M: And we've had several letters from them and have answered them quite fully. I believe they understand the situation.

H.M.Jr: Well, they sent me a copy of the whole thing.

- 6 -

M: And I can assure you that just as soon as the atmosphere clears a little bit, that we'll ask them to come into the fold and I'll let you know about it

H.M.Jr: Well, if you don't mind, I may follow you up again.

M: All right. All right.

H.M.Jr: O. K. Thank you. Good-bye.

M: Good-bye.

June 19, 1940
11:15 a.m.

H.M.Jr: Mac?

Wm. H.
McReynolds: Yeah.

H.M.Jr: I wouldn't have called you to come in but it happened to affect you personally, and it was brought to my attention today that they're working various groups for a new Comptroller General. They were talking about Herbert Emerich, you see, so Dan asked me where I stood and I said that I had once recommended you and unless I knew that you didn't want it, I was still for you.

McR: Well, of course, my attitude on this thing -- various people talked to me, including the President, and I don't know. I've always had a feeling that there was a job down there to be done, and it's pure boasting on my part to say that I was just afraid somebody else wouldn't do the kind of a job that I thought ought to be done. (Laughs) And, of course, under present conditions I couldn't ask for the President to release me from the job I've got here which is a terrible one.....

H.M.Jr: Uh-huh.

McR: in order to take the job that I've felt like I'd like to have. So I haven't had a thing to say about it. I've refused to say anything. And that's just the situation. Of course, I

H.M.Jr: Does that mean that if you were asked to take it, you wouldn't take it?

McR: Oh, of course, I'd take it

H.M.Jr: Well, all right. Well, then as far as I'm concerned, the rest of the Treasury -- they're for McReynolds.

- 2 -

McR:

H.M.Jr:

And so they were getting up -- they were going to line up behind somebody else.

McR:

If -- (Interruption) Don't break in, please. I -- I don't know, I wouldn't try to walk out on this job I've got here, but so far as I'm concerned, I'd be delighted to have it. Of course, it wouldn't be as hard as the job I've got now because I'm working longer hours than I can afford to and I don't see much way out of it. But I'm having a grand time.

H.M.Jr:

Well

McR:

But that's just my attitude. That's a job that I'd like to have, but

H.M.Jr:

O. K. That's all that I wanted to know.

McR:

O. K. Thank you.

H.M.Jr:

Hello.

McR:

Yes.

H.M.Jr:

I'm doing my best, gee whiz, to work with those fellows over there but I want to talk to you about it in the not too distant future.

McR:

Well, whenever you want. I'll break away.

H.M.Jr:

Well, I mean, how early do you leave your house?

McR:

Well, I usually leave there somewhere between half past eight and nine o'clock.

H.M.Jr:

I'm leaving at eight these days.

McR:

Well, I'd be delighted to leave at eight. I'd be delighted to come over any morning at eight o'clock if you

H.M.Jr:

Well, I'd like to talk to you about it. I'm worried about that thing over there.

- 3 -

Do you want to pick me up at eight tomorrow morning?

McR: Eight tomorrow morning. Right-o.

H.M.Jr: How will you remember?

McR: (Laughs) I'll put a note in the other pocket.

H.M.Jr: O. K.

McR: In both pockets.

H.M.Jr: All right, Mac.

McR: All right. Eight in the morning. Thank you very much.

June 19, 1940
11:26 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Lewis
Compton: Hello, Mr. Morgenthau. This is Lewis Compton speaking. I don't blame you for being puzzled about the proposed contracts I sent to you.

H.M.Jr: Which ones are you referring to.

G: Well, I sent you on June 15th a list of preliminary negotiations on negotiated contracts for ships and I should have called you or made some indication in the letter of the background of it, Mr. Morgenthau. In taking up these negotiated contracts with the President, -- you see what I'm trying to do is to get the negotiations completed prior to the -- and in anticipation of the enactment of the law, so that we'll save time on it.

H.M.Jr: Well, now where do I come in on it?

G: Well, the reason I sent them to you, Mr. Morgenthau, was that in discussing this with the President, I took it up with him, and he asked me to give him a memorandum on it. Now I says, who shall I clear these negotiated contracts with, and he said, well, send them over to Mr. Knudsen. And I said, well, how about Mr. Morgenthau. You see, I had just received from you a photo-static copy of a letter from the President that you sent to me indicating that Knudsen was the clearing house for contracts. Then the

H.M.Jr: As far as planes go, I mean, I was relieved of the engines and the planes.

- 2 -

C: Oh, I see.

H.M.Jr: If you'll look at that thing again -- the President just relieved me of the responsibility on engines and planes.

C: Yes. So when I talked to the President about these negotiated contracts, he said, well, send them over to Mr. Morgenthau, too, you see? So that what you got from me was a duplicate of a letter -- I sent the same memorandum to you that I sent to the President and to Mr. Knudsen, you see?

H.M.Jr: Yeah, but Compton, on a letter like that, I mean, we -- as I understand it, the President sent you a letter on Saturday in regard to Vinson-Trammell.

C: Yes, that letter came to Mr. Edison and it just came to my attention about two minutes ago

H.M.Jr: Now, if we're going to do anything on that, I mean, we've surely got to see the contracts.

C: Well, I can get the contract forms over. Of course, they're not signed yet. We can't sign them until the

H.M.Jr: No, but, I mean, those -- those things -- if we're going to do a job on that for the President, we'll have to see them before they're signed. And Mr. Sullivan is the man who handles that for me.

C: Well, then you want me to send the actual physical contracts to Mr. Sullivan.

H.M.Jr: Well, if we're going to do a job, I mean, we can't tell what's in those contracts unless we see them.

C: Well, I raised that question with the President and he said, no, give me a list of them. And I also raised that question with Mr. Knudsen. Now with Mr. Knudsen's group over there, I raised that question, whether he actually wanted to see the contract itself and he said, no, send over a listing.

-3-

H.M.Jr: Well, if we're going to do the job as it was discussed at Cabinet -- the President told Mr. Edison in no uncertain terms, we've got to actually see the contract.

C: Well, then I'll

H.M.Jr: And it will go to Mr. Sullivan's office.

C: Well, I'll get those and send them over to Mr. Sullivan. I think they're all in shape now. They weren't at the time that this letter was written.

H.M.Jr: I promise you we won't hold them up a minute longer than necessary.

C: Well, that's fine, Mr. Morgenthau.

H.M.Jr: I'll try to give you 24-hour service.

C: Now another thing, Mr. Morgenthau, while I've got you on the phone, if I may, I want to speak to you about that publicity in the paper there this morning.

H.M.Jr: Yeah, not so hot.

C: It certainly is not and I want to assure you that the leak is somewhere else. Fact of the matter is, I talked to Senator Walsh this morning about it on the 'phone and he tells me that he knows who it is.

H.M.Jr: Well, who is it?

C: Somebody on his own Committee.

H.M.Jr: I see.

C: And all I know about it is that my telephone started to ring last night at 7:00 o'clock and continued to ring until midnight and the reporters just told me. I didn't tell them, they told me. They said, now is this true, or isn't it true? And I denied the part about asking for a resignation and Senator Walsh had denied it too, I understood

- 4 -

this morning from my talk with him. And I merely told them that we had not sold any boats, we had taken deferred deliveries as a change under the contract the same as we had for aircraft and many other items and that we were getting better boats for it, and, of course, what they tried to do up on the Committee was to get me to say that the President had told me. Now there's one paper that has mentioned your name in it. I didn't mention your name in any conversation that I had with any newspaper man that called at all last night. How your name came into it on the Committee was this: they said, who asked for these boats? And I said, I assume, I said, the inquiry originated from one of the Allied Purchasing Commissions. And he said, who do you -- name the person that you talked to about it. So I said, we don't talk to the Allied Purchasing Commission, as a rule, I haven't seen any of them -- I wouldn't know one of them if they -- I haven't personally met any of them. I said these matters are generally cleared through the Treasury Department who has the job of coordinating all foreign shipments. So that's how that

- H.M.Jr: Well, it was unfortunate, but I take it as a badge of honor.
- C: Well, the fact of the matter is, I've had two Senators call me up and one said he was going to introduce a Resolution to give me a medal for doing it. (Laughs)
- H.M.Jr: I'll say. All right.
- C: But I cleared the meeting before the Committee with the President immediately after it was over. Fact of the matter is, the President told me to go ahead and tell them that he ordered it. It was all right with him, but I said, well, I wouldn't do that without his so telling me.
- H.M.Jr: O. K.

- 5 -

C: So that I refused to tell them when they put me on the spot.

H.M.Jr: Well, thank you for calling.

C: Say, now, Mr. Morgenthau, there's one other darned thing I've got on my chest here this morning. This Captain Williams, who is Vice President of the Newport News Shipbuilding and Dry Dock Company, is very anxious to see the -- Mr. Sullivan. Do you suppose that could be arranged?

H.M.Jr: Oh, sure. What name?

C: Mr. -- it's Captain Williams.

H.M.Jr: Captain Williams.

C: Captain Roger Williams, and he's the Vice President of Newport News Shipbuilding and Dry Dock Company. That was the company that was owned by a wealthy old man named Huntington.

H.M.Jr: I know -- we know him.

C: They're buying out the Huntington interests and they've got to get some counsel and advice from Treasury in order to consummate their transfer. Until they get counsel to transfer they can't enter into definite negotiations with us - that's the only interest I have in it.

H.M.Jr: Well, I'll get word to Mr. Sullivan's office that Mr. Williams will call him on the phone for an appointment.

C: To matters I -- ah -- I want to be thoroughly frank with you, Mr. Morgenthau. I tried to get an appointment for Mr. Williams with Mr. Sullivan and Mr. Sullivan was busy today and couldn't see him.

H.M.Jr: Well, he's on the Hill -- if he can't see him I'll have Foley see him.

C: You couldn't see him yourself, could you?

- 6 -

H.M.Jr: No, I don't want to get in on that -- I'm just too tied up -- I can't but I'll have either Sullivan or -- I'll tell you what you do

C: I think he has seen someone down the line there -- whether it was Mr. Foley or not I don't know.

H.M.Jr: Let him call up Mrs. Klotz -- K-l-o-t-z, and she'll arrange an appointment for him to see either Sullivan or Foley today. Hello.

C: All right -- well, could he see Sullivan tomorrow?

H.M.Jr: Well, I don't know -- she'll fix it -- she's sitting here now -- Mrs. Klotz you know her.

C: Oh, yes, Mrs. Klotz is your Secretary.

H.M.Jr: Yes.

C: I see.

H.M.Jr: And if he'll call her she'll see that he sees Sullivan today or Foley, but she'll fix him up.

C: All right -- all right, Mr. Secretary, thank you.

June 19, 1940
12:00 p.m.

Mrs.
McAllister: Good morning, Mr. Secretary.

H.M.Jr: How are you?

McA: Well, I'm well, and I hope you are. I know how busy you are these days but I hoped that you could get away to come out to our home for dinner this Saturday evening. I wanted both you and Mrs. Morgenthau but I understand that she is away.

H.M.Jr: That's right and I am lucky enough that I can go home every Friday night.

McA: And so you do go home every week-end.

H.M.Jr: I go home, so far, I've been able to go the last three weeks -- two weeks.

McA: I see

H.M.Jr: the last two weeks.

McA: And so you don't plan to be here this Saturday.

H.M.Jr: No, I --

TREASURY DEPARTMENT

112

INTER-OFFICE COMMUNICATION

DATE June 19, 1940

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

Export freight receipts at New York last week held near the high levels maintained since the latter part of May, but were slightly below the totals of the previous three weeks. Receipts at 9 other North Atlantic ports recovered slightly from their decline of the previous week. (See Chart 1 and table attached.)

The volume of freight exported from New York declined last week by about the amount of the previous week's gain, but for the past four weeks the exports have exceeded the average level of any month back to last November. (See Chart 2.) The volume of exports from New York last week, however, did not reach the volume of receipts for export, and some further accumulation is shown in the lighterage freight in storage and on hand for unloading in New York harbor. (See Chart 3.)

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

Week ended 1940	New York <u>1/</u> (-----)	9 other North Atlantic ports <u>2/</u> In carloads -----)	Total
January 6	4,000	1,251	5,251
January 13	4,056	1,433	5,489
January 20	4,060	1,557	5,617
January 27	4,389	1,825	6,214
February 3	4,274	1,498	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594
May 4	4,255	1,522	5,777
May 11	3,793	1,619	5,412
May 18	4,165	1,583	5,748
May 25	4,794	1,826	6,620
June 1	5,071	2,361	7,432
June 8	4,888	1,698	6,586
June 15	4,726	1,852	6,578

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

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

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

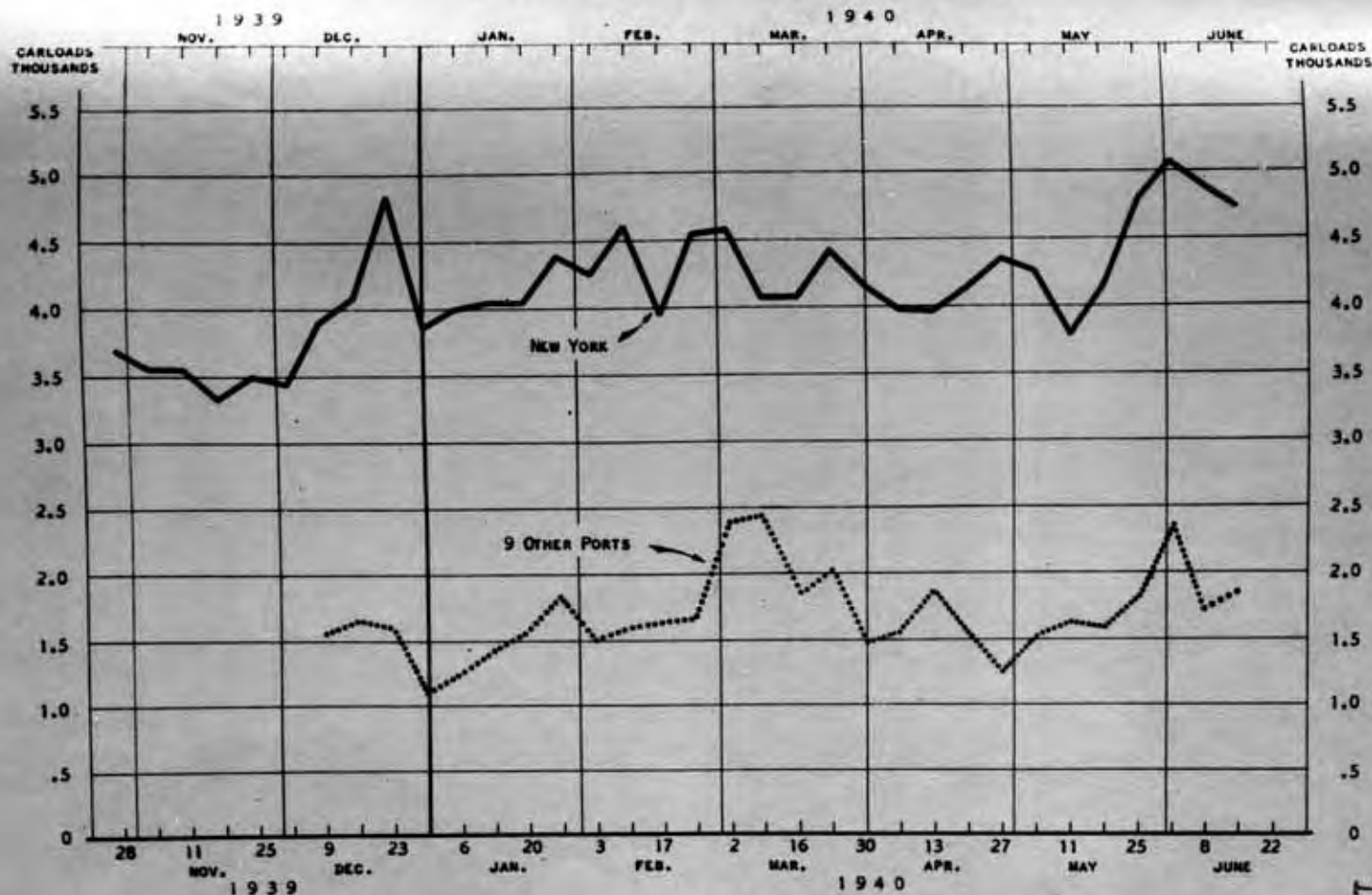
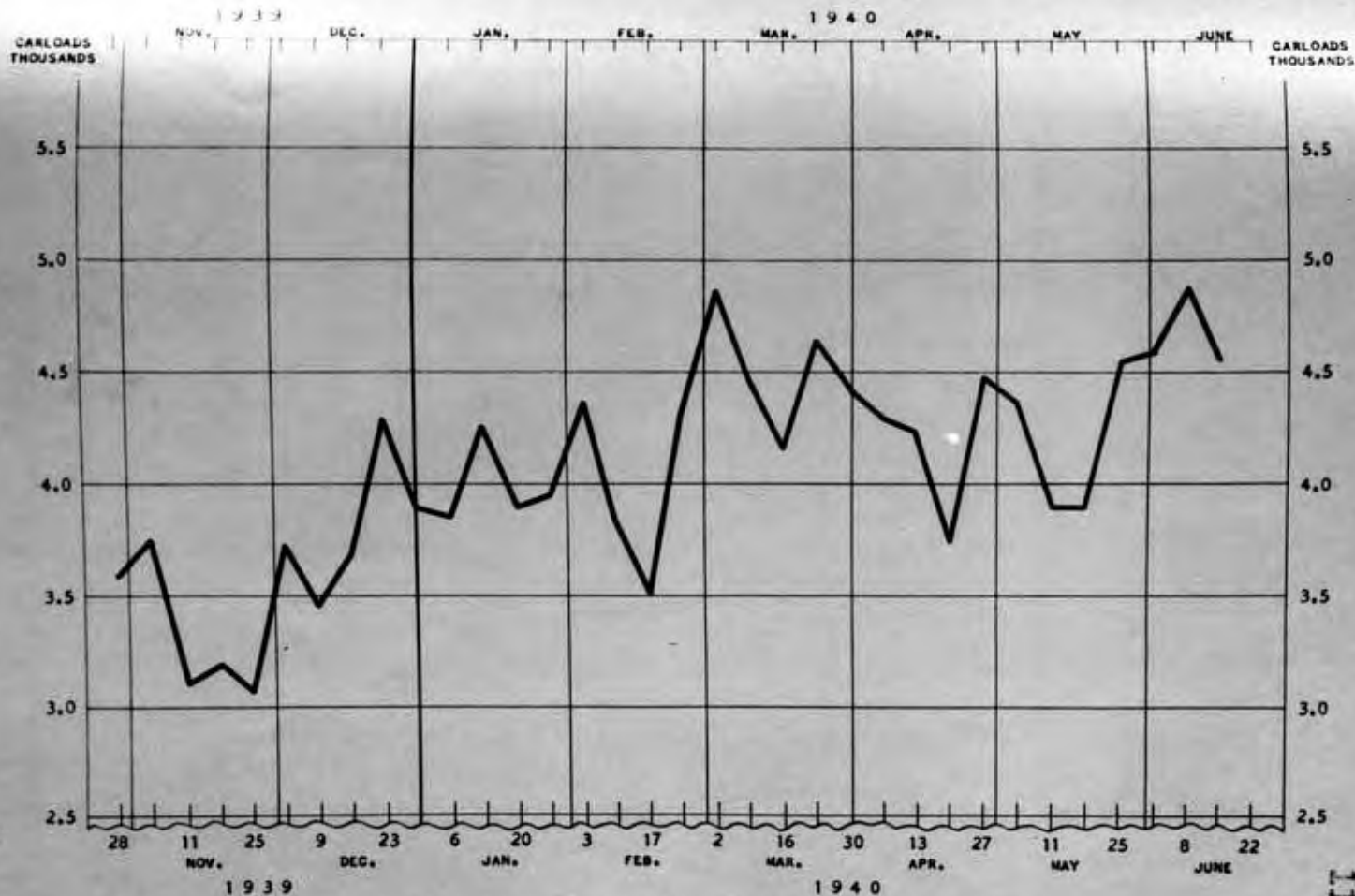


Chart 1

114

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *



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

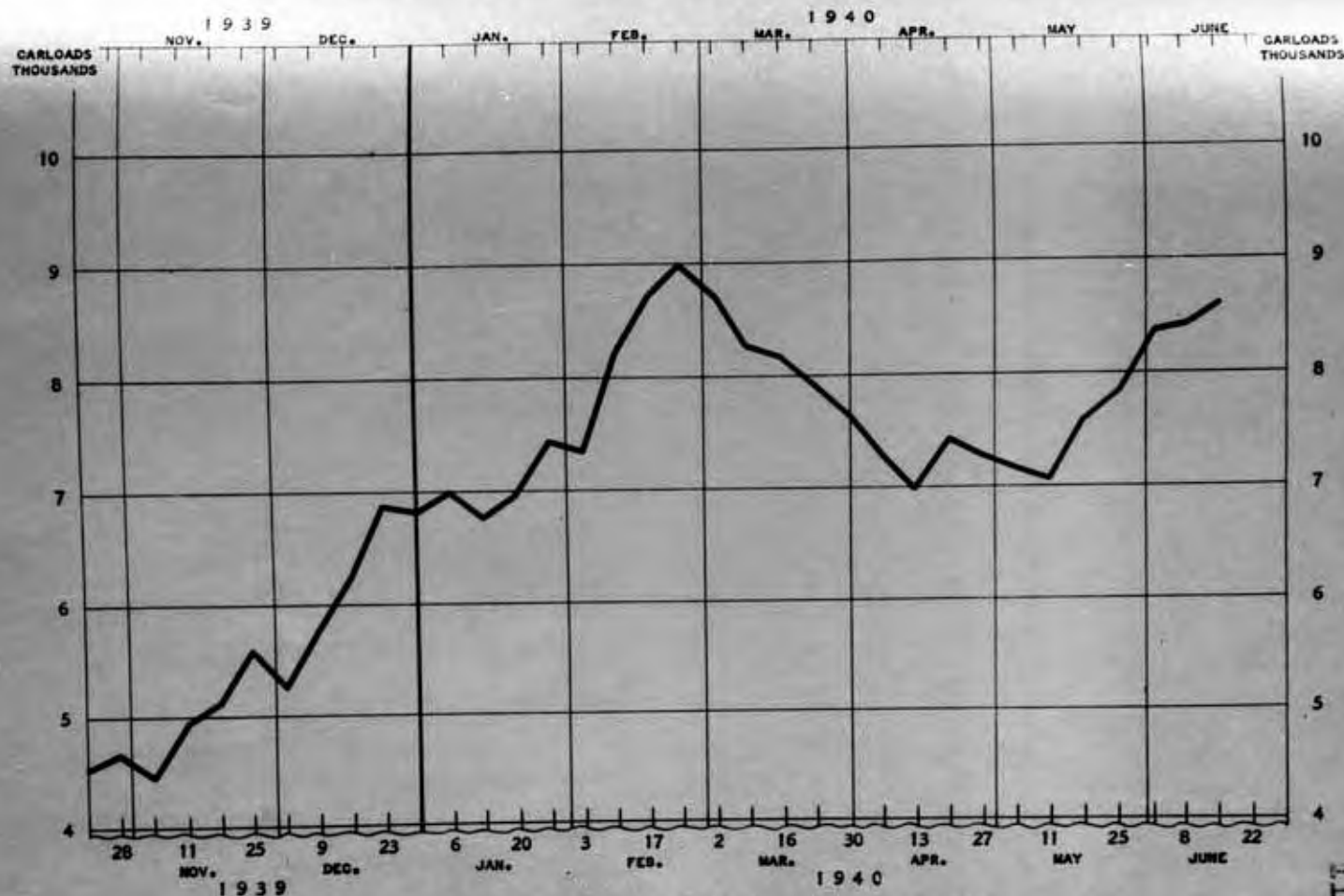
Office of the Secretary of the Treasury
Division of Research and Statistics

115
C - 308

Chart 2

Regraded Unclassified

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



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

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

Chart 3
116-
C - 303

Regraded Unclassified

THE WHITE HOUSE
WASHINGTON

June 19, 1940.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Yes, I think the NORTHLAND
should be equipped with armament
before going to the west coast of
Greenland.

Please show this to the Navy
Department and request them to give
this job priority.

F. D. R.

Conference, Wednesday, June 19, 1940, at Secretary Hull's office to continue discussion of Latin American Program to be presented to the President.

Present:

State Department: Under Secretary Wells, Assistant Secretary Grady, Assistant Secretary Burle, Messrs. Hawkins, Pasvolksy, Duggan and Feis

Treasury Department: Secretary Morgenthau, Under Secretary Bell, Assistant Secretary Gaston, Mr. White

Agriculture: Secretary Wallace, Messrs. Wheller and Robbins

Commerce: Secretary Hopkins, Messrs. Jones and Domerstsky

Secretary Hull was in Boston, so Mr. Wells presided.

A report prepared by an informal sub-committee was read by Mr. Wells, who then requested comments on the subject matter of the report from those present.

Secretary Morgenthau stated that though there were some aspects of the program with which he did not find himself in accord, and though there were doubtless other points which he would wish to study much more carefully before accepting, that, on the whole, he was disposed to go along favorably with the recommendations of the report.

Secretary Wallace stated that he was strongly in favor of the recommendations made in the report, but felt that it would be necessary to make provision for a controlled exchange of surpluses with Europe.

Secretary Hopkins stated that he approved of the report. He felt that the important thing was to take care of the acute situation at once and at the same time to prepare the ground for going forward on as broad a front as possible.

Secretaries Wallace and Hopkins both felt that the desirability of blocking the dollars paid to Latin America for their surpluses needed to be explored more carefully. Secretary Wallace thought that the organization set up ought to have the power to barter surplus crops for the products of other countries. Secretary Morgenthau asked him to illustrate what he had in mind, and Secretary Wallace said that if the corporation created for the purpose required Argentine corn, it should be in a position to arrange for the exchange of that corn for European products.

Mr. Grady was of the opinion that it would be necessary to move cautiously in the direction of doing more than attempting to handle the

acute aspects of the problem confronting Latin American countries; that any attempt to extend the arrangements beyond that stage was fraught with grave difficulties.

Mr. Berle felt the proposed outlined program was satisfactory and sufficiently broad to make it possible to move rapidly at once and to extend the area of operations as soon as feasible.

Mr. Wells suggested that each of the Department heads present should appoint a man to revise the report, reducing it in length and eliminating some of the details indicated.

Messrs. Pasvolsky, Jones, Wheeler and White were appointed. Subsequently the report was revised and a letter to the President with a press release was prepared and the letter, with minor changes, was signed by Secretaries Morgenthau, Wallace and Hopkins. *see letter 6/20*

KDW

June 19, 1940

HM, Jr went to Secretary Hull's office at 3:15 to attend the meeting on a joint economic program for the Western Hemisphere.

When he returned from the State Department HM, Jr said, "I told Sumner Welles he had better adjourn the meeting because the longer I listened to the discussion the graver doubts I had as to the wisdom of what they were talking about. He laughed and immediately adjourned the meeting."

SUGGESTED LEGISLATION

Section 5 (d) of the Reconstruction Finance Corporation Act, as amended, is hereby amended by adding at the end thereof the following paragraph:

The Corporation is authorized and directed, for a period of one year from the effective date of this Act, when requested by the President, to utilize or organize a corporation or corporations for the purpose of acquiring, carrying, and distributing emergency surplus products of the Western Hemisphere, and to subscribe for the non-assessable stock thereof, and to make loans to any such corporation or to any other corporation organized to assist it, or necessary to such program. The commodities acquired under this Act may be sold or transferred for any purpose approved by the President. Loans made by the Reconstruction Finance Corporation under the provisions of this paragraph may be on such terms and conditions and with such maturities as the Corporation may determine. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by \$1,000,000,000.

The organization of the Inter-American Trading Corporation might be somewhat along the following lines:

1. Board of Directors, to have general control over all the policies and activities of the Corporation. Each of the American Republics would appoint one director. It is suggested that the voting power of this Board of Directors be based on a formula similar to that employed in the by-laws of the proposed Inter-American Bank. This Board would meet perhaps quarterly to shape broad policies, and would delegate administrative authority to a
2. President, ex-officio Chairman of the Board of Directors, who would be assisted in administering the Corporation by an
3. Operating Council, consisting of the Managers of the various divisions of the Corporation, including
4. Functional Divisions which would coordinate activities such as sales strategy, production control, policy with respect to importations from non-American countries, finance, technical problems including shipping and warehousing, and
planning

-2-

planning and research; and

5. Commodity Divisions which would be established for each of the commodities or groups of commodities of large-scale production and exportation. Such commodity divisions would handle the purchases of all exportable surpluses, would supervise the control of production, and would carry out the details of sales overseas of commodities. Each commodity division would be administered by a Manager. In addition, for each commodity division there would be an Advisory Committee including representatives of each country interested in the particular commodity. This Advisory Committee would make recommendations as to policy and action with respect to the particular commodity and would tie in with the local organization in the particular countries.

AN ECONOMIC PLAN FOR THE WESTERN HEMISPHERE

In view of recent developments, it has become imperative for the United States to supplement its military defense program with effective and decisive action in the field of economic defense. To this end it has become essential to give most earnest consideration to the adoption and execution of a joint economic program for the Western Hemisphere. The objectives of such an economic program must be:

(1) The safeguarding and strengthening of the economy of the Western Hemisphere, coordinate with the defense of the territorial integrity of the political divisions comprising the area.

(2) The maintenance and expansion of the incomes and purchasing power of producers in the Western Hemisphere.

The problem is rendered especially acute by the fact that all of the countries of the Hemisphere are producers and exporters of raw materials and basic foodstuffs in quantities far in excess of the present consumption demand of the area. Bound as are the American Republics by close ties of inter-American solidarity, it is most appropriate that they should immediately consult with one another as regards the defense of their economies from the repercussions
of

of the international situation and the threat of economic aggression. As circumstances permit, other countries, similarly situated, may be brought into such system of consultation and into whatever cooperative arrangements may result therefrom.

There appear to be open to the United States two principal lines of action, which should be pursued immediately and simultaneously. They are:

I. Inter-American economic organization

A. The Government of the United States should propose to the other American Republics an agreement that the problems of trading with non-American countries be handled jointly. To implement this agreement, there should be established an Inter-American Trading Corporation (or all American Trading Corporation) with strong central direction, with an organization appropriate for achieving the objectives discussed below and with control equitably distributed among the participating countries.

Twenty leading commodities or groups of commodities constituted in 1938 88 percent of the total exports of the other American Republics. They are:

Petroleum
Coffee and Cacao
Meats
Sugar
Copper
Wool
Cotton
Metals other than copper and tin

Rides and skins
Horn
Lime
Lime
Corn
Rums, waxes, oils, oleo, and extracts
Extracts
Cereals except wheat, corn, and lime
Bananas
Rum
Cabinet woods, lumber and quebracho
Cacao
Fibers

A difference of opinion exists within the drafting group as to the extent of control over production and trade which must be vested in the Corporation. It is unanimously agreed that as a minimum the activities of the Corporation should include on the export side the joint marketing of the bulk of the export staples of the other American Republics plus exportable surpluses of similar United States products. On the import side it is agreed that the Corporation should be endowed with broad powers, which may be exercised as may seem feasible and desirable.

Some members of the group believe that the objectives of preventing economic and political penetration in this Hemisphere from abroad require complete control of the trade of this Hemisphere. They argue that the control must be complete or it is fruitless. This would require 1) that the Trading Corporation be prepared to purchase all the exports of this Hemisphere and trade with abroad

on

on terms appropriate to the general objectives of the program; and 2) that payment be made in currency free so far as inter-American trade is concerned but blocked with respect to inter-Hemisphere trade. This would not imply that these funds could not be used to purchase goods from outside the Hemisphere but would merely imply that such purchases must be conducted through the Corporation. Concretely, this would mean the establishment of a Hemisphere currency system, free within the Hemisphere, but not free between the Hemispheres.

Others feel, however, that such a thoroughgoing control of imports as well as exports, and also over the means of payment, would not be feasible because of the enormous administrative problems and great political difficulties involved. They believe that for the present our efforts should be directed toward the joint marketing of the bulk of the exportable surplus commodities of this Hemisphere and the control of their production, leaving the way open for further action if it should be found desirable later.

One important fact must be taken into account in considering the practicability of these two extremes: whereas about 90 percent of total exports of the other American Republics are comprised by twenty leading commodities

commodities or commodity groups, a large proportion of the overseas exports of the United States and of the imports of the United States and the other American Republics consists of an enormous number of individual semi-manufactured and manufactured articles.

B. Vigorous action should be undertaken in the broad field of development of new industries and production and of economic readjustment which are the functions of the proposed Inter-American Bank and the recently established Inter-American Development Commission. Such action must be correlated with the activities of the proposed Inter-American Trading Corporation. In individual cases it will probably be necessary to organize special corporations to engage in specific undertakings, such as rubber production or iron and steel production in Brazil, with the general financial and technical assistance of the Inter-American Bank and the Inter-American Development Commission.

C. The Inter-American Financial and Economic Advisory Committee should be requested to proceed at once with an intensive study of the technical implications of the plan outlined above and with an exploration of all other means of inter-American economic cooperation.

II. Direct United States Government Action

Without waiting for the inter-American cooperative plan

-6-

plan above outlined to be put into effect, the Government of the United States should immediately undertake the following steps:

A. Proceed under existing legislation.

1. The Export-Import Bank has available certain limited funds which could be directed to bridging temporary exchange crises and financing a few individual development projects.
2. The strategic and defense corporations to be set up under amendments to the RFG Act will be empowered to finance the purchase of any goods needed for consumption in the production of defense equipment and of stocks of strategic and critical materials. The amounts of such materials would be small in relation to the total exportable surpluses of the Americas.
3. The Commodity Credit Corporation could directly or indirectly purchase any commodities. At present it is restricted by the policy of the Treasury and the Bureau of the Budget and by the sense of the Congress that its activities be limited to domestic purchases. A modification of this policy of the Treasury and the Bureau of the Budget would permit the Corporation to expand its operations by \$500,000,000 to \$1,000,000,000. The President might in his message to Congress proposing the entire program herein contemplated, indicate that the Corporation would immediately extend its activities to the entire Hemisphere. There is, however, some question as to the political desirability of this course of action.

B. Request further increases.

1. Increase the funds of the Export-Import Bank to \$400,000,000 or \$500,000,000.
2. Specifically empower the Commodity Credit Corporation to operate in the entire Hemisphere allocating \$1,000,000,000 for the purpose, 2X

3.

3. Authorize the RFC to utilize or organize a corporation or corporations to purchase and dispose of the products of the American Republics, allocating \$1,000,000,000 for the purpose. There is attached a draft of legislation amending the RFC Act in this sense.

C. Appropriate agencies of the United States Government should give immediate attention to such questions as adjustment of existing indebtedness of Latin American countries to American creditors; the extension of new credits; the handling of Latin American indebtedness to European creditors, and the strengthening of the monetary systems of the Latin American countries.

Confidential

P A R A P H R A S E

A strictly confidential telegram of June 19, 1940, from Consul Reed at Hanoi reads substantially as follows:

The situation was summarized by a Government General official late on June 18 to the following effect: Although no demand has been made formally that there be a complete cessation of transit traffic to China, the Government General has been informed through other means that a continuation of transit traffic may result in intervention; practically all transit traffic by way of Indochina has been suspended in order to do away with any excuse for intervention; however, unless the United States seems ready to enforce maintenance of the status quo in the Far East or unless there is a change for the better in the European situation, intervention with or without an excuse is still feared as a possibility.

The reason they have given out is the need for creating a reserve for defense.

(Copy)

RDS

PLAIN

London

Dated June 19, 1940

Rec'd 1:10 p.m.

Secretary of State,
Washington.

1737, June 19.

FOR TREASURY FROM BUTTERWORTH.

1. The Acting French Financial Attache states that attempts are being made to ship the gold stock of the State Bank of Syria totalling about pounds 600,000 to the United States via an American ship now in Mediterranean.

2. The London security markets moved by Churchill's speech strengthened slightly today but trading remains small. The city, like the country in general, wants encouragement but cannot really believe in it.

3. A Treasury notice has been issued announcing that gold or balances in United States or Canadian dollars held on blocked accounts on behalf of refugees who have been resident in the United Kingdom since before September 3, 1939, must be surrendered forthwith to the Treasury through an authorized dealer. Securities denominated in any of the specified currencies should already have been registered with the Bank of England.

KENNEDY

HPD



DEPARTMENT OF STATE
WASHINGTON

June 19, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 1926 dated June 19 from the American Embassy, Berlin, transmitting a message for Mr. Cochran.

HSM

GRAY

Berlin

Dated June 19, 1940

Rec'd 10:23 a. m.

Secretary of State,
Washington.

1926, June 19, 9 a. m.

FOR TREASURY (FOR COCHRAN) FROM HEATH.

There has been no result as yet of the special search being made among German military records for Leroy-Beaulieu's whereabouts and it may be several days before a reply can be made since due to the increase in the number of prisoners the authorities are considerably behind in making an alphabetical prisoner index.

HEATH

CSB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 19, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 7:30 this morning Dr. Feis telephoned me from his home that the office of the Secretary of State had let him know that a "triple priority" message from Matthews had been received. Feis summarized this to me. I promised Feis that we would give the basis for a reply to Matthews today. I then called the office of the Secretary of State and arranged with Mr. Moreland that he should leave with the chief guard of the State Department the text of the message under reference. I picked this up at 8:15 and delivered it to Secretary Morgenthau at 8:30 a.m. The Secretary told me that he would speak with the Navy. At the 8:45 group meeting the Secretary told me that I could proceed to transfer the credit which we had discussed. In answer to my questions, he said I was free to go ahead with Mr. Bell and the other officials of the Treasury and Federal Reserve Bank to make the necessary arrangements. He instructed me to take up through Mr. Basil Harris the question of facilitating the entry of three naval vessels in New York. It was recalled that the Secretary had planned to do the telephoning both as to Customs and Public Health at the close of business this evening. Since the matter has now been known to the State Department the Secretary said that the Treasury could proceed in a routine way. Consequently I gave Mr. Basil Harris, after the meeting was over, the information as to date and hour of arrival of the vessels and he telephoned confidentially to the Collector of the port of New York, and subsequently told me that everything had been arranged.

At ten o'clock I telephoned Mr. Knoke of the Federal Reserve Bank of New York and told him that so much gold was arriving at the Brooklyn Navy Yard tomorrow morning at seven o'clock, and that the Treasury desired that 95% of the value thereof be credited to the account of the Bank of France with the Federal Reserve Bank of New York as of today. Mr. Knoke was asked to confirm the calculations of the Bank of France. When he telephoned me back an hour later I took down the figure which his bank established as the proper dollar amount to be credited. Mr. Bell, Mr. O'Daniel and I then worked out the draft of a telegram to the Federal Reserve Bank of New York giving the necessary directions and authorization. The draft was subsequently discussed by Mr. O'Daniel with Mr. Cameron of the Federal Reserve Bank of New York and by Knoke and myself. The message finally went out in the form indicated by the attached copy.

At five o'clock I sent to Dr. Feis in the Department of State a message in reply to Mr. Matthews, a copy of which also is attached. As a final enclosure there is attached a copy of the incoming message from Matthews.

In accordance with the Secretary's instructions, I have arranged with Knoke that the Federal Reserve Bank of New York shall act as our fiscal agent in receiving the gold and in delivering it to the Assay Office. It is understood that no gold will be moved on Thursday, but that the removal will be spread over Friday and

- 2 -

Saturday, with the Treasury making arrangements for the Assay Office to stay open on Saturday to receive gold. The Federal is to arrange the trucking of the gold in such manner as to avoid insofar as possible any publicity.

After talking with Admiral Noyes, I have asked Mr. Knoke to have his representative who is to receive the gold, namely, Mr. D. J. Liddy, get in touch this afternoon with the Commandant of the Brooklyn Navy Yard, Admiral Woodward, with the view to making all arrangements necessary for delivery of the gold. Admiral Noyes is telephoning Admiral Woodward to expect Mr. Liddy.

It was my understanding with Mr. Knoke, after I had consulted with Mr. Bell, that the cablegram which the Treasury is sending through the State Department to Matthews will constitute the acknowledgement of the inquiry from Governor Fournier, and that no communication will be sent today by the Federal Reserve Bank of New York to the Bank of France.



Box 3724

137

Comm. of Accounts & Deposits

Exchange Stabilization Fund

June 19, 1940

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y.

ATTENTION: MR. KNOKE.

Under arrangements made with the French Government the Treasury has purchased approximately two hundred fifteen thousand kilograms of gold which will arrive at Brooklyn tomorrow. Under these arrangements we are to pay ninety-five percent of the value of this gold today to the Bank of France. You are therefore authorized to charge today the account on your books designated Secretary of the Treasury Special Account with two hundred twenty-nine million four hundred ninety-seven thousand one hundred ninety-seven dollars and sixty-five cents and credit this amount to the Bank of France on your books. As authorized in letter of September 5, 1938, addressed to you by the Acting Secretary of the Treasury you are then authorized to sell today at the flat price of thirty-five dollars per fine ounce to the General Fund of the Treasury a sufficient quantity of such gold to equal the dollar cost charged in the Secretary's Special Account and hold this gold in the usual manner in a Special Gold Custody Account for the Treasurer of the United States. The proceeds of the sale of this gold to the General Fund should be credited to the account on your books designated Secretary of the Treasury Special Account and the cost of the gold to the General Fund should be debited to the General Account of the Treasurer of the United States.

REML

ACTING

11/11/40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 19, 1940

TO Dr. Feis
FROM Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy
Paris (Bordeaux)

For Matthews from the Treasury Department.

Reference your 21 June 18 4 p.m. Please inform Governor Fournier that at the direction of the Treasury Department the Federal Reserve Bank of New York has credited the Ordinary account of the Bank of France with two hundred twenty nine million four hundred ninety seven thousand one hundred ninety seven dollars and sixty five cents, representing 95% of the value of the gold shipment."

(Init: HMC - DWB)

C O P Y

OK
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (Br)

(Paris)
Bordeaux

Dated June 18, 1940

Rec'd 2:30 a.m. 19th.

Secretary of State

Washington

TRIPLE PRIORITY

21, June 18, 4 p.m.

FOR THE TREASURY DEPARTMENT FROM MATTHEWS

Governor Fournier has asked me to cable you most
urgently to say he has not yet received any confirmation
from Federal Reserve that amount of gold shipment
arranged through exchange of cables with Ambassador
Bullitt has been credited to Bank of France. He says
it is vital that notification be cabled Bank of France
immediately (I told him I felt sure that in accordance
with the cabled agreement at least the 95% had already
been credited but he insists on some formal notification).

He confirmed Rueff's statement to me concerning
the remainder of French gold with, however, the important
modification that a portion of it was still on board
ships in French ports "awaiting the signal". When this
is gone there will remain in France only some "three

or

-2- #21, June 15, 4 p.m. from (Paris) Bordeaux.
or four hundred million francs". Belgian and Polish
gold has also been gotten out.

The Governor feels that it is "too late" to do
anything about listing and destruction of foreign
securities. "We have about a thousand sacks. Such
an operation would take several weeks; it is now
only a question of days or perhaps hours for us".
Cariguel, however, is working to get private banks to
proceed as fast as possible with destruction of
securities before responsible bank officials.

BIDDLE

EMB

COPY

CONFIDENTIAL

June 19, 1940

To: The Secretary
 From: Mr. Young

The Anglo-French Purchasing Board requested Monnet to send a Bl Bis tank to this country, accompanied by one or two specialists to demonstrate it. The Purchasing Board received a reply from Monnet asking that the United States Government make the same request through its foreign representative in Bordeaux.

Monnet stated that every effort was being made to secure a tank, but, due to poor communications in France, he thought it wise for the United States Government to make the same request as it would expedite delivery.

W.P.Y.

10-7-40 - L L L Cy for - exp 2 L

TREASURY DEPARTMENT

142

INTER-OFFICE COMMUNICATION

DATE June 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Dr. Feis sent over to me this forenoon and telephoned me concerning the attached cablegram No. 1727 from Kennedy. Feis could not understand the first paragraph. He interpreted this to mean that the United States Treasury Department had talked with Kennedy by telephone this morning. At noon I showed this message to the Secretary, who informed me that he had not talked by telephone with London today, and did not understand the message.

I telephoned Dr. Feis after speaking with the Secretary, and it was agreed that the British Treasury was the Treasury under reference. Dr. Feis stated that the State Department would attend to this message, once it had received from the Treasury a reply to the first paragraph of Mr. Matthews' cablegram No. 21 of June 18.





DEPARTMENT OF STATE
WASHINGTON

June 19, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his strictly confidential information a paraphrase of telegram No. 1727 of June 19, 1940 from the American Embassy, London.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

610 700 10 10 15 03

RECEIVED
RECEIVED

H.F.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: June 19, 1940

No.: 1727

SECRET FOR SECRETARY HULL.

In reply to your telegrams No. 1257 and 1265 the ships in question are decidedly uncertain. I have spoken with the Treasury this morning on the telephone and mentioned to them only that two vessels are missing and that the Admiralty has not been able to ascertain anything about them. As a result the British have forsaken the question that they existed at all, although it is quite possible that they actually do exist.

While the British would very much like to obtain further information concerning the rest of the gold in France, all telephones are now out of order and no wire runs to Bordeaux. There is radio communication to Bordeaux, however, and I would like to know whether you would want me to contact Biddle by this means, keeping in mind of course that the Germans could and would probably pick it up.

KENNEDY.

JUN 19 1940

RECEIVED
JUN 19 1940

S:JFS:LWV

CONFIDENTIAL

145

June 19, 1940

To: The Secretary

From: Mr. Young

Re: Jacobs Engines

May 27, 1940. It was decided by representatives of the Canadian Government and the British Purchasing Commission to purchase, subject to the approval of Secretary Morgenthau, 2000 type L.6MB Jacobs engines, delivery to be completed December, 1941.

Letter to Secretary Morgenthau from Arthur Purvis asked the Secretary's approval for the purchase of the 2000 Jacobs engines as Mr. C. D. Howe (Canadian Minister of Munitions, Supply, and Transportation,) was anxious to place the order the following day, Tuesday, May 28th.

May 29, 1940. During a conference in Secretary Morgenthau's office at which both Mr. Purvis and Dr. Mead were present, Mr. Purvis was requested not to make any engine contract, such as the Jacobs, until there had been time to coordinate the Allied program with our own National defense program.

June 4, 1940. Mr. Purvis filed a memorandum with Dr. Mead which included the pending order for Jacobs engines as well as a delivery schedule on the Jacobs order.

June 6, 1940. Mr. Arthur Purvis filed a memorandum with Secretary Morgenthau stating that Mr. Howe had negotiated (subject to United States Administration approval) a contract with Jacobs for 2000 engines. This memorandum also stated that the order had been held up "during the last week or ten days in view of the desire to visualize the whole airplane engine situation." This memorandum also contained a request for permission to go ahead with the Jacobs order or with an equivalent order.

June 7, 1940. During a conversation between Secretary Morgenthau and Mr. Arthur Purvis, the Secretary stated that Mr. Knudsen had notified him that morning that approval had been

- 2 -

given for the placing of an order for 2000 Jacobs engines by the Anglo-French Purchasing Board. Mr. Purvis replied that the order would be placed immediately.

June 17, 1940. Contract was signed by the Anglo-French Purchasing Board and Jacobs for 2000 engines.

P.Y.

June 19, 1940
8:39 a.m.

Admiral Stark: Good morning, sir.

H.M.Jr: Good morning, Admiral.

S: Good morning, sir.

H.M.Jr: Admiral, I've just gotten an urgent cable from Ambassador Biddle of Bordeaux which, in the language you and I understand, why the hell haven't we given them that credit, see?

S: Yes, sir.

H.M.Jr: Well, now that the State Department knows about it and everybody else, unless you have objection, I'd like to just establish the credit today.

S: That's all right, sir.

H.M.Jr: Is that all right?

S: Yes, sir.

H.M.Jr: I was going to do it as of Monday, but Cochran didn't carry out my orders, but I'd like to do it now.

S: That's all right.

H.M.Jr: O. K.?

S: Yes, sir. She'll be in Thursday.

H.M.Jr: I know.

S: Yes, that's all right.

H.M.Jr: I mean, whether it will leak from the Federal Reserve, I don't know, but the whole State Department knows it now.

S: Yes, sir.

H.M.Jr: All right.

- 2 -

S: Good-bye.

H.M.Jr: Hello?

S: Yes.

H.M.Jr: Anything on the French Fleet?

S: Not a thing from the State Department or anyone else.

H.M.Jr: Now. I'm going to talk to you as man-to-man for a minute. May I?

S: Yes.

H.M.Jr: What a pal Compton is. Did you read the story this morning?

S: Yes.

H.M.Jr: What?

S: Yes.

H.M.Jr: Putting it all on my doorstep -- great pal, Compton is.

S: Yes. I knew that they'd had a terrible time up there, but I didn't know what it was. I haven't had a chance to see Harvey for a couple of days I've been going so fast. He got back yesterday.

H.M.Jr: Yes.

S: That hearing was the latter part of last week, I think.

H.M.Jr: It's awfully stupid of Compton, I mean -- but supposing they called me up there and I wanted to be mean, which I'm not -- never have been, and I said, all right, let Compton prove that.

S: Yes.

H.M.Jr: (Laughs) He can't prove anything.

S: Well, of course, I think in saying that the -- if he did say it, I don't know. You never can tell what you get in the press

H.M.Jr: Yeah.

S: that the President knew nothing about it. What I've always said is that I'd just prefer that the President be left out of it.

H.M.Jr: Sure.

S: That might come back, you know, and

H.M.Jr: Well, I went

S: The President does know about those things and everybody knows he does.

H.M.Jr: Well, of course, he does. And I went all through that thing a year and a half ago on the French plane, and the only way that I came through was by telling the truth.

S: Yes.

H.M.Jr: And I told the truth and after a month, they believed me, and that was that. And if this ever came up -- the truth isn't going to hurt anybody.

S: No. Well, what my part is in the thing after reading this, if they get after me, I'm going to say, well, gentlemen, you know what the policy is -- of the country is. It's been announced by the President and these -- we could spare these boats at this time. There is an advantage as a matter of fact, I don't know just when it was consummated, because, you know, the last time we were together the British hadn't actually asked for them.

H.M.Jr: I know.

- 4 -

S: I don't know that it has actually been done.

H.M.Jr: I don't either.

S: I don't know yet that it has.

H.M.Jr: I don't either. Admiral Spear asked me that day he stayed behind if they couldn't get a letter from the English that he hadn't had any word and he was some \$300,000 out of pocket, you remember?

S: Yes.

H.M.Jr: So I told the English to do it that day and I hope that for once, they've been on the job.

S: But I really don't know yet. They asked me on the Hill, oh, I've been up there so much -- it was either Saturday or Monday, if those boats had been turned over. I said, I didn't know.

H.M.Jr: I don't either.

S: And that I actually didn't. I don't know now. (Laughs)

H.M.Jr: (Laughs) All right, well, you'll find that if they have me up there, you've got nothing to worry about.

S: Yes, all right.

H.M.Jr: O. K.

S: Right. Well, if they ask me about the President knowing, I'm just going to say, well, gentlemen, you must realize that the President's in general close touch with this situation and that he has announced his policy and that the Department has more of these boats coming, they were experimental more or less to start with, we expected to learn something and have learned something and let it go at that.

H.M.Jr: a year ago I've been worried.
Today I just called Compton a dirty word,
that's all. (Laughs)

S: Well, he was probably under pretty heavy
pressure, I don't know just

H.M.Jr: Yeah, well, you got to learn how to take it,
you know. I don't expect you to say anything
but it's all right. O. K.

S: All right, sir.

H.M.Jr: Good-bye.

S: As a matter of fact, Compton told --
you know, the Secretary originally said
everything about those boats was his pigeon.

H.M.Jr: Were what?

S: Secretary Edison, when we got those boats,
said they were his pigeon -- told me to lay
off of them.

H.M.Jr: They were his pigeon.

S: Yeah.

H.M.Jr: I see.

S: Well, I mean, he was particularly interested
in them and had been.

H.M.Jr: Yeah, I know he has.

S: Well, I'm going to see Compton this morning
just to make sure I get the story straight.

H.M.Jr: Yes, because after all, we don't want to make
it embarrassing for the President.

S: Oh, no.

H.M.Jr: That's my principal interest.

S: All right, Sir.

H.M.Jr: Good-bye.

S: Good-bye.

TO:

152

D Delivered to Mr. Young's office
at 1:00 P.M. by Major Brooks.

bj
6/19/40

OK.
Dy.

MR. YOUNG

CONFIDENTIAL
WAR DEPARTMENT
WASHINGTON

Mr. H. L. Lee
not seen
claw no copy
PL
153

JUN 19 1940

2 photostated to Mr. Young
one for himself and
one for Mr. Baker

6/20/40

The Honorable,

The Secretary of the Treasury.

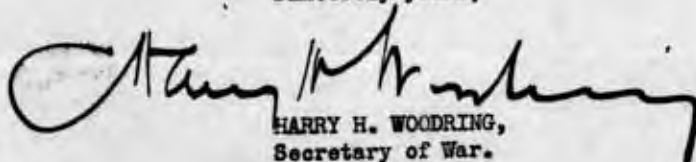
1 photostated to Mr.
Young for his file
6/27/40

Dear Mr. Secretary:

In reply to your letter of June 17, 1940, and pursuant to a conference held this date in my office, instructions have been issued to release plans necessary to produce the Merlin III, X and XX engines to a representative of The Advisory Commission to the Council of National Defense; this representative to be designated by Mr. Knudsen.

These plans and drawings are identified as Parcel Nos. 133 to 157, inclusive, as contained in the inventory list compiled by Colonel Page, Wright Field, Dayton, Ohio, an extract of which is attached for your record.

Sincerely yours,


HARRY H. WOODRING,
Secretary of War.

1 Incl.

CONFIDENTIAL

CONFIDENTIAL

154

JUN 19 1940

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

In reply to your letter of June 17, 1940, and pursuant to a conference held this date in my office, instructions have been issued to release plans necessary to produce the Merlin III, X and XX engines to a representative of The Advisory Commission to the Council of National Defense; this representative to be designated by Mr. Knudsen.

These plans and drawings are identified as Parcel Nos. 133 to 157, inclusive, as contained in the inventory list compiled by Colonel Page, Wright Field, Dayton, Ohio, an extract of which is attached for your record.

Sincerely yours,

HARRY H. WOODRING

HARRY H. WOODRING,
Secretary of War.

1 Incl.

CONFIDENTIAL

CONFIDENTIAL

155

EXTRACT OF INVENTORY - ROLLS ROYCE SHIPMENT

Parcel
No.

Merlins III, X and XX

133. Tool drawings for Merlin III, X and XX.
134. Tool drawings for Merlin III, X and XX.
135. Tool drawings for Merlin III, X and XX.

136. Parcels marked H; HB; HA; and DD.
137. " "
138. " "
139. " "
140. " "
141. " "
142. " "
143. " "
144. " "
145. " "

TOTAL - 13.

Merlin III, X and XX. production.

146. Merlin III.
147. Merlin III and X.
148. Merlin XX.
149. Merlin X. 4I60 - 4300
150. Merlin X. 4000 . 4I30 TOTAL - 5.

Forgings and Castings.

151. I parcel.

Turnings.

152. I parcel

L.O.P's.

- 153 to 156. 4 parcels.

157. Remainder of details necessary to make this engine.

CONFIDENTIAL

June 19, 1940.

1. When did I ask Purvis to get me these Rolls Royce engines? I only asked him after all other agencies in the government had failed. March
2. When did the Rolls Royce engines get here and when did they go to Dayton? May 20, 1940.
3. Through Ambassador Kennedy working with Lord Beaverbrook, I was able to get the complete set of these Merlin 20 engines plans which were delivered to me last Thursday and we sent them under guard to Dayton. I turned them over formally Monday to Secretary Woodring.
4. I first tried to interest Chrysler. He turned me down, and then I asked Ford to come down and he was very much interested.
5. The Allies were to buy 6,000, divided 3,300 English and 2,700 French. The Army was to take 4,000. England agreed to theirs but we were unable to get an answer from the French. Monday night Mr. Purvis let me know he had heard from Lord Beaverbrook and that he would take the whole 6,000, and I so informed Mr. Knudsen Monday night.
6. Morris Wilson, aircraft co-ordinator for Canada, was here Thursday, and he is Lord Beaverbrook's personal representative in Canada. He came down and formally turned these plans over to me.
7. I was doing this for the national defense because after studying this whole plane engine thing for over one and a half years I became convinced it was a mistake from the standpoint of national defense to have all our eggs in one liquid-cooled basket. Therefore, I was very anxious to secure rights to the best liquid-cooled engine available which everybody agreed was the Rolls Royce, which has been in production and flying successfully for three years.
8. Furthermore, through Ambassador Bullitt I have secured two of the latest model of the Hispano Suiza engines, which are now on their way here, and when they arrive we will turn them over to the Army to be tested.

June 19, 1940
5:15 p.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Wm. S.
Knudsen: Yes.

H.M.Jr: Hello.

K: Yes.

H.M.Jr: Morgenthau.

K: Yes, sir.

H.M.Jr: Now, look, the Allied Purchasing Board are all upset over this statement of Henry Ford.

K: Oh, well.

H.M.Jr: See? He won't manufacture -- and I thought that you told me that that was all straightened out.

K: Edsel did.

H.M.Jr: What?

K: Edsel did.

H.M.Jr: Edsel did. Well, is there anything that you could give out to the newspapermen saying that Edsel told you that he would manufacture it.

K: No, sir.

H.M.Jr: trying to make a liar out of all of us?

- 2 -

K: (Laughs) Maybe I had better call Edsel and let him straighten it out.

H.M.Jr: Well, I think something ought to be done because certainly my understanding with you was that Edsel said he'd make them, didn't he?

K: Yes, mine was perfectly plain on that score. He called me back and said everything was O. K. on that.

H.M.Jr: They just handed me another thing here which came over now. "The spokesman for the Ford Company reiterated today that no order for airplane engines had been received from the British Government.

K: That's right.

H.M.Jr: "It was announced in London yesterday by Lord Beaverbrook", etc.

K: But of course he hasn't received any order yet.

H.M.Jr: What's that?

K: He hasn't received any order. still working here on the contract

H.M.Jr: Yeah, but Edsel Ford said he'd take one didn't he?

K: Sure. Certainly.

H.M.Jr: Yeah. Can't you -- they say this story was given out by Cameron.

K: Yeah.

H.M.Jr: Well, could you help out a little bit?

K: Well, what do you want to do? Do you want me to say that we have the assurance for Mr. Edsel Ford that he'll accept French -- British orders?

- 3 -

H.M.Jr: Yeah. That's just what I'd like you to say.

K: I see. And then you don't want me to call up Ford and get it cleared?

H.M.Jr: Well, that's

K: You know, the old man and him -- they sort of cross wires once in a while.

H.M.Jr: Well, the fact remains here you and I are sitting here working for the Government and you press me to get -- will they take 6,000 and I tell you, yes.

K: That's right.

H.M.Jr: Then you talk with Edsel Ford and I guess you put it up to Edsel and Edsel Ford said yes.

K: Correct.

H.M.Jr: Why, I think I'd say so.

K: All right.

H.M.Jr: And I'd tell the press that.

K: All right.

H.M.Jr: I wouldn't ask him again if he told it to you I'd -- you've got a press man over there, haven't you?

K: Yes, sir.

H.M.Jr: I wish you'd tell him what Edsel Ford told you.

K: Sure. All right.

H.M.Jr: May I tell Mr. Purvis you're going to do that?

K: Sure.

H.M.Jr: Thank you so much. Thank you.

(Arthur Purvis' office)

June 19, 1940
5:17 p.m.

Operator: His secretary's assistant is on the line.

H.M.Jr: Hello. I know, she can talk.

Operator: Go ahead.

H.M.Jr: Hello.

Miss Brady's Assistant: Hello.

H.M.Jr: Who is this, please?

A: This is Miss Brady's assistant.

H.M.Jr: Oh, are you the young lady from out in the country.

A: Yes, Mr. Morgenthau.

H.M.Jr: Thank you. Got a pencil?

A: Yes.

H.M.Jr: Now in regard to this statement by Henry Ford, I've just talked to Mr. Knudsen, and Mr. Knudsen is going to tell the newspapermen that Edsel Ford assured him that he would be -- that he would accept an order from the French and English.

A: Assured him that he would accept?

H.M.Jr: Yes.

A: Yes.

H.M.Jr: And Mr. Knudsen is going to give that out to the press right away.

A: Yes, so really the intimation we had is really all wrong.

H.M.Jr: Well, it's a difference between father and son.

- 2 -

A: Yes.

H.M.Jr: I mean, Edsel Ford said he would accept the order. Henry Ford says he won't.

A: Yes.

H.M.Jr: Well, I don't know who's boss.

A: Well, that's what I was wondering. Who has the final say?

H.M.Jr: Well, maybe it's Mamma Ford.

A: Well, perhaps it's the new generation.

H.M.Jr: Well, we'll wait, but anyway Mr. Knudsen is coming through.

A: Yes, and I will get that to Mr. Purvis right away.

H.M.Jr: Thank you so much.

A: Good-bye.

6/19/40 162

HM, Jr told Mr. Young to sit tight
and do nothing on this.

Vf - P P' h w
June 19, 1940

To: The Secretary
From: Mr. Young

Attached herewith is a letter which I have received from Dr. George Mead concerning the plans for the Rolls Royce Griffon.

Disregarding the material at Wright Field, is my impression correct that the Griffon engine and specifications will not be available for some time inasmuch as the engine has not yet reached a production stage?

Ry.

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

WASHINGTON, D. C.

June 18, 1940

*Original
Hester
Paw*
6/19/40
Mr. Philip Young,
Treasury Department.

Dear Mr. Young:

I wish you would inform me what steps are being taken to secure drawings, engineering information, and a sample Rolls Royce Griffon engine. The drawings may be included in the material now at Dayton, but as I have not seen the inventory, I don't know. At one time I was under the impression that the Rolls Company was sending us a sample Griffon engine, but I haven't heard anything about this for some time.

Very truly yours,

Geny. Mead

June 19, 1940.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Schwarz

Until 7:50 p. m., the United Press editors in New York had not given the local desk clearance to put on the statement by Mr. Knudsen about the projected engine order for the Ford Company and therefore the city news ticker did not have the story. I talked three times to the ticker desk and they were unable to get the story without clearance from New York. The AP, however, said it had the story and would carry it. I shall get a complete text of the statement in the morning from Bob Horton. *cs*

165-A

BRITISH EMBASSY,
WASHINGTON, D.C.

June 19th, 1940.

Secret.

Dear Mr. Secretary,

In the Ambassador's absence
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,

David Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of June 18th.

Due to withdrawal of British mission reliable information regarding situation of French troops very scarce. According to numerous reports however French resistance has not ceased. General limit of German advance seems to be line of Beaune-Dijon-Arny-le Due-Nevers thence along Loire to Orleans thence Bonneval-Chartres-Leigles. Five armoured and three motorised divisions identified advancing to south from Dijon and also completing encirclement of Maginot Line. One armoured and one motor and six infantry divisions seem to be advancing due south from Sens. One mountain and seven infantry divisions reported advancing southwest in area between Chartres and the sea.

2. Evacuation of British Expeditionary Forces taking place from Cherbourg, St. Malo, Brest, Saint Nazaire. Numbers evacuated up to midnight last night from all above ports is as follows:-

Fit 41,770.

Wounded 732.

Gun 71.

Vehicles 595.

Evacuation not so far seriously interfered with
except/

except at Saint Nazaire which was continuously bombed yesterday. As recorded in my immediately preceding telegram transport "Lancastria" was sunk, casualties not known. Survivors were transferred to "Oronsay" which was also hit by mine but able to proceed. Industrial personnel have been cleared from Brest. Considerable amounts of stores are there and it is hoped to save. So far as is known up to the present, Germans have not followed up withdrawal of British Expeditionary Forces in great strength. 180 of Embassy staff left last night for England.

3. Whitleys, Hampdens and Wellington aircraft attacked oil targets and marshalling yards at 12 towns in Ruhr and Rhine area last night, certain mine laying operations were carried out. Reports not yet received but two Whitleys out of 135 at present missing. Our fighter patrols operating off Boulogne and Dunkirk shot down one Messerschmidt 115 and one Junker 88 confirmed and 2 of latter unconfirmed.

4. Sixty-four enemy aircraft reported along Channel and Normandy coast yesterday and 84 reported between Ostend and Brest last night. Fighters were unable to intercept.

5. Royal Air Force attacked 6 enemy destroyers in North Sea last night and claimed hit on one. One Hipper class cruiser and four destroyers sighted yesterday evening off Narvik.

6. Marked recrudescence of German submarine activity. Submarines yesterday sighted off Iceland Finisterre/

Finisterre, Ushant and Malta. Hunts and attacks carried out in all of these areas. Royal Air Force thought to have sunk submarine off Finisterre and another off Ushant.

7. Malta raided four times yesterday, no casualties and slight damage. On night of 16th/17th June oil tanks at Tobruk were bombed by Royal Air Force.

-165-E

BRITISH EMBASSY,
WASHINGTON, D.C.

June 20th, 1940

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. Huran

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

SECRET

Telegram despatched from London
in the evening of June 19th, 1940

1. No official information regarding position of the French army but from other accounts resistance is continuing. Proportion of German formations previously reported on line Vesoul-Dijon have now swung eastward towards Belfort which they have occupied. Southerly advance by other armoured motorised divisions East of Loire has now reached that river and established bridge-heads as far south as Meyers. German forces from Paris and the lower Seine have reached Loire near Beaugency. Heads of infantry units were at mid-day June 17th from the line Orleans-Chartres-Mortagne. A.F.V.'s motorised unit operating further west reliably reported yesterday evening approaching Cherbourg and Brest and in possession of St. Brieux and Rouen. At mid-day yesterday they were 30 miles north of Nantes. German forces reported nearer Brest at 2100 hours yesterday.

2. All ships of the French fleet which could steam have evacuated French north-western ports. All French aircraft at Brest which were fly-able took off yesterday for aerodromes in south of France. French store ships en route to Brest have been diverted to

British/

British part.

3. **British Expeditionary Force.** All personnel evacuated from Cherbourg, St. Male and Brest. Demolitions carried out at Cherbourg and St. Male. French have agreed to carry out demolitions at Brest. Considerable equipment, tanks and transport also evacuated. Ports of St. Nazaire and Nantes have been evacuated. Totals landed in United Kingdom up to midnight last night are: personnel, fit 86,452, casualties, 1,562; guns, 176; vehicles, 960; ammunition, 150 tons. Above figures do not represent final total. At least one thousand two hundred are reported to have been saved from S.S. "Lancastria".

4. Approximately one hundred enemy aircraft active over eastern counties of England last night between Middlesbrough and Bradford in north to Thames Estuary. High explosive and incendiary bombs dropped at over thirty places mostly in East Anglia but preliminary reports suggest few casualties and little damage except in Cambridge where eight houses were demolished and several people killed. Oil storage plant hit in Thames Estuary. From seven to twelve enemy aircraft reported shot down. Figure being number estimated by fighter command as destroyed by R.A.F. Two British fighters destroyed and one missing. In France main effort of German bomber force has been against shipping off Brest and mouth of the

Loire/

Leire. Inland bombing appears to have been directed mainly against communications special reconnaissances carried out over ports in north-west France, shipping in the Channel and northern part of Bay of Biscay.

5. Blenheims with fighter aircraft yesterday attacked enemy tank columns converging on Cherbourg. 75 fighter aircraft were over northern France yesterday but did not encounter any enemy aircraft. All returned safely. Aircraft operating from France successfully attacked Italian aircraft factories at Milan and Genoa on night of June 16th-17th.

Reliable information received that air raids in North eastern and central Italy have made deep impression on population whose morale is likely to be shaken if they continue. Last night 69 heavy bombers attacked oil and railway targets at Hanover and Bremen and in Ruhr and Rhine valleys. Four aircraft failed to return. Fleet air arm bombed Bordeney aerodrome and encountered severe anti-aircraft fire. All aircraft returned.

6. Reports of considerable Italian troop movements in Libya towards Tunisian frontier continue to be received. Reports unconfirmed that five Italian divisions normally stationed in western Cirenaica have moved towards Egyptian frontier in coast area. As result of operations here on June 17th twelve tanks, six guns and seven lorries captured from Italians. Reports unconfirmed that six hundred prisoners also taken. Hostile aircraft visited Malta yesterday, but no bombs dropped. Patrols of Sudan

Defense/

-4-

Defense Force carried out successful raids in Kassala area on June 17th. One patrol routed complete native battalion.

7. On June 17th bombers of South African Air Force successfully attacked Bardera (Italian Somaliland). Enemy aircraft at Neghelli in southern Abyssinia also bombed and aerodrome at Mesawa attacked and fuel dumps set on fire.

8. British submarine sunk enemy transport off southern coast of Norway on June 16th. New Zealand steamer sunk off North Island of New Zealand by explosion.

June 20, 1940.

Mr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy
(Paris) Bordeaux

From Secretary Hargenthan.

Reference your No. 6 June 16. British Government gave United States Government license to manufacture Rolls Royce engines, royalties to be settled after the war. Hope French Government will follow same procedure in regard to Hispano Buiss engines. We consider this very important."



June 20, 1940

*For further
correspondence,
dated 7-12-40*

167

My dear Mr. President:

I am inclosing herewith a report carried by the United Press in regard to testimony by Rear Admiral Furlong. I wish to draw your particular attention to the following sentence:

"They (the private manufacturers) hesitate to install equipment which runs into millions of dollars because this equipment has to be amortized slowly under the Vinson-Trammel Act as interpreted by the Treasury Department."

Needless to say, Admiral Furlong's reported testimony makes it extremely difficult for the Treasury to carry out your wishes in regard to the administration of the Vinson-Trammel Act.

Yours sincerely,

The President,
The White House.

June 20, 1940

My dear Mr. President:

I am inclosing herewith a report carried by the United Press in regard to testimony by Rear Admiral Furlong. I wish to draw your particular attention to the following sentence:

"They (the private manufacturers) hesitate to install equipment which runs into millions of dollars because this equipment has to be amortized slowly under the Vinson-Trammel Act as interpreted by the Treasury Department."

Needless to say, Admiral Furlong's reported testimony makes it extremely difficult for the Treasury to carry out your wishes in regard to the administration of the Vinson-Trammel Act.

Yours sincerely,

The President,
The White House.

June 20, 1940

My dear Mr. President:

I am inclosing herewith a report carried by the United Press in regard to testimony by Rear Admiral Furlong. I wish to draw your particular attention to the following sentence:

"They (the private manufacturers) hesitate to install equipment which runs into millions of dollars because this equipment has to be amortized slowly under the Vinson-Trammel Act as interpreted by the Treasury Department."

Needless to say, Admiral Furlong's reported testimony makes it extremely difficult for the Treasury to carry out your wishes in regard to the administration of the Vinson-Trammel Act.

Yours sincerely,

The President,

The White House.

NP 112
June 20, 1940

Miss Chumley

270

The Navy Department has told the Senate Appropriations Committee that the Vinson-Trammell Act, setting profits limitations on naval contracts, has made private manufacturers "reluctant" to undertake the production of "essential" items of national defense, such as gun-powder, it was learned today.

Rear Admiral W. H. Furlong, Chief of the Navy Bureau of Ordnance, told the Senate Appropriations Subcommittee considering the \$1,777,489,768 supplemental national defense bill:

"They (the private manufacturers) hesitate to install equipment which runs into millions of dollars because this equipment has to be amortized slowly under the Vinson-Trammell Act as interpreted by the Treasury Department."

Under the Act, profits on naval contracts above \$10,000 must be limited to 10 per cent and any balance above that must be turned into the treasury. Furlong explained that Treasury officials do not permit the manufacturers to charge off the entire cost of installing new machinery as part of the cost of production.

The Admiral cited three plants where investments in machine tools ran up to \$2,000,000

6/19--2112P

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 20, 1940

TO Secretary Morgenthau

FROM E. K. Foley, Jr.

The memorandum on "Allowances for 'Extraordinary' Obsolescence" by Dr. Viner is divided into four major parts: (1) Past Policy of the Internal Revenue Bureau, (2) The Supreme Court and Obsolescence, (3) Present Policy of the Bureau, and (4) My Memorandum to you of December 12, 1939. I agree with so much of Dr. Viner's memorandum as states that the Bureau of Internal Revenue should closely collaborate with the economic staff of the Treasury Department. For example, I think such collaboration might begin by considering a revision of the law to permit expenditures for plant facilities especially acquired for the national defense program to be treated differently from ordinary capital expenditures. But Dr. Viner's other comments misconstrue my memorandum.

(1) As to the Past Policy of the Bureau: Bulletin F which Dr. Viner criticizes so severely has not been a part of the regulations under the Internal Revenue Code since early in 1934 and was in no way considered in the memorandum of December 12.

(2) As to the Supreme Court and Obsolescence: The quotations in Dr. Viner's memorandum are from the cases of Cambrinus Brewery Co. v. Anderson (1931), 282 U.S. 138 and Burnet v. Niagara Falls Brewing Co. (1931), 282 U.S. 648, which were cited and discussed in the memorandum of December 12 on pages 6 and 7. I also cited United States Cartridge Co. v. United States (1932), 284 U.S. 511, from which Dr. Viner does not quote, in which the Supreme Court permitted a small arms ammunition manufacturer to treat the value of facilities remaining after the Armistice which had been originally acquired to meet the extraordinary war demand as salvage in computing the manufacturer's income tax liability for the year 1918.

Obsolescence under the Internal Revenue Code connotes functional depreciation. More than non-use or disuse is necessary to establish it. Not every decision of management to abandon facilities or to discontinue their use gives rise to a claim for obsolescence. For obsolescence under the Internal Revenue Code requires that the operative cause of the present or growing uselessness arise from external forces which make it desirable or imperative that the property be replaced.

One might reasonably infer from Dr. Viner's memorandum that these statements are irrelevant. They are not my words but those of Mr. Justice Douglas speaking for a unanimous Supreme Court in holding that discarding a plant as a proximate result of a taxpayer's voluntary action in acquiring excess capacity, as distinguished from acquiring a new plant to take the place of one outmoded or less efficient, did not entitle the taxpayer to a deduction for obsolescence. Real Estate Land Title and Trust Co. v. United States (January 15, 1940), 309 U.S. 13.

(3) As to the Present Policy of the Bureau: Prior to your administration the deduction for depreciation and obsolescence had been a well-paved avenue of tax avoidance, in spite of the economists' complaint of too rigid an interpretation by

the Bureau of Internal Revenue. As a result of a letter which you wrote to the Chairman of the Ways and Means Committee on January 26, 1934, that Committee refrained from approving a recommendation by a subcommittee for reducing depreciation allowances by an arbitrary 25 per cent for the three years 1934, 1935 and 1936. This is what happened.

In a preliminary report relative to methods of preventing the avoidance and evasion of internal revenue laws, the subcommittee had pointed out that the depreciation deduction did not represent cash outgo like wages, repairs and similar expenses but was an annual reserve theoretically set aside to replace plant and property investments. Because taxable net income had been completely wiped out in many cases by this deduction, the subcommittee was alarmed. In 1931, for example, the deduction of four billion dollars taken by corporations exceeded the total taxable net income of all corporations, and this was in addition to the deduction of between one and one-half and two billion dollars taken by individuals. House Committee Print, "Prevention of Tax Avoidance", 73d Cong., 2d Sess., pp. 4-5.

Thereafter the full Committee on Ways and Means declared in its report to the House that depreciation allowances were excessive but that since you proposed to diminish these allowances by proper administrative measures, including placing the burden of sustaining the deduction squarely upon the taxpayers, it would not recommend remedial legislation. House Report No. 704, 73d Cong., 2d Sess., pp. 8-9. Subsequently on February 28, 1934 you approved a Treasury Decision which substantially modified the then existing regulations retroactively and reflected your intention of collecting approximately \$85,000,000 additional revenue annually by more rigid insistence that the taxpayer prove that his property is depreciating at the rate claimed. T.D. 4422, C. B. XIII-1 p. 58, 32 T.D. 182.

4. As to the Memorandum to you of December 12, 1939, concerning Closing Agreements, Obsolescence Allowances and Remedies of Taxpayers: Dr. Viner's memorandum does not touch upon the memorandum of December 12, in so far as it relates to closing agreements and remedies of taxpayers but criticizes the portion relating to obsolescence allowances. I think Dr. Viner would agree that the crux of his criticism rests upon the fact that the memorandum does not vary from the regulations which Dr. Viner deems unsound. This is understandable in view of the fact that the memorandum of December 12 was simply intended to discuss and explain the Treasury's present position. That this has been done accurately from a legal standpoint I think there is no question. Dr. Viner's unwillingness to accept, as an economist, my interpretation of the law and the regulations merely reflects his predilections as an economist that the law and the regulations, not my interpretation of them, are wrong. In other words, Dr. Viner's memorandum fails to distinguish between what is the law and what he would like it to be.

F.H.H.



173

TREASURY DEPARTMENT

WASHINGTON

June 20, 1940.

MEMORANDUM FOR THE SECRETARY:

In New York there are two Norwegian and one ^{Dutch} ~~Belgian~~ ships which were loading for French ports. Work on these three ships has been temporarily stopped.

The Belgian S.S. JEAN JADOT which had loaded a large cargo for Bordeaux has apparently received orders to discharge this cargo in New York and is now doing so.

Basil Harris

June 20, 1946.

MEMORANDUM FOR THE SECRETARY:

In New York there are two Norwegian and one ^{Dutch} ~~Belgian~~ ships which were loading for French ports. Work on these three ships has been temporarily stopped.

The Belgian S.S. JEAN JADOT which had loaded a large cargo for Bordeaux has apparently received orders to discharge this cargo in New York and is now doing so.

(Signed) Basil Harris

HH/hm

June 20, 1940

A copy of this was given to Mr. Bell for action.

176
THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

June 20, 1940

My dear Mr. Secretary:

It is requested that the Treasury Department, Office of the Commissioner of Accounts and Deposits, make available to The Advisory Commission to the Council of National Defense, the auditing and accounting facilities of the Treasury Central Accounts Office and the District of Columbia Accounts Office in establishing and handling the accounting for funds available to the Advisory Commission. It is also requested that the necessary accounting reports be furnished the Advisory Commission in the same manner as they are now prepared for the various Emergency Relief offices and agencies for which the Commissioner of Accounts and Deposits maintains accounts.

I shall greatly appreciate your cooperation in this respect inasmuch as this will eliminate the necessity for setting up complete accounting procedure by The Advisory Commission to the Council of National Defense.

Sincerely,


Wm. H. McReynolds,
Secretary

The Honorable,

The Secretary of the Treasury.

June 20, 1940

Steve Early called me at 10:30 and said they now are going to take it up with Bob Jackson to try to get a ruling on these 20 boats and Bob Jackson thinks it's absolutely illegal. So Steve says that in the event Bob Jackson can't give a ruling, the only out he can see is that the British decide they don't want the boats and I said I could deliver, although they need them desperately and worse than anything else.

MOTOR TORPEDO BOATS

- May 29 Purvis' request for priority on motor torpedo boats which will be delivered to U. S. from July to December of this year. HM, Jr told Mr. Purvis it was "out".
- May 30 Meeting with Welles, Stark, Marshall, in HM, Jr's office. Stark willing to release all 24 speed boats now on order with Electric Boat Company, but would rather keep 8 of each. Twelve of the boats were equipped with torpedoes and the other 12 with depth bombs.
- May 30 HM, Jr asked Mr. Young to tell Mr. Purvis he could have 20 of the speed boats from the Electric Boat Company.
- June 11 Meeting in HM, Jr's office with Purvis and Bloch-Laine when Mr. Purvis submitted a revised priority list of requests, including a memorandum on motor boats.
- June 12 Mr. Young's memo to HM, Jr with respect to equipment on Navy motor boats released to Allies. Attaches copy of letter from Admiral Spear to Mr. Ballantyne listing the equipment.
- June 12 At meeting in HM, Jr's office to discuss material available to Allies, Lewis Compton said Navy was willing to give the torpedoes for the 20 boats and also a reserve supply. Admiral Stark said a total of 80.
- June 13 Meeting with Purvis at which Admiral Spear was present. HM, Jr said the President is still waiting for the Allies to sign the contract on the 20 boats. Purvis promised to write the letter tonight.

are of
this to
July
6/20/46
with
the
time
table
+ ext
w/pt



DEPARTMENT OF STATE
WASHINGTON

June 20, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 31 of June 19 from Bordeaux.

TO THE SECRETARY
TECHNICAL ASSISTANT
GENERAL

22 15 11 05 1940

RECEIVED
DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris), Bordeaux

DATE: June 19, 1940, 5 p.m.
Rec'd 9:25 a.m., 20th.

NO.: 31

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

I am told by Norman Young that this morning the French readily agreed to transfer to the British all of the purchase contracts which they had with the United States.

No bank moratorium was declared today, but there have been long lines outside all Bordeaux banks.

BIDDLE.

EA:LWW

June 20, 1940

Fa Watson called me at about 11 o'clock and said that the President said to lay off on the ten 4-engine bombers. He said it would only add fuel to the fire.

June 20, 1940

HM, Jr called in Norman Thompson today and said that in connection with the tax bill, where it appears the increased tax is for National Defense, he wants a special National Defense stamp which will show the person that he is actually helping to pay for the National Defense. HM, Jr wants two stamps, one for the regular tax and one for the increased tax. The one for the National Defense he would like to have show the American eagle or a battleship and an airplane and American flag in one corner, so that the people will visually see that this money they are paying is for National Defense.

He asked Mr. Thompson to get this word to Mr. Helvering and anyone else who has anything to do with it.

June 22, 1945.

My dear Mr. Harrison:

This will acknowledge your letter of June 1945,
which transmits for my reading a copy of a letter
bearing the same date and sent by you to members
of the National Defense Advisory Commission.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. George L. Harrison,
President, Federal Reserve Bank
of New York,
New York, New York.

GXF/dbe

June 22, 1942.

My dear Mr. Harrison:

This will acknowledge your letter of June 19th,
which transmits for my reading a copy of a letter
bearing the same date and sent by you to members
of the National Defense Advisory Commission.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. George L. Harrison,
President, Federal Reserve Bank
of New York,
New York, New York.

GHF/dbs

June 22, 1947.

My dear Mr. Harrison:

This will acknowledge your letter of June 19th,
which transmits for my reading a copy of a letter
bearing the same date and sent by you to members
of the National Defense Advisory Commission.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. George L. Harrison,
President, Federal Reserve Bank
of New York,
New York, New York.

GMF/dbs

FEDERAL RESERVE BANK
OF NEW YORK

June 13, 1940.

Dear Mr. Secretary:

Knowing of your interest in the subject matter, I am enclosing a copy of a letter which I sent today to the members of the National Defense Advisory Commission about a meeting of New York bankers which was held yesterday at the Reserve Bank, concerning possible ways in which the New York City banks might cooperate with the government in its preparedness program.

Faithfully yours,


George L. Harrison,
President.

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

Enc.

June 13, 1940.

Mr. William E. Knudsen,
National Defense Advisory Commission,
Washington, D. C.

Dear Mr. Knudsen:

A number of the New York City banks have recently expressed to me their desire to cooperate with the government's program of preparedness and I called a meeting yesterday of representatives of the principal New York City banks at the Federal Reserve Bank of New York to discuss ways and means of making their facilities available in support of that program. All of the banks represented at that meeting share with others a full realization of the national importance of the preparedness program and they are fully alive to their own responsibilities in doing everything properly within their power to cooperate with the government in its successful conclusion. Accordingly, the meeting requested me to send their views to the several members of the National Defense Advisory Commission for the reason that demands for funds may well result from programs for expansion which your Commission may recommend or approve.

Of course, it is realized that many companies which may have been asked by the government to expand their capacity for production beyond the requirements of their normal business may be able and willing to do so with their own cash, or possibly by resorting to the capital market. Others, however, will require credit. It is with this other group in mind that the bankers have advised me that they are prepared, to the limit of their powers, consistent with the

protection of their depositors, to make loans to those industries whose expansion, whether of plant, equipment, inventory or labor, is deemed to be an essential part of the government's program of preparedness. They believe, as I do, that much of that expansion may properly and safely be financed by bank loans and that it is more advisable in such cases for borrowers to make use of established banking channels than to resort to the government, directly or indirectly, for credit accommodation. The preparedness program quite properly relies, in the first instance, upon established industrial concerns for additional production, and it would seem to be equally important, in the interest of national defense, that the established commercial banking system be relied upon, in the first instance, as the natural source of any additional financing. It is confidently believed that in the great majority of cases companies requiring credit to finance additional production, contemplated as a part of the program of national defense, will be able to obtain such credit by applying directly to their own local banks. If any such bank is not able to provide the necessary accommodation in full, the New York City banks would welcome an opportunity to collaborate with a view to supplementing such accommodation to the extent that may be necessary.

No specific cases being before us, it is, of course, necessary to make this letter general in its terms. No reference is made to the maturity of the loans that might be requested since it seems reasonable to believe that any company borrowing funds to expand its plant or equipment solely for preparedness purposes would expect to write off such an investment within the probable period of the emergency and that appropriate provision would be made for the amortization and final payment of the loan within a related period.

3. Mr. William S. Knudsen, 6/13/40. 189

The chief purpose of this letter is simply to assure the members of the National Defense Advisory Commission and other interested government officials that the New York City banks represented at the meeting yesterday are prepared to do everything properly within their powers to cooperate with the government and to facilitate the successful accomplishment of its program of preparedness. Either I or representatives of the banks in question would be pleased to have an opportunity to discuss this whole matter in further detail if you care to have us do so.

At the request of the banks represented at yesterday's meeting, I am sending a copy of this letter to the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator.

Faithfully yours,

GEORGE L. HARRISON

George L. Harrison,
President.

CONFIDENTIAL

150

June 20, 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 - June 15, 1940; Unfilled Orders and
Estimated Deliveries on June 15, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane
Engines, May 1 - June 15, 1940; Unfilled
Orders and Estimated Deliveries on June 15,
1940.

These tables carry forward through June 15, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

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

GCH:ak

FILE COPY

By Messenger / 2 d

CONFIDENTIAL

June 20, 1940.

Dear Admiral Stark:

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

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - June 15, 1940; Unfilled Orders and
Estimated Deliveries on June 15, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - June 15, 1940; Unfilled
Orders and Estimated Deliveries on June 15,
1940.

These tables carry forward through June 15, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

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

GA
FILE COPY

GCH:ek

By Messenger /20

CONFIDENTIAL

June 20, 1940.

Dear Mr. Knudsen:

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

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - June 15, 1940; Unfilled Orders and
Estimated Deliveries on June 15, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - June 15, 1940; Unfilled
Orders and Estimated Deliveries on June 15,
1940.

These tables carry forward through June 15, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Knudsen,
Chairman, Advisory Commission to the
Council of National Defense,
Room 206, Federal Reserve Building,
Washington, D. C.

GCH:sk

FILE COPY

By Messenger 121

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

193

June 20, 1940.

Dear Mr. Morgenthau:

I have your letter of June 20,
with confidential reports:

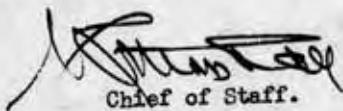
Part I - Airplanes.

Part II - Airplane engines.

I note these reports carry forward
through June 15, 1940, the information furnished
last week.

Thank you very much for this
further data.

Faithfully yours,



Chief of Staff.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.



DEPARTMENT OF STATE
WASHINGTON

June 20, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 1752 of June 20 from London, containing a strictly personal and confidential message for the Secretary of the Treasury.

TO THE SECRETARY OF THE TREASURY
JUN 21 1940

DA 2 19 2 40

RECEIVED
JUN 21 1940

RDS

GRAY

London

Dated June 20, 1940

Rec'd 12:39 p.m.

Secretary of State,
Washington.

1752, June 20, 5 p.m.

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

Following note marked secret dated June 20 just
received from the (*):

"I have the honor to state that discussions have recently been proceeding between His Majesty's Government in the United Kingdom and the Bank of England and His Majesty's Ambassador at Washington with a view to safeguarding His Majesty's Government's assets in the United States of America against the risk of possible attachment at the instance of enemy interests. Certain of these assets are at present held at the Federal Reserve Bank of New York in the name of the Bank of England and it is proposed that such assets should on the grounds of safety be transferred into the name of His Majesty's Government.

His Majesty's Government have now been advised by Lord Lothian that the United States Treasury have requested
and

-2- #1752, June 20, 5 p.m., from London.

and authorized the Federal Reserve Bank of New York to open accounts in the name of His Britannic Majesty's Government. The Federal Reserve Bank have confirmed this authority to the Bank of England and have asked that the necessary requests and instructions should be telegraphed to the United States Government through Your Excellency. Accordingly I have the honor to request Your Excellency to be so good as to address to your Government for transmission to the Federal Reserve Bank of New York a cable embodying the following requests and instructions:

(A) His Majesty's Government request the Federal Reserve Bank to open the following accounts to receive dollar and gold balances now held on similarly designated accounts in the name of the Bank of England-

Begin underlining currency accounts and underlining.

His Britannic Majesty's Government current account "P"

His Britannic Majesty's Government current account "G"

His Britannic Majesty's Government special account "A"

Begin underlining gold account and underlining.

His Britannic Majesty's Government No. 3 account.

(B) His Majesty's Government request the Federal Reserve Bank to accept on their behalf the instructions of the Bank of England in all matters relating to such accounts. These instructions will continue to have

effect

-3- #1752, June 20, 5 p.m., from London.

effect until notice of cancellation of authority is given by His Majesty's Ambassador at Washington, or by the Counselor to the British Embassy at Washington in accordance with arrangements already known to the Federal Reserve Bank. In that event the emergency signing procedure will take effect in respect of all accounts in name of His Majesty's Government with the exception of special account "A" which will continue to be operated by the same signatories as at present. The authority extended to His Majesty's Ambassador in Washington and to J. A. C. Osborne under the emergency signing procedure includes power to delegate authority to operate on the accounts in favor of any person or persons whom either may specify.

(C) His Majesty's Government certify that all gold and dollar balances now or in future to be held for the above accounts are the property of His Britannic Majesty's Government.

(D) His Britannic Majesty's (*) request the Federal Reserve Bank to continue to forward to Bank of England as heretofore all advices and statements of accounts, et cetera.

The Federal Reserve Bank have made a further request that His Majesty's Ambassador at Washington should by letter addressed to Mr. Hull confirm the foregoing and
also

-4- #1752, June 20, 5 p.m., from London.

also certify the legality and authority thereof. In view of the fact that by virtue of this letter His Majesty's Government are themselves making these requests in connection with their own assets, it is not clear what further confirmation or certificate of legality is required. I should be grateful to know that, if necessary, the United States Government would be prepared to confirm to the Federal Reserve Bank that the foregoing instructions emanate from His Majesty's Government."

KENNEDY

WNC

(*) apparent omissions

20 2 PM 05 PM CIO
1947

0:

6/25'40

Miss Chauncey

199

Mr. Foley says that you do not need to bring this to the Secretary's attention. It should go with your papers on sale and exchange of materiel for Allied Governments.

Florence

MR. FOLEY



THE SECRETARY OF THE TREASURY
WASHINGTON

200

JUN 20 1940

My dear Mr. Secretary:

You have requested my opinion whether it is necessary that airplanes, which are purchased by the British Government for military purposes, must be landed at the Canadian border and pushed from the American side to the Canadian side of the boundary line, or whether, and under what conditions, those airplanes may be flown directly from the United States to Canada.

It is my opinion, as I advised you on October 27, 1939, that such airplanes may legally be flown from a point in the United States to a point in Canada if there is compliance with the conditions set forth below.

Under section 2(c) of the Neutrality Act of 1939 (Pub. Res., No. 54, 76th Congress) (U.S.C., Sup. V. title 22, sec. 245j-1), the airplanes cannot be exported to Canada until all right, title, and interest therein have been transferred to some foreign government, agency, institution, association, partnership, corporation, or national. The shipper of the airplanes is required to file with the collector of the port from or through which they are to be exported a declaration under oath that he has complied with the requirements of section 2(c) with respect to transfer of right, title, and interest in the airplanes.^{1/} He must also comply with

^{1/} It will be recognized, of course, that the exceptions to section 2(c) with regard to exportation by air to Canada contained in sections 2(f) and 2(h) of the Neutrality Act of 1939 are not applicable, since airplanes have been listed as arms, ammunition, or implements of war in the President's Proclamation No. 2237, dated May 1, 1937, which Proclamation is made operative for purposes of the Neutrality Act of 1939 by section 12(1) (U.S.C., Sup. V. title 22, sec. 245j-11) thereof.

- 2 -

such rules and regulations that may be promulgated from time to time. Furthermore, under section 12 of the Neutrality Act of 1939 (U.S.C., Sup. V, title 22, sec. 245j-11), it is unlawful to take the airplanes to Canada without having submitted to the Secretary of State the name of the purchaser and the terms of the sale and without having obtained a license for the export. The licenses may be issued by the Secretary of State to persons who have registered as provided in section 12.^{2/} Licenses will not be issued where the export of airplanes would be in violation of the Neutrality Act of 1939, of any other law of the United States, or of a treaty to which the United States is a party. An examination has revealed no law of the United States or treaty to which the United States is a party which would be violated by flying the airplanes to Canada.

This office has been advised by Mr. Madden, attorney in the International Division of the Civil Aeronautics Authority, that, while such Authority has no jurisdiction over military aircraft, yet it is customary, in matters involving flights similar to those that have been proposed, for the Department of State to advise the proper officials of the Authority prior to the issuance of the export license by the Department of State, in order that the Authority may designate certain routes and flight rules for the

^{2/} The shippers of the airplanes are, it is assumed, registered with the Secretary of State.

- 3 -

trip. It seems that such procedure is merely one of convenience and is used in a cooperative manner in order to avoid conflicts with regularly scheduled commercial and other flights.

In "International Traffic in Arms" issued by the Secretary of State and published in the Federal Register on November 8, 1939, it is said (see page 4517 of Fed. Reg. for Nov. 8, 1939):

"Aircraft flown out of the United States should be cleared through the customs authorities at the customs port of entry nearest to the place of departure, or at the airport of departure if such airport has been designated as an airport of entry."

Section 5.84(c) of the Department of Commerce Regulations on Documentation, Entrance and Clearance of Vessels provides, as it appears in the Federal Register for December 27, 1939:

"Final clearance shall not be granted to any foreign vessel (watercraft or aircraft), bound to a foreign port, in a combat area, or proceeding into or through any such area, or to any vessel of a belligerent state, wherever bound, until the master has filed with the collector a list of all of the members of the crew of the vessel, together with the nationality of each member, which list shall be sworn to by the master."

It should be noted that section 6 of the Act of May 20, 1926, 44 Stat. 572, as amended (U.S.C., Sup. V, title 49, sec. 176), provides, as it appears in the Code, in part:

"Aircraft a part of the armed forces of any foreign nation shall not be navigated in the United States, including the Canal Zone, except in accordance with an authorization granted by the Secretary of State."

Since, under the Neutrality Act of 1939, title to the airplanes will pass to the British Government before they leave the United States, it would seem necessary to secure the authorization of the Secretary of State as provided in the above-quoted section. That, of course, could be given simultaneously with the issuance of the export license required by section 12 of the Neutrality Act of 1939.

I turn now to the problem of international law involved in flying the airplanes to Canada. During the World War, persons in the United States sold many airplanes to the Allies during the period when the United States was neutral. See 2 Wheaton, International Law (6th English ed. 1929) 977; Spaight, Air Power and War Rights (1924) 457. However, such airplanes were shipped to the belligerents in crates. They did not leave under their own power. In Spaight, *supra*, at page 451, where the supply of aircraft to belligerents by neutrals during the World War is discussed, it is said:

"Unfortunately, no concrete case arose of the supply by air of aircraft consigned from neutral jurisdiction to a belligerent and for the settlement of this difficult and important, question we have, therefore, to rely upon the analogy of maritime practice and the general principles of international law."

There is no treaty in force which would prohibit the flying of the

- 5 -

airplanes to Canada.^{3/} Article 8 of The Hague Convention XIII of 1907, concerning the Rights and Duties of Neutral Powers in Naval War, requires a neutral government to prevent the fitting out or arming of vessels intended to engage in hostile operations against a power with which the neutral government is at peace. During the World War, Secretary of State Bryan took the position that Article 8 was not applicable to seaplanes. Foreign Relations of the United States (1915) Supp., page 780. Furthermore, The Hague Convention XIII, by its own terms in Article 28, does not apply since all the belligerents in the present war are not parties to the Convention. Great Britain and Poland never ratified or adhered to Convention XIII. I have been unable to find anything in The Hague Convention V, respecting the Rights and Duties of Neutral Powers and Persons in War on Land, which seems applicable, but even if some provision were applicable, that Convention by force of Article 20 is not applicable since some of the belligerents were not parties to the Convention.

^{3/} Article 14 of the Habana Convention on Maritime Neutrality of 1928 (4 Malloy, Treaties 4747), which Convention has been ratified by the United States, provides:

"The airships of belligerents shall not fly above the territory or the territorial waters of neutrals if it is not in conformity with the regulations of the latter."

Whether the Convention is binding under present circumstances is immaterial since the United States may certainly consent to such flights. Article 14 appears under the heading "Duties and Rights of Belligerents".

On October 3, 1939, there was approved by the foreign ministers of the American Republics consulting at Panama a General Declaration of Neutrality of the American Republics. It was stated therein as follows:

"It is desirable to state the standards of conduct, which, in conformity with international law and their respective internal legislation, the American Republics propose to follow, in order to maintain their status as neutral states and fulfill their neutral duties, as well as require the recognition of the rights inherent in such a status, * * *."

Thereafter, it was resolved:

"3. To declare that with regard to their status as neutrals, there exist certain standards recognized by the American Republics applicable in these circumstances and that in accordance with them they:

* * * *

"(f) Shall regard as a contravention of their neutrality any flight by the military aircraft of a belligerent state over their own territory. * * *"

Whatever may be the authority of that resolution in determining what should be done in particular situations arising in this country, it is thought that the resolution is not applicable to the instant case. The airplanes here involved are being flown to Canada, a place far from military operations, merely to facilitate delivery. That is an entirely different situation from that which obtains when military aircraft, already operating as part of the armed forces of a belligerent, fly over

the territory of a neutral in order to escape pursuit, to find a shorter route to military objectives, or for reconnaissance purposes. Where military belligerent airplanes fly over neutral territory for the latter purposes, it is clear that the resolution in the Panama Declaration is applicable. Furthermore, the reason for the rule is evident. Such flights may result in armed combat in the air over the neutral territory. Obviously, no neutral state wishes to have the air above it transformed into a field of military combat. But where the airplanes are flown to a place thousands of miles from the field of military operations and merely for delivery purposes, those reasons do not exist. No one denies that the airplanes may be taken to Canada in crates or may be towed across the border into Canada. Why, if the airplanes travel under their own motive power rather than that of the transporter or the tower, the rule should be different, I cannot see.

In 1923, a Commission of Jurists met at The Hague to draw up rules of warfare for the control of radio and aircraft in time of war. That Commission of Jurists was appointed under a resolution adopted at the Washington Conference on the Limitation of Armament on February 4, 1922. The following countries were represented on the Commission: The British Empire, France, Italy, Japan, The Netherlands, and the United States of America. John Bassett Moore and Albert Henry Washburn were the representatives of the United States on the Commission.

The Commission produced the Draft Hague Air Rules, 1923. Article 46 of those Air Rules provides:

"A neutral government is bound to use the means at its disposal:

"(1) to prevent the departure from its jurisdiction of an aircraft in a condition to make a hostile attack against a belligerent Power, or carrying or accompanied by appliances or materials the mounting or utilization of which would enable it to make a hostile attack, if there is reason to believe that such aircraft is destined for use against a belligerent Power;

"(2) to prevent the departure of an aircraft the crew of which includes any member of the combatant forces of a belligerent Power;

"(3) to prevent work upon an aircraft designed to prepare it to depart in contravention of the purposes of this article.

"On the departure by air of any aircraft despatched by persons or companies in neutral jurisdiction to the order of a belligerent Power, the neutral government must prescribe for such aircraft a route avoiding the neighborhood of the military operations of the opposing belligerent, and must exact whatever guarantees may be required to ensure that the aircraft follows the route prescribed."

After the American delegates to the Commission returned with their draft, such draft was submitted to the Secretary of the Navy and the Secretary of War. In letters addressed to the Secretary of State from the Secretary of the Navy and the Secretary of War (1 Foreign Relations of the United States (1923), pages 87-88), the Secretaries

of War and Navy expressed approval of the draft. The Secretary of the Navy stated that the draft, whether or not it ever became a treaty, would have value for guidance in the use of new implements of warfare. The Secretary of War said that the aerial warfare rules were in general accord with the views of the War Department.

Whether Article 46 states the international law at the present time is open to question. It certainly represents the ideas and beliefs of eminent international jurists. It has been widely quoted by the text-writers in the field of international law. In The Paquete Habana, (1900) 175 U.S. 677, 700, and in Hilton v. Guyot, (1895) 159 U.S. 113, 163, the Court recognized that where there is no treaty or statute controlling, resort may be had to the works of jurists and commentators and to the acts and usages of civilized nations in order to ascertain what is international law. It will be assumed, arguendo, that Article 46, save for paragraph 2, does state the present international law.

Under Article 46(2), it is clear that it would be a breach of international law for the United States to permit the airplanes to leave the United States piloted by members of the combatant forces of the British Government. Paragraph 2 of Article 46 has been criticized by eminent authorities on international law as imposing too onerous a rule. See Spaight, Air Power and War Rights (1924) 462;

2 Wheaton, International Law (6th English ed. 1929) 971. I do not think that it would be unreasonable for the United States to take the position that Article 46(2) is not in accordance with the best interpretation of international law, at least with regard to shipments to Canada, which is nowhere near the scene of hostilities.

If the airplanes are flown to Canada by American civilian pilots or by British civilian (and probably military) pilots, if the airplanes are not equipped when they leave to make a hostile attack on a belligerent power, if there is no reason to believe that such aircraft will be used against a belligerent power before they have reached their destination in Canada, it is my opinion that there would be no violation of international law in flying the airplanes to Canada.

Before closing the discussion with regard to international law, your attention is directed to Article 99 of the Harvard Draft Convention on Neutrality in Naval and Aerial War. That Article provides:

"A neutral State shall use the means at its disposal:

- (a) To prevent the fitting out or arming within its territory of any aircraft which is intended to engage in hostile operations against a belligerent;

- (b) To prevent, subject to Article 94, the flight from its territory of any aircraft which is intended to engage in hostile operations against a belligerent, or which is intended to perform services of a military character for a belligerent."

The Draft Convention, however, is introduced by the following statement (33 Am. J. Int. Law (1939) Supp. p. 175):

"The considerations of the Draft Convention on Rights and Duties of Neutral States in Naval and Aerial War, revealed fundamental differences of opinion regarding the general organization of the draft, its underlying theories, and a number of the specific rules and principles set forth therein. The Research nevertheless presents it, without any implication that the Draft as published reflects even a consensus of the members of the Advisory Committee, hoping that its debates upon the problem may be continued among scholars throughout the world with a view to the further clarification of the subject."

Furthermore, in the General Introduction to the series of Draft Conventions prepared by the Research in International Law, the following statement appears (33 Am. J. Int. Law (1939) Supp. p. 10):

"The drafts which are now published as the results of the fourth phase of the work of the Research have been made with the object of stating the collective views of a group of Americans specially interested in the development of international law, concerning subjects which may be considered in connection with the codification of international law. The drafts represent the result of the work of American jurists and scholars after thorough consultation, and as such it is hoped that they may merit the attention of persons interested in the development of international law. The

- 12 -

proposals contained in the drafts, and the statements in the comments, are not to be taken to represent the individual views of any of the persons who have taken part in their preparation.

"The Research is wholly unofficial, and the drafts must not be taken as in any way representing the views of the Government of the United States."

Under those circumstances, the United States certainly would not be subject to criticism if it should refuse to consider Article 99 as a statement of the best interpretation of international law.

The current practice of flying the airplanes to the border and then pushing them over into Canada would seem as violative of subsection (a) of Article 99 as flying the airplanes to Canada. It must, therefore, be assumed that the United States has rejected subsection (a) as a statement of international law.

So far as subsection (b) is concerned, it is submitted that it was never intended to apply to flights to a place so far from the theater of hostilities as Canada. Flying the airplanes to Canada can have no more effect on actual hostilities than sending the airplanes to Canada in crates, which certainly is not prohibited. Such flying merely facilitates delivery, with which, it is submitted, Article 99(b) was not intended to interfere.

If it is desired that the airplanes be flown to Canada by American civilian pilots, it is clear that section 5(a) of the

- 13 -

Neutrality Act of 1939 (U.S.C., Sup. V, title 22, sec. 245j-4) must be considered. That section provides:

"Whenever the President shall have issued a proclamation under the authority of section 1(a) it shall thereafter be unlawful for any citizen of the United States to travel on any vessel of any state named in such proclamation, except in accordance with such rules and regulations as may be prescribed."

Section 16 of the Neutrality Act of 1939 (U.S.C., Sup. V, title 22, sec. 245j-15) provides, in part:

"For the purposes of this joint resolution--

* * * *

"(c) The term 'vessel' means every description of watercraft and aircraft capable of being used as a means of transportation on, under, or over water."

Since, under section 2(c) of the Neutrality Act of 1939, prior to the time the airplanes leave the United States, title to them must have been transferred to a "foreign government, agency, institution, association, partnership, corporation, or national", which in this case would be the British Government, section 5 would prohibit an American pilot from flying the airplanes to a point in Canada unless rules and regulations are prescribed which permitted him to do so. By virtue of Proclamation No. 2374, dated November 4, 1939, the President has delegated to the Secretary of State the power to exercise any power or authority conferred on the President by the

- 14 -

Neutrality Act of 1939. That Proclamation was authorized by section 13 of the Neutrality Act of 1939 (U.S.C., Sup. V, title 22, sec. 245j-12). The Secretary of State has prescribed the following regulation (see Federal Register for June 13, 1940, at page 2211):

"Other American citizens [other than diplomatic, consular, military, and naval officers, etc.] may travel on vessels of France; Germany; Poland; or the United Kingdom, India, Australia, Canada, New Zealand, the Union of South Africa; Norway; Belgium; the Netherlands; and Italy: Provided, however, That travel on or over the north Atlantic Ocean, north of 35 degrees north latitude and east of 66 degrees west longitude or on or over other waters adjacent to Europe or over the continent of Europe or adjacent islands shall not be permitted except when specifically authorized by the Passport Division of the Department of State or an American diplomatic or consular officer abroad in each case."

Section 5.85 of the Department of Commerce Regulations with respect to Documentation, Entrance and Clearance of Vessels provides (see Fed. Reg. for Nov. 21, 1939, at p. 4628):

"No clearance shall be granted to any vessel (watercraft or aircraft) of a belligerent state while having on board any citizen of the United States, whether as a passenger or member of the crew, except in accordance with the rules and regulations prescribed under authority of the Neutrality Act of 1939."

Before concluding, I wish to point out that there are two statutes which would prohibit the flying of airplanes to Canada if

- 15 -

they could be considered "vessels" within the meaning of those statutes. See section 11 of the Criminal Code, 35 Stat. 1090 (U.S.C. title 18, sec. 23), and section 3 of the Act of June 15, 1917, 40 Stat. 222 (U.S.C. title 18, sec. 33). However, section 3 of the Revised Statutes of 1873 (U.S.C. title 1, sec. 3) indicates that the word "vessel", as used in the two statutes in title 18, refers to watercraft. That would seem to be a complete answer to the two sections in title 18.

Very truly yours,

E. W. Foley
General Counsel.

The Honorable

The Secretary of the Treasury.



DEPARTMENT OF STATE
WASHINGTON

June 20, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses paraphrases (in single copy) of each of the following telegrams:

No. 17 of June 19 to Bordeaux

No. 1287 of June 19 to London

TO THE SECRETARY
TECHNOLOGY
DEPT. OF THE

NO. 17 OF JUNE 19

RECEIVED
TECHNOLOGY

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Bordeaux

DATE: June 19, 1940, 9 p.m.,

NO.: 17

FOR BIDDLE.

In response to telegram of June 14, 4 p.m., No. 21 from Matthews, the Treasury Department sends him the following message -

You are requested to inform the Governor of the Bank of France, Fournier, that the Federal Reserve Bank of New York, at the direction of the Treasury Department, has placed to the credit of the ordinary account of the Bank of France \$229,497,197.65, which represents 95 percent of the value of the shipment of gold.

It is the opinion of the State Department that the Ambassador or Matthews should again try to ascertain from the French authorities what disposition the French have made of or can make of any gold remaining in that country. How important this may be is evident.

You are requested to report on this matter.

HULL
(SW)

EA:LWW

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London

DATE: June 19, 1940, 10 p.m.

NO.: 1287

The Department has just sent the following telegram to Ambassador Biddle at Bordeaux, France -

In response to telegram of June 14, 4 p.m., No. 21 from Matthews, the Treasury Department sends him the following message -

You are requested to inform the Governor of the Bank of France, Fournier, that the Federal Reserve Bank of New York, at the direction of the Treasury Department, has placed to the credit of the ordinary account of the Bank of France \$229,497,197.65, which represents 95 percent of the value of the shipment of gold.

It is the opinion of the State Department that the Ambassador or Matthews should again try to ascertain from the French authorities what disposition the French have made of or can make of any gold remaining in that country. How important this may be is evident.

You are requested to report on this matter.

(End Message to Bordeaux)

If it is possible for you to get through to Ambassador Biddle to explain to him the importance which we attach to this matter it might be of use.

HULL
(SW)

EA:LWY

FROM: Riga, Latvia

DATE: June 20, 1940

NO. : 142

Official announcement this afternoon states Ulmanis remains President and new cabinet members as follows: Premier and Ad Interim Minister Foreign Affairs, Augusts Kirchenstein; War General, Roberts Dambitis; Interior, Vilis Lacis; Finance and Justice, Juris Faberzs; Communications, Janis Jagers; Social Welfare, Julius Lacis; Public Relations, Peters Blams; Vice Minister Interior and Political Police, Vicenti Zlaskowski; Commander in Chief Army General, Roberts Klavins.

WILEY

Taken over phone - 7-10-40



DEPARTMENT OF STATE
WASHINGTON

reply refer to
891.51/536

June 20, 1940

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a paraphrase of a strictly confidential telegram dated June 17, 1940 which has been received from the Legation at Tehran relative to the cancellation by the Iranian Government of a credit agreement with England.

Enclosure:

Paraphrase of telegram,
June 17, 1940, from Tehran.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

11 11 AM SS INL GMR

TELETYPE DEPARTMENT
RECEIVED

TELETYPE DEPARTMENT

NO 6 IN 15 JUL 1940

TELETYPE DEPARTMENT

hsm

Department of State

BUREAU
DIVISION

NE

ENCLOSURE

TO

Letter drafted 6/19/40

ADDRESSED TO

Treasury

PARAPHRASE OF STRICTLY CONFIDENTIAL TELEGRAM
DATED JUNE 17, 1940, RECEIVED FROM THE LEGATION
AT TEHRAN.

Reference is made to the Legation's telegram
of March 4, 1940.

The Iranian Government, acting on the advice of
the German and Soviet Governments, has cancelled the
credit agreement. The latter Governments assert
that more favorable terms can be offered by them and
that in any case for years to come it will be impossible
for England to furnish anything. The German victories
in France must be considered the direct cause of the
foregoing.

TO THE SECRETARY
OF THE
TECHNICAL ASSISTANT
OFFICE OF THE
LEGATION

NO 24 55 11 11

RECEIVED
TEHRAN DEPARTMENT

221



DEPARTMENT OF STATE
WASHINGTON

June 20, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of a telegram received from the American Consulate General at Zurich, no. 142, dated June 19, 1940.

Enclosure:

From Zurich, no. 142,
June 19, 1940.

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
WASHINGTON
JUN 22 1940

RECEIVED
JUN 22 1940

RECEIVED
JUN 22 1940

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Zurich

NO.: 142

DATE: June 19, 1940, 5 p.m.

I have been informed by a reliable contact in the Swiss National Bank that the Reich is attempting to force Switzerland to join, with all its resources, the new German continental system. It is reported that the Germans have given the Government of Switzerland until the end of this week to decide.

The army has received instructions to be prepared for any eventuality in case the Swiss Government refuses. The entire French boundary as far as Geneva is now occupied by the German army.

Government agencies are urging Swiss firms, as a conciliatory move, to increase exports to the Reich within the field of the clearing account and to use war emergency reserve supplies if necessary.

ALTAFFER

TO THE SECRETARY
LEGATION OF THE UNITED STATES
BERNE
JUN 20 1940

NO 20 15 22
JUN 20 1940
RECEIVED

EA:EB

June 20, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of June 15th, giving information relative to conditions at the Allis-Chalmers Manufacturing Company.

I appreciate your courtesy in furnishing me with this information.

Yours sincerely,

(Signed) H. Worentkau, Jr.

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

June 20, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of June 15th, giving information relative to conditions at the Allis-Chalmers Manufacturing Company.

I appreciate your courtesy in furnishing me with this information.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

June 20, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of June 15th, giving information relative to conditions at the Allis-Chalmers Manufacturing Company.

I appreciate your courtesy in furnishing me with this information.

Yours sincerely,

(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.

June 15, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

Mr. William Watson, Vice President of the Allis-Chalmers Manufacturing Company, West Allis, Wisconsin, has recently furnished information to the Milwaukee, Wisconsin, Field Office of the Federal Bureau of Investigation which I felt might be of interest to you.

The Allis-Chalmers Manufacturing Company, according to Mr. Watson, has recently been awarded an Army contract to manufacture gun carriages for large coastal guns and is in a position to manufacture considerable quantities of war materials.

Mr. Watson called attention to newspaper comment indicating that the leaders of the Congress of Industrial Organizations in the State of Wisconsin, headed by Harold Christoffel who is President of the local union of the CIO at the Allis-Chalmers Company, are not in sympathy with the recent program for extending the national defense. Mr. Watson also furnished to the Milwaukee Office of this Bureau a copy of a so-called "Chain Letter for Peace" which had been distributed in the Allis-Chalmers plant by the Milwaukee County Industrial Union Council, Room 4098, Plankinton Arcade Building, Milwaukee, Wisconsin. This letter urges that workers write their Congressmen and Senators, requesting that they oppose the Johnson Act and the granting of loans and other aid to belligerent nations, as steps which will bring the United States into war. Workers are also urged in this letter to advise their representatives in Congress that they are opposed to the emergency defense measures which

- 2 -

are "designed to destroy our civil liberties."

According to Mr. Watson, Harold Christoffel, above mentioned, is the President of the Milwaukee County Industrial Union Council and Meyer Adelman is Secretary-Treasurer of this organization.

Mr. Watson has advised that because of the attitude displayed by the leaders of the Union which is operating in his plant, he anticipates that labor difficulties will occur in the plant in the event that production of war materials is undertaken.

In the event any further information is received with respect to this situation, I will, of course, advise you.

Sincerely yours,

J. Edgar Hoover



TREASURY DEPARTMENT

WASHINGTON

228

June 20, 1940.

MEMORANDUM FOR THE SECRETARY:

Replying to your inquiry: No ships are loading out-bound from the United States for Norway and Sweden, and likewise no ships are loading home from Norway and Sweden to United States ports.

Beginning last May 10th the Finns sent their first ship from New York to Petsamo. Since that time they have sailed seven ships in all. The first ship is due this week-end west-bound from Finland.

The only American ships plying in the European trade are freight ships running from New York to and from Bilbo and Vigo, Spain, and New York to and from Lisbon, and one or two from Gulf ports to Vigo and Bilbo.

Basil Harris.

June 20, 1940.

MEMORANDUM FOR THE SECRETARY:

Replying to your inquiry: No ships are loading out-bound from the United States for Norway and Sweden, and likewise no ships are loading home from Norway and Sweden to United States ports.

Beginning last May 10th the Finns sent their first ship from New York to Petsamo. Since that time they have sailed seven ships in all. The first ship is due this week-end west-bound from Finland.

The only American ships plying in the European trade are freight ships running from New York to and from Bilbo and Vigo, Spain, and New York to and from Lisbon, and one or two from Gulf ports to Vigo and Bilbo.

June 20, 1940.

MEMORANDUM FOR THE SECRETARY:

Replying to your inquiry: No ships are loading out-bound from the United States for Norway and Sweden, and likewise no ships are loading home from Norway and Sweden to United States ports.

Beginning last May 10th the Finns sent their first ship from New York to Petsamo. Since that time they have sailed seven ships in all. The first ship is due this week-end west-bound from Finland.

The only American ships plying in the European trade are freight ships running from New York to and from Bilbo and Vigo, Spain, and New York to and from Lisbon, and one or two from Gulf ports to Vigo and Bilbo.

Mrs Klotz:-

The Secretary said to send ²³¹
this to you. (Mr White has asked
me to get it for the Secty). This
came from Miss Frazier.

D.C.M.

JUN 20 1940

My dear Mr. President:

In response to your letter of June 15, 1940, asking for the combined judgment of the Secretaries of State, Treasury, Agriculture, and Commerce as to means of strengthening inter-American economic relations, the following specific proposals are submitted:

We are in agreement that it has become imperative for the United States to supplement its military defense program with effective and decisive action in the field of economic defense. To this end we recommend the adoption and execution of a joint economic program for the Western Hemisphere. The objectives of such an economic program should be:

(1) The safeguarding and strengthening of the economy of the Western Hemisphere, coordinate with the defense of the territorial integrity of the political divisions comprising the area.

(2)

The President,

The White House.

(3) The maintenance and expansion of the incomes and purchasing power of producers in the Western Hemisphere.

The problem is rendered especially acute by the fact that all of the countries of the Hemisphere are producers and exporters of raw materials and basic foodstuffs in quantities far in excess of the present consumption demand of the area. Bound as are the American Republics by close ties of inter-American solidarity, it is most appropriate that they should immediately consult with one another as regards the protection of their economies from the repercussions of the international situation. As circumstances permit, other countries, similarly situated, should be invited to participate in such consultation and in whatever cooperative arrangements may result therefrom.

The following lines of action are specifically recommended:

A. The Government of the United States should propose to the governments of the other American Republics the creation by mutual agreement of an appropriate inter-American organization which would have the means and the authority for dealing, by joint action, with

certain

- 3 -

certain basic problems involved in their trade relations with non-American countries. The proposal should envisage the establishment of an Inter-American Trading Corporation, with strong central direction, with an organization appropriate for achieving the desired objectives, and with control equitably distributed among the participating countries. It should be contemplated that the Corporation should from the outset operate as an effective agency for joint marketing of the important export staples of all of the American Republics.

B. Without waiting for the Inter-American cooperative plan above outlined to be established and at work, and with a view to facilitating the negotiation and effectuation of the plan, the Government of the United States should immediately and vigorously undertake to deal with the various pressing problems, including the handling of critical commodity situations. Existing powers and facilities are not adequate for this purpose. It is therefore recommended that the Congress be requested to authorize the RFC for a period of one year to utilize or organize a corporation or corporations to purchase and dispose of certain products of the American Republics. There is attached a draft of legislation amending the RFC Act in this sense.

C.

- 4 -

G. Vigorous action by the agencies concerned should be undertaken as rapidly as possible in the broad field of development in some American Republics of new industries and production. In addition, appropriate agencies of the United States Government should be directed to give immediately further attention to such questions as the extension of new credits and of cooperation, when desired by other American Republics, in the strengthening of their monetary systems. When and as it may be found necessary and advisable, increased attention should be given to the problem of existing foreign indebtedness of some Latin American countries.

Faithfully yours,

Acting Secretary of State

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Secretary of Agriculture

Secretary of Commerce

BA:LP:ME
6/20/40

SUGGESTED LEGISLATION

Section 3 (d) of the Reconstruction Finance Corporation Act, as amended, is hereby amended by adding at the end thereof the following paragraph:

The Corporation is authorized and directed, for a period of one year from the effective date of this Act, when requested by the President, to utilize or organize a corporation or corporations for the purpose of acquiring, carrying, and distributing emergency surplus products of the Western Hemisphere, and to subscribe for the non-assessable stock thereof, and to make loans to any such corporation or to any other corporation organized to assist it, or necessary to such program. The commodities acquired under this Act may be sold or transferred for any purpose approved by the President. Loans made by the Reconstruction Finance Corporation under the provisions of this paragraph may be on such terms and conditions and with such maturities as the Corporation may determine. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by \$1,000,000,000.

June 20, 1940
9:24 a.m.

Admiral
Stark:

Hello, Mr. Secretary.

H.M.Jr:

Good morning.

S:

Good morning, sir. The destroyers are in and the cruiser docks at 9:50.

H.M.Jr:

Good. So far there's complete secrecy.

S:

Yes, sir. Well, I've cautioned the Commandant to maintain it so far as humanly possible.

H.M.Jr:

You know we're not going to touch it today, you know.

S:

Well, no, I didn't know what the arrangements were.

H.M.Jr:

Well, the arrangements were, we thought after all it'll be in the papers today that these ships come in.

S:

I think that's a good idea.

H.M.Jr:

Then if they see this stuff rolling through the streets they put two and two together. That's what I did last time. I let it cool off for twenty-four hours.

S:

I think that's a fine thing.

H.M.Jr:

But I'll have it all off by Saturday night. We'd normally close the Assay office on Saturday, but I'm keeping it open. So that's the way we handled it last time and the men, you see, had their leave, they got off and they were away and then these trucks came up quietly and took the stuff off. So I'm hoping we can do it quietly.

S:

Right. Did you see Roger Williams yesterday? Vice President of the Newport News Shipbuilding Company?

- 2 -

H.M.Jr: No, just a minute. I think that -- I asked to make an arrangement -- if you'll hold the wire I'll ask. Just a minute. (Talks aside) Mr. Sullivan was to make the arrangements yesterday to see him or have somebody see him.

S: Yes.

H.M.Jr: Why, is there something special on that?

S: Well, he wanted to see you personally, I think, and he asked me and I told him I thought Mr. Compton was trying to arrange it. I didn't want to get my wires crossed but I know that he was. I think he'd liked to have had a few minutes' talk with you.

H.M.Jr: Oh. Well, Compton called up and I turned him over to Sullivan and

S: Well, if he comes in again and wants to see you may I give you a ring?

H.M.Jr: Of course.

S: All right.

H.M.Jr: Of course.

S: All right, I will.

H.M.Jr: Is he a good man?

S: Oh, splendid. Yes, I was responsible for losing him to the Navy.

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

S: During the last war he was in the forces at Queenstown, and Admiral Sims told me to pick out the very best man that I could as liaison between the Pershing and the forces in France and our Naval headquarters in London. I selected Roger Williams, and when I did it I said when he gets in contact with outside people, somebody is going to grab him because he's so fine and so able. And it happened.

- 3 -

The shipping interests with which he was working closely gave him opportunities which the Navy couldn't, and he resigned from the Navy at that time.

H.M.Jr: Well, if he comes to town again and you'd like me to see him, I'd be glad to.

S: All right, thank you, sir.

H.M.Jr: Right.

S: Good-bye.

JUN 20 1940

MEMORANDUM FOR THE PRESIDENT:

In accordance with your memorandum of June 12, 1940, instructions have been issued to insure that procurement and disbursement services in Washington for the High Commissioner to the Philippine Islands shall be handled as in the case of other Federal activities, upon order of the Department of the Interior, to be operative when the 1941 appropriations become available.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

WNT:mas

File to Mr. Thompson

By Messenger 120

241

BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

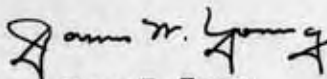
June 20, 1940

From DIRECTOR

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

For

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



James W. Young,
Director.

Inclosure - Economic Developments 6/20/40.

June 20, 1940.

242

ECONOMIC DEVELOPMENTS

CONSTRUCTION CONTRACTS awarded in May increased more than seasonally despite some slumping off during the latter half of the month. Private awards for the year to date have run well ahead of a year ago and in May were high enough to push the total above May 1939 even though public work was still below last year's volume. Commercial and industrial construction has been showing large percentage gains over a year ago but the actual volume in this field is still small. Residential awards in May were higher than at any time since 1929. The falling off of awards toward the end of May was rather sharp; the mortgage data for the first half of June show a somewhat lower volume of activity than in the two preceding months.

EXAMPLES:

Construction Contracts Awarded
(Million dollars)

	Total	Public	Private	Residential	Commercial and Industrial
<u>1939</u>					
January	252	148	104	80	24
February	220	111	109	79	23
March	301	128	173	125	30
April	330	160	170	114	39
May	308	135	174	134	32
<u>1940</u>					
January	196	93	104	77	29
February	201	82	119	75	35
March	272	95	177	122	45
April	301	103	198	135	47
May	329	112	217	146	49

Mortgages Selected for Appraisal (F.H.A.)
(Number per week)

May	4	—	5,342
"	11	—	4,993
"	18	—	5,161
"	25	—	4,982
June	1	—	3,857 (holiday week)
"	8	—	4,770
"	15	—	4,602

- 2 -

SIGNIFICANCE: The generally bearish reaction in consumers' and producers' goods markets that came with the German military successes in the latter half of May extended to the construction industry, particularly the residential field. The reaction up to this time, however, can not be said to be particularly important, though it indicates one of the potential deflationary areas in case disruption arises from a quick ending of the war. Longer term outlook for construction is certainly improved by the defense program which will necessitate a substantial increase in industrial and related construction.

ACTIVITY IN PRODUCERS' MACHINERY AND EQUIPMENT industries rose slightly in May according to pay-roll indexes. Increases in lines working on war orders, machine tools, engines and turbines, and shipbuilding, offset decreases in other non-war industries, agricultural implements and textile machinery.

EXAMPLES:

Pay Rolls in Machinery and Equipment Industries
(Weighted index, 1923-25=100)

1939		
August	—	109
December	—	137
1940		
January	—	135
February	—	138
March	—	143
April	—	144
May	—	145

Percentage Changes in Pay Rolls

	Aug. 1939 to Apr. 1940	Apr. 1940 to May 1940
Agricultural implements.....	+ 26	- 1.2
Electrical machinery.....	+ 22	+ 1.8
Machine tools.....	+ 77	+ 1.1
Textile machinery.....	+ 7	- 3.7
Foundry and machine shops.....	+ 22	0
Cash registers.....	+ 8	0
Engines, turbines, etc.....	+ 56	+ 7.2
Cars, electric & steam railroad....	+ 81	- 4.0
Locomotives.....	0	+ 3.8
Shipbuilding.....	+ 20	+ 2.9

SIGNIFICANCE: The flow of expenditures for equipment was maintained during May, bolstered by war business. Compared with pre-war, most of these industries are operating at considerably expanded levels; they did not experience drastic declines from December to May as did semimanufactured goods lines. This is in sharp contrast to what happened in the 1937 decline.

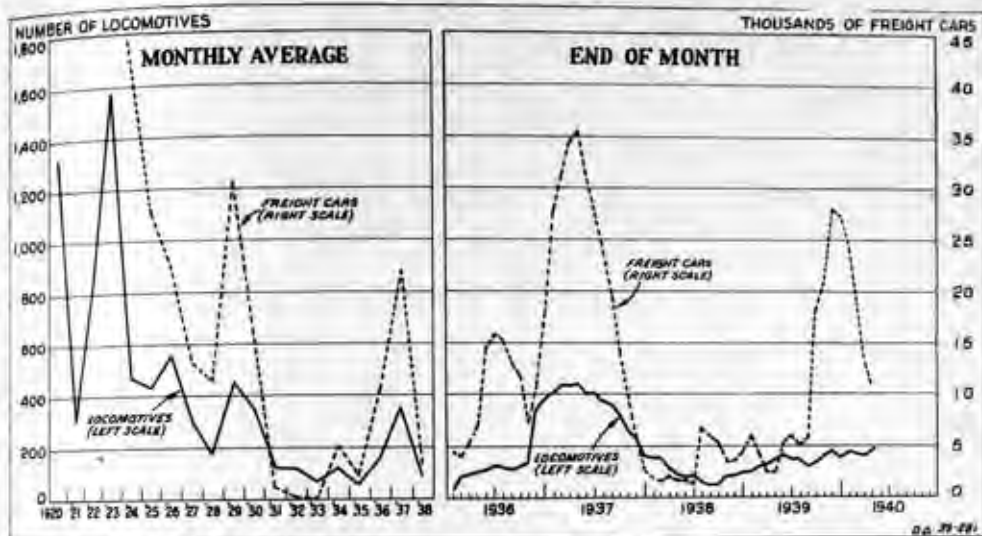
PURCHASES OF RAILROAD EQUIPMENT, which expanded considerably last fall, have been in restricted volume so far this year. Domestic orders for freight cars in 1939 totaled about 54,000, with a high proportion of the year's total placed in September and October when there was an unexpectedly high seasonal peak in carloadings. Between August and December about 75,000 (net) freight cars and 1,500 locomotives were repaired. Since December, however, unfilled orders for cars have been cut down sharply and the bad order total has remained virtually constant. Some new purchasing of locomotives has occurred.

	<u>Refilled Orders</u>		<u>Bad Orders</u> (needing repair)	
	<u>Freight Cars</u>	<u>Locomotives</u>	<u>Freight Cars</u>	<u>Locomotives</u>
1939				
August	8,754	122	225,000	8,397
Sept.	23,028	136	195,000	8,125
October	28,906	165	168,000	7,558
November	36,193	184	199,000	6,985
December	37,045	156	154,000	6,507
1940				
January	34,509	179	155,000	6,324
February	28,112	168	155,000	6,496
March	21,112	163	155,000	6,604
April	17,460	192	160,000	6,675

SIGNIFICANCE: Last fall's experience indicated that the railroads were pressed to meet a weekly fall traffic peak of 860,000 cars. Equipment repaired and delivered at the time met the need. Orders placed in the interval have added to rolling stock but not significantly. Should the defense program require freight movement considerably in excess of 860,000 cars next fall, therefore, it is doubtful that existing rolling stock will be adequate.

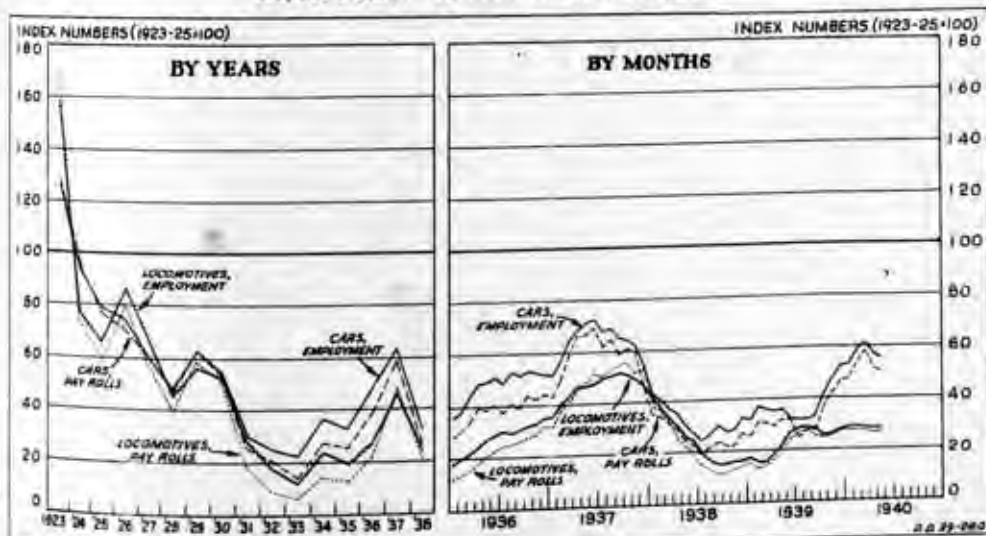
UNFILLED ORDERS OF RAILROAD EQUIPMENT MANUFACTURERS

245



Unfilled Orders of Equipment Manufacturers, 1920-40. (Data on locomotives are reported by the Bureau of the Census and cover all purchasers; data on freight cars are reported by the Association of American Railroads and cover orders of Class I roads, exclusive of orders in railroad shops.)

EMPLOYMENT AND PAYROLLS IN RAILROAD EQUIPMENT BUILDING INDUSTRIES



Employment and Pay-roll Indexes, Car (electric and steam railroad) and Locomotive (other than electric) Building Industries, not including Railroad Repair Shops, 1923-40 (U. S. Bureau of Labor Statistics).

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percentage increase, June 15, 1940 from —	
	June 17	Aug. 26	Sept. 16	June 8	June 15	June 17, 1939	Aug. 26, 1939
Commodities	75.4	74.8	79.3	71.4	71.4	2.7	3.5
Farm products	62.0	61.1	69.7	66.7	66.8	7.7	9.3
Foods	67.1	66.7	75.5	70.5	70.2	4.6	5.2
Commodities other than farm products and foods	80.6	80.4	82.4	82.4	82.4	2.2	2.5
Hides and leather products	93.0	92.6	98.3	99.6	99.6	7.1	7.6
Textile products	66.8	67.4	71.4	71.9	71.8	7.5	6.5
Fuel and lighting materials	74.1	73.2	74.1	72.2	72.2	- 2.6	- 1.4
Metals and metal products	93.4	93.5	94.9	94.8	94.9	1.6	1.5
Building materials	89.5	89.7	90.7	92.1	92.4	3.2	3.0
Chemicals & allied products	(1)	(1)	(1)	76.4	76.4	—	—
House-furnishing goods	86.9	87.0	87.1	89.9	89.9	3.5	3.3
Miscellaneous	73.6	73.1	76.1	77.0	77.2	4.9	5.6
Manufactured materials	67.4	66.2	73.0	70.7	70.9	5.2	7.1
Manufactured articles	74.3	74.4	82.0	77.7	77.8	4.7	4.6
Finished products	79.8	79.3	82.3	80.9	80.7	1.1	1.8

Comparable data not available.

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

SELECTED COMMODITY PRICE SERIES

247

Commodity	Unit	1939			1940	
		June 21	August 30	Sept. 13	June 12	June 19
Hydro, electrolytic, New York	\$ per lb.	10	10 1/2	12	11 1/2	11 1/2
do, 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	49 3/20	49 3/4	1/ 75	56 5/8	53
do, plantation, New York	do	16 1/2	16 13/16	22 1/2	23	23
do, light native, New, Chicago	do	11	11	15	10 1/2	11
do, 13-15 denier, New, Chicago	do	11	11	15	10 1/2	11
do, scripps, N. Y.	\$ per lb.	2.56	2.72	3.21	2.79	2.80
do, middling, average, 10 markets	\$ per lb.	9.49	8.53	9.01	10.35	10.59
do, cloth, 60 x 64, 1 1/2 inches, N. Y.	\$ per yd.	4 1/2	4 5/8	5 3/8	4 3/4	4 3/4
do, tops, July 1940						
do, New York	\$ per lb.	2/80.8	1/81.5	1/111.9	97.0	96.5
do, raw, 96°, duty free, New York	do	2.80	2.92	3.70	2.77	2.75
do, Acra, New York	do	4.25	4.38	6.45	4.85	5.12
do, Santos, No. 4, New York	do	7 1/2	7 5/8	7 3/4	7 1/4	7 3/8
do, cash, Chicago	do	6.10	5.65	7.75	5.55	5.50
do, cottonseed oil, July 1940 futures, N. Y.	do	2/ 6.48	1/ 5.61	1/ 7.30	6.24	6.00
do, July 1940 futures, Chicago	\$ per bu.	2/ .69 3/4	1/ .67 1/4	1/ .85 3/8	.82	.78 5/8
do, good and choice, 20-240 lbs., Chicago	\$ per cwt	1/ 6.88	6.88	8.13	5.30	5.18
do, beef, medium, 20-1,100 lbs., Chi.	do	8.63	8.38	8.88	8.50	8.75

Mineral. 2/ July 1939 futures. 1/ December 1939 futures. 1/ Hogs weighing 220-250 lbs.

Notes: 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.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron 1/	Steel Scrap 2/	Finished steel 3/
	(Dollars per gross ton)		(Cents per pound)
1939:			
June 20	20.61	14.75	2.236
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.90	2.236
1940:			
June 11	22.61	19.17	2.261
June 18	22.61	19.92	2.261

- 1/ Based upon average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.
- 2/ Based upon No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.
- 3/ Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

1862004 DEBAMINEM1

10:11

NOV 10 1940

SECRETARY OF TREASURY
OFFICE

RECEIVED

TREASURY DEPARTMENT

249

INTER OFFICE COMMUNICATION

DATE June 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Leroy-Beaulieu spoke with me this morning he mentioned that he had received from French Missions in four Latin American countries, including Argentina, Colombia and Chile, requests to use his good offices toward freeing the accounts of the "Banque Francaise Italienne pour l'Amerique du Sud".

Mr. Leroy-Beaulieu stated that the majority of capital in this institution, which has its headquarters at Paris, is Italian. The Banque de Paris et des Pays Bas is the French bank principally interested in this concern which operates extensively in Latin America. Seven out of ten directors are French. Since the beginning of the war a managing committee of three Frenchmen and one Italian has been handling the business of the bank. The latest word received from Paris in regard to this institution, which was about a week ago, was to the effect that the above-mentioned managerial group was still functioning.

Leroy-Beaulieu wanted us to have the above information, in connection with applications and representations which he was aware we were receiving with respect to the funds of the above-mentioned bank. He does not feel, however, that he can officially file a written endorsement of applications for freeing of accounts of this institution in the absence of information as to its exact status.

At 12 o'clock today Mr. Vargas of the Colombian Embassy called, in accordance with an arrangement made with me by the State Department. Mr. Bernstein was present when Mr. Vargas reported instructions which he had received concerning the Banque Francaise Italienne pour l'Amerique du Sud in Bolivia.

After the departure of Mr. Vargas it was agreed with Mr. Bernstein that I should telephone New York in regard to Mr. Maurice Boyer, the representative in this country of the bank under reference, coming to Washington for a conference. I have talked this afternoon with Leroy-Beaulieu who has promised to get in touch with Boyer and suggest that he should come to Washington, bringing with him all relevant information, including a list of the bank accounts which his organization has in the United States, indicating amounts thereof, and also including information as to the instructions under which he acts. It was understood that if I heard nothing further from Leroy-Beaulieu, we could expect Maurice Boyer tomorrow. Maurice Boyer is a well-known officer of the Banque de Paris et des Pays Bas, Paris, who has frequently visited the United States, and is now a member of the staff of the Anglo-French Purchasing Mission in New York, in addition to serving as a representative of the Banque Francaise Italienne pour l'Amerique du Sud.

June 21, 1940

Mr. Boyer called on me at 11 o'clock this morning and summarized the situation of his bank. I then took him to Mr. Pahle's office in order that he could present his documents and give full details.



TREASURY DEPARTMENT

250

INTER-OFFICE COMMUNICATION

DATE June 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

By appointment, Mr. Nisiyama, financial representative in the United States for the Japanese Government, called on me. He stated that some weeks ago an article appeared in a New York paper, which he suspected might be Government inspired, pointing out the large export of gold from Japan to the United States during the year 1939, and casting some doubt as to the correctness of the Bank of Japan statements in regard to gold reserves. I told Mr. Nisiyama that I had not seen any such article, and that I could assure him no responsible officer of the Treasury had for one minute doubted the correctness of Bank of Japan statements.

Mr. Nisiyama stated that he had been permitted by his Government to give to Secretary Morgenthau the following strictly confidential figures in regard to Japanese gold. The amount of gold shipped to the United States in the calendar year 1939 was \$165,000,000. The following were the sources of this gold:

Newly mined	\$ 61,000,000
Purchase from private hoarding (Japan and Formosa)	72,000,000
Exchange fund (separate from Bank of Japan since July 1938)	21,000,000
North China Account	1,000,000
Manchukuo Account	<u>10,000,000</u>
Total	\$165,000,000

Mr. Nisiyama assured me that none of the gold imported into the United States in 1939 came from the reserves of the Bank of Japan itself, and that the statements of that Bank showed only gold actually belonging to that institution and constituting its reserves.



TREASURY DEPARTMENT

251

INTER-OFFICE COMMUNICATION

DATE June 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

After moving off another 2-1/2¢ at the opening to 3.55, sterling was quoted within a narrow range all day. It closed at 3.54.

Today's sterling turnover was the largest that has been reported since the institution, on June 10, of the British exchange regulations which should have the effect of eliminating most of the utility of free sterling. The greater part of today's foreign bank orders to sell sterling came from the Continent. Commercial concerns, it will be noted, were unusually heavy buyers. It was reported that cotton exporting houses, who had previously sold sterling for forward delivery as a hedge against future exports to England, were today purchasing pounds to cover these commitments, because they now expect payment in dollars for cotton shipments, and also because some shipments cannot be made owing to the lack of available shipping space.

Sales of spot sterling by the six reporting banks totaled £398,000 from the following sources:

By commercial concerns.....	£ 82,000
By foreign banks (Europe and Far East).....	£ 316,000
Total.....	£ 398,000

Purchases of spot sterling amounted to £507,000, as indicated below:

By commercial concerns.....	£ 346,000
By foreign banks (Europe, Far East and South America).....	£ 161,000
Total.....	£ 507,000

The Guaranty Trust Company reported that it had sold cotton bills totaling £5,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Guaranty also stated that it had purchased £34,000 from the British Control at the official rate of 4.03-1/2, to be used to pay for jute shipments.

The Swiss franc, which rose to .2255 yesterday, moved into even higher ground today on continued demand from Switzerland. A quotation of .2260 was reached late this afternoon and the closing rate was .2259.

The other currencies closed as follows:

Canadian dollar	19-3/4¢ discount
Lira	.0505
Reichsmark	.4000
Cuban peso	10% discount
Mexican peso	.1818 bid, .2000 offered

- 2 -

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the South African Reserve Bank shipped \$3,304,000 in gold from South Africa to the Federal for account of the Bank of Sweden, disposition unknown.

The State Department forwarded to us a cable stating that Mocatta & Goldsmid, London, shipped \$84,000 in gold from England to the Banque Belge Pour l'Etranger, New York, for sale to the U. S. Assay Office.

The Bombay gold price was equivalent to \$35.38, off 7¢.

Spot silver in Bombay advanced the equivalent of 3/16¢ to 44.16¢.

In London, spot silver was fixed at 22-13/16d, off 5/16d. The forward quotation was 21-3/4d, off 3/16d. The U. S. equivalents were 41.47¢ and 39.54¢ 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¢.

There were no purchases of silver made by us today.



CONFIDENTIAL

TREASURY DEPARTMENT

253

INTER OFFICE COMMUNICATION

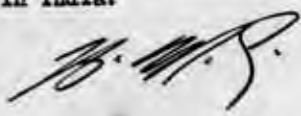
DATE June 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Consul General Adams, of the Far Eastern Division of the Department of State, telephoned me this afternoon in regard to Tientsin silver. He had the following observations to make, under instructions from his colleague, Mr. Hamilton, Chief of the Far Eastern Division of the Department of State. In view of all of the political circumstances, the Department of State would prefer that if the Treasury buy the Tientsin silver, it buy it directly from the British after title is passed to the British. The State Department has had no word directly from the Chinese as to what their attitude now is in respect of the disposition of this silver. All word on this subject to the present has come from the British. The State Department has so far requested no information from Tientsin or Chungking in the premises. The State Department believes it is better for us to wait until the British themselves clear up the matter. It was recalled that the British had on several occasions tried to involve us in the matter, at one time endeavoring to get the National City Bank in China to store the silver. It is immaterial to the State Department whether the Treasury eventually buys the silver, but it does not want a purchase to be made in circumstances which might involve the Department of State politically.

I told Mr. Adams that we were still studying the correspondence and records in the case, and that no step toward purchasing the silver would be made without further consulting the Department of State. We discussed the alternative of the silver being disposed of in India.



Mr. Turner
Mr. Tuckman
Mr. Tamm

TREASURY DEPARTMENT

254

INTER-OFFICE COMMUNICATION

DATE June 20, 1940

TO Secretary Morgenthau

FROM Mr. Haas

SUBJECT: Current Developments in the High-grade Security Markets

SUMMARY

- (1) The market for United States Government securities has been moderately strong on balance since last Friday, following a sharp advance last week which carried the longest bonds up more than two points. The news of the French request for peace negotiations was accompanied by only moderate price declines.
- (2) High-grade corporate securities have not fared so well as have Treasury bonds in the recent market advance (Chart I). There have been no new corporate bond offerings in the New York market for almost four weeks, and the volume of new municipal issues during this time has been relatively small.
- (3) Recent recoveries in long-term Treasury bonds have brought their average yield back to within 17/100 of one percent of the level reached on June 5, 1939 -- the date on which long-term Treasury bonds reached their all-time low yield (high price). The pattern of yields of Treasury securities has changed considerably in the past year.
- (4) The dollar bonds of Germany and Italy rose sharply on Monday, when France asked for peace, while those of Australia and Canada declined (Chart II). The internal securities of Great Britain are now at or near the minimum prices established by the London Stock Exchange (Chart III).

I. United States Government Securities

The prices of Treasury bonds, and of 3 to 5 year Treasury notes, after sharp rises last week, have made moderate additional gains in the last four market days. The increase in the prices of 1 to 3 year notes since the upturn of the longer securities on June 11 has been small. The news of the French request

Secretary Morgenthau - 2

for peace negotiations was accompanied by only moderate declines in the market for Government securities. Price changes from the close on Monday, June 10, through Friday, June 14, the period of sharp advance, and from Friday's close through yesterday, are shown, by maturity classes, in the following table:

	Average price change	
	June 11 - 14	June 15 - 19
(Decimals are thirty-seconds)		
<u>Notes</u>		
1 - 3 year	+ .01	+ .01
3 - 5 year	+ .13	+ .04
<u>Bonds</u>		
5 - 15 years to call	+1.20	+ .02
15 years and over to call	+2.02	+ .04

During last week's rally, the Federal Reserve Open Market Account sold \$3.8 millions of Government securities.

II. Other Domestic Security Markets

High-grade corporate securities have not fared so well as long-term Treasury bonds in the net upward movement which began June 11. Our average yield of high-grade corporates, moving inversely to prices, has decreased by six basis points since June 10 to 2.91 percent at Wednesday's close, as compared with a decrease of fifteen basis points for long-term Treasury bonds in the same period (Chart I).

No public offerings of new corporate bonds were made in the New York market during the week ended June 15, and none have been made so far this week. The offering of \$38 millions of 3-1/2 percent bonds by the Jersey Central Power and Light Company, planned for this week, has been postponed temporarily. The market for new public offerings of corporate bonds is thus in its fourth consecutive week of inactivity. Private placements of corporate securities have continued in moderate volume.

In the municipal field also the volume of public offerings has been small in recent weeks. It is interesting to note that bidders for the \$3 millions of serial bonds issued by the City

Secretary Morgenthau - 3

of Minneapolis are understood to have agreed that all bids should be contingent on no legislation affecting the tax-exempt status of the bonds prior to their delivery.

III. Changes in the Yields of Treasury Securities from the Record Levels of June 1939

Recent recoveries in long-term Treasury bonds have brought their prices back close to the level existing at the beginning of the year. As a result of these movements, the average yield of long-term Treasury bonds is within 17/100 of 1 percent of the level reached on June 5, 1939 -- the date on which the long-term Treasury bonds reached their all-time low yield (high price).

The sharp movements that have occurred in the Treasury bond market during the past year have changed the pattern of yields rather considerably. This is brought out in the table below which shows estimated yield bases on which securities of selected maturities would have sold on June 5, 1939, and on June 19, 1940. These estimated yield bases have been taken instead of the yields of securities actually outstanding, so that the figures for each date will be directly comparable.

	: June 5, : 1939	: June 19, : 1940
	(Percent)	
3 year note	.18	.60
5 year note	.50	.80
10-12 year bond	1.63	1.85
20-25 year bond	2.22	2.39

IV. Foreign Government Securities

The dollar bonds of Germany and Italy rose sharply on Monday when it was announced that France was seeking peace negotiations but have since declined slightly. Those of Australia and Canada declined (Chart II). All bids for the

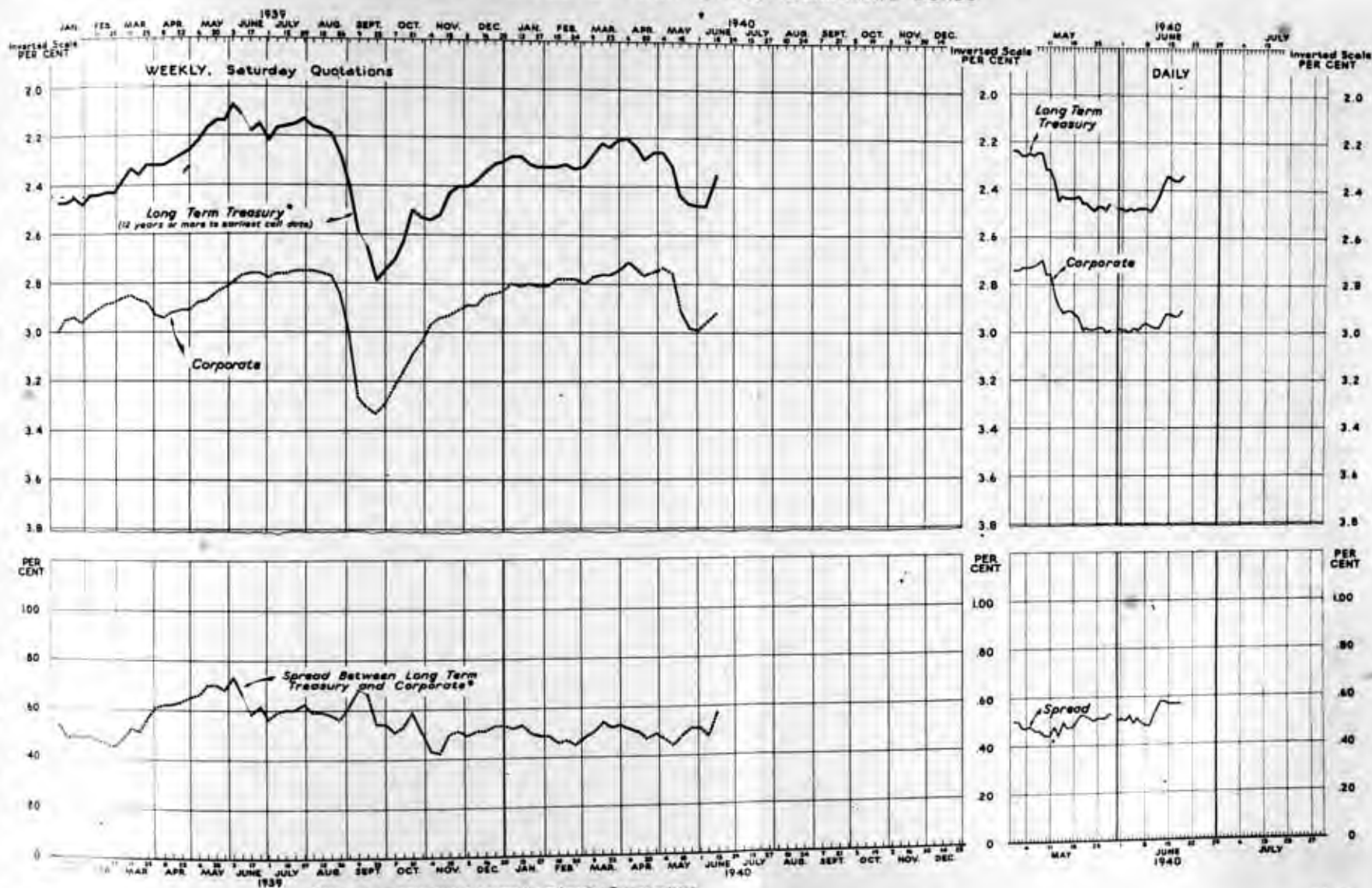
French 7 percent bonds of 1949 were withdrawn on Monday; but on Tuesday and Wednesday this issue declined seven points to 93. It should be noted, however, that, according to press reports, the price of French 7's has been sustained to some extent by sinking fund provisions.

British 2-1/2 percent consols, which had been relatively quiet for some time, declined on Monday to the minimum price of 70-1/2 established by the London Stock Exchange, but regained 3/4 of a point yesterday (Chart III). Other British internal issues were similarly weak on Monday and Tuesday, but shared in Wednesday's gains. Thus the 4 percent Funding Loan, at 108-1/2 on Tuesday, was at its minimum; and the 3-1/2 percent War Loan, at 95-1/2, was only 1/2 point above its minimum. Both issues rose yesterday.

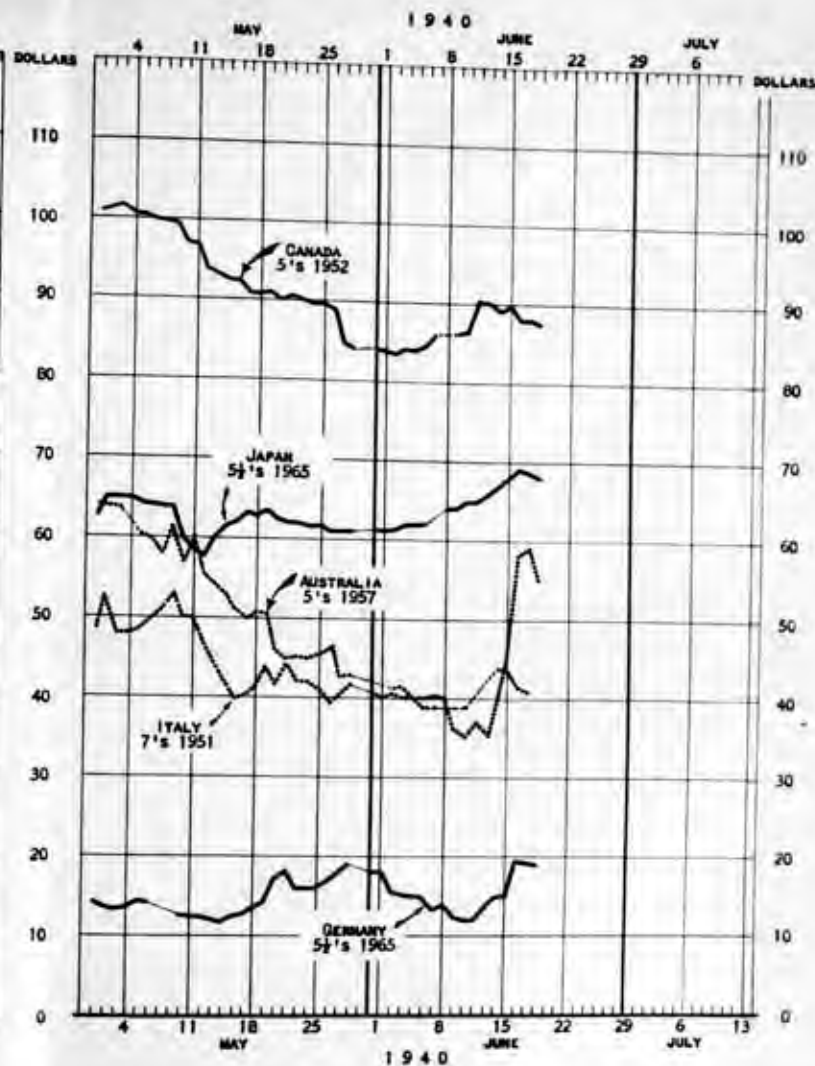
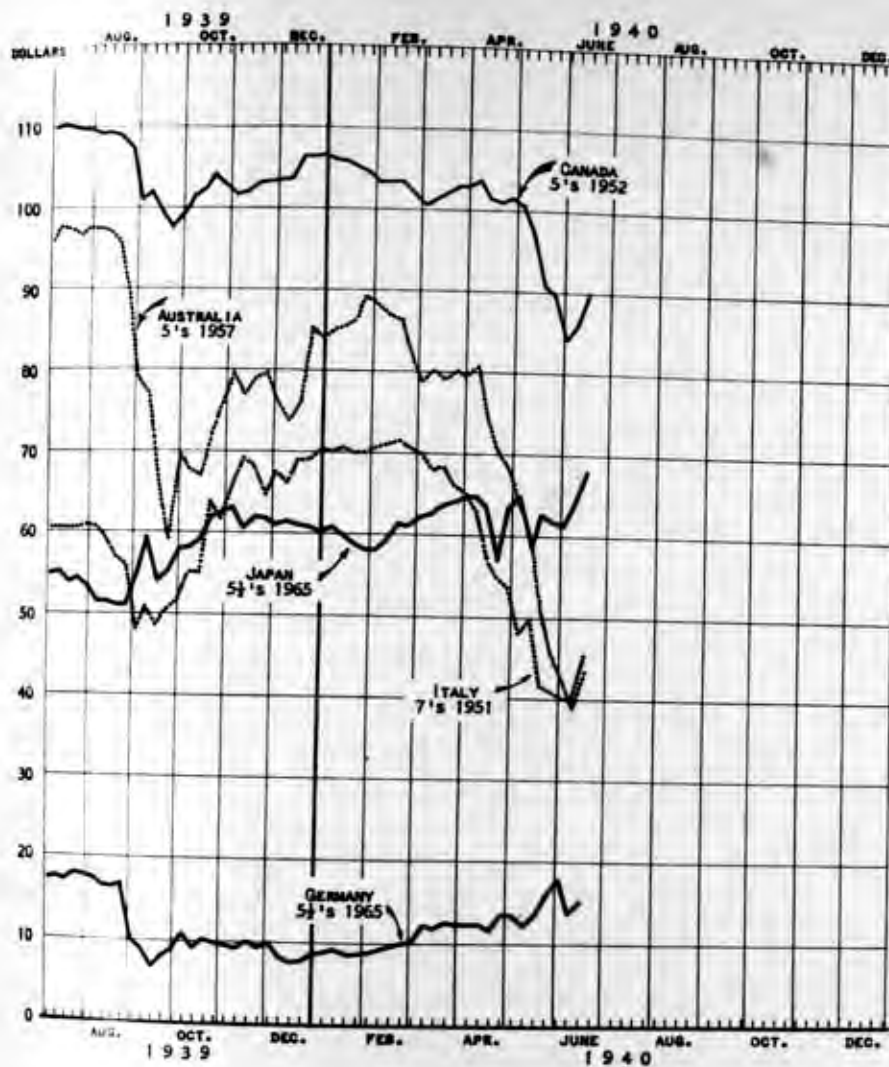
Attachments

Chart I

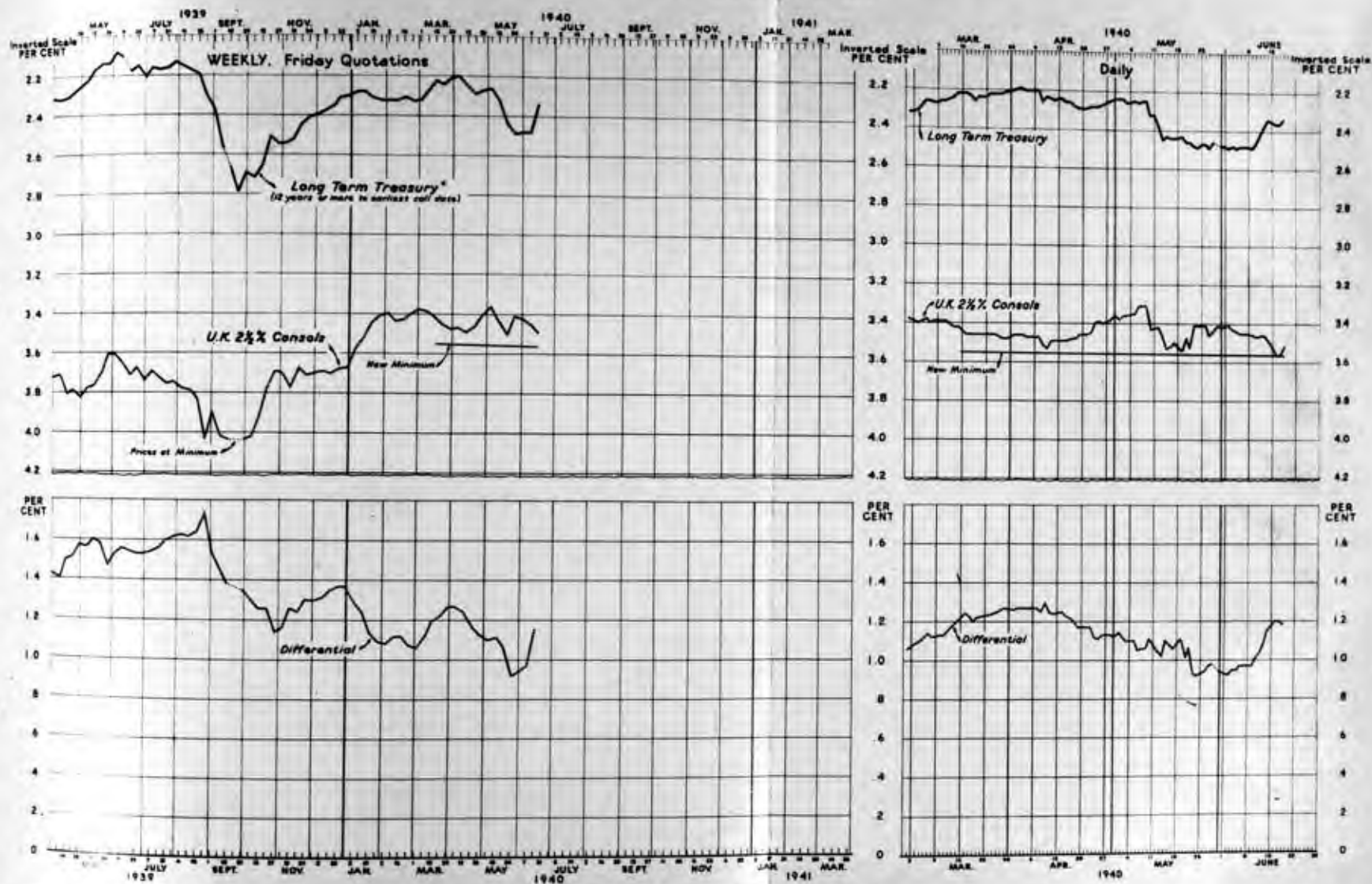
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY BONDS AND U.K. 2½% CONSOLS



TREASURY DEPARTMENT

261

INTER OFFICE COMMUNICATION

DATE June 20, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:30 this morning Mr. Leroy-Beaulieu telephoned me from New York in regard to certain questions concerning the application of our freezing orders to France, which are being taken up by our committee.

In our conversation Leroy-Beaulieu again brought up the question as to the status of French gold and official dollar balances in this country if an armistice should now be arranged between France and the Axis powers. I reminded him that this question had been raised by him in the Secretary's office earlier in the week, and that it was not possible today to give any more specific answer.

Leroy-Beaulieu told me in strict confidence in the above connection that a French warship has arrived in a Canadian port with more French gold, but has not yet landed the gold. Since French assets are being blocked in British territory the question has arisen as to whether the French should proceed to deliver this gold to Canada for earmarking, or transfer it to the French West Indian island of Martinique. No decision has been reached.

With respect to the accounts of the Bank of France with the Federal Reserve Bank at New York, Leroy-Beaulieu told me that the Bank of France agent in New York would be hesitant about transferring gold from the "Ordinary" account to the "Special" account, unless he can certify to the Federal Reserve Bank in writing that it is a normal business transaction. He would not feel free, presumably, to transfer a big sum to the British in circumstances other than "normal business".



June 20, 1940
3:45 p.m.

GROUP MEETING

Present: Mr. Young
Mr. Graves
Mr. Nelson
Mr. Harris
Mr. Thompson
Mr. Haas
Mr. Bell
Mr. Sullivan
Mr. Cochran
Mr. Gaston
Mr. Schwarz
Mr. White
Mr. Foley
Mr. Helvering
Mrs. Klotz

Bell: I have two things. One is the publication of that gold report. We can hold it up until Monday, but it is all in the Federal Reserve figures, which will come out tomorrow morning, and they will really have to fake their statement in order to give it out and they don't want to do it.

H.M.Jr: They are going to do it tomorrow?

Bell: Yes. It is their weekly statement that comes out on Friday and they would really have to fake their statements, including the Bank of France, which would not be so good. I think that publishing it they will just take it as a release.

On Latvia, Lithuania, and Esthonia, I have talked to Berle. Berle says that he thinks it probably falls in with the principle and we are proceeding, but he thinks you might make a distinction that there was some

- 2 -

semblance of agreement here, two of the countries, before the occupation, and after all we don't want to do anything that might hurt this Russian move against Germany. He recommends against it. There really isn't enough involved to --

H.M.Jr: They are pro-Russia today, are they?

Bell: Yes.

H.M.Jr: I just got through being pro-Italian.

Bell: Well, there are a lot of mixtures in the world.

White: Are you getting ready to be pro-Japanese?

Sullivan: How about pro-Republican?

Gaston: It is getting worse and worse.

H.M.Jr: Well, my compliments to Mr. Berle and tell him that I can't see a damn bit of difference. I haven't got time tonight --

Bell: I don't think there is enough involved --

H.M.Jr: I am not going to make a fight, but I am not going to be pro-Russian to suit you and Mr. Berle.

Bell: Well, he prefaced his remarks with, "I don't like to rush into these things. After all," he said, "we have got to wink at what they are doing now." I talked to you the other day about the legislation of the Federal Reserve Board once in connection with the foreign accounts. Now, they have got a bill drafted which they want to take up tomorrow morning and see if they can rush it through, and they want us to help. This is a short letter just saying okay. Will you sign it, or shall I sign it?

H.M.Jr: You sign it.

Bell: That is all I have.

- 3 -

H.M.Jr: You and Norman - I have got the best attendance I have had for a long time, and I guess they all know I am going away tonight and want to register that they are here. I told Norman this morning, so you go around and see Dr. Bell and Dr. Thompson and fix it up that everybody gets some time off between now and Monday morning. You (Sullivan) have been tardy every day for a week.

Sullivan: No, sir, there was one day when I wasn't.

H.M.Jr: Remember the day he was early and tried to sit there where Nelson is sitting?

Sullivan: I got here early this morning. Your operator has been getting me out of bed every morning at seven o'clock so this morning I didn't set the alarm and woke up at five minutes past nine.

Bell: I was supposed to make an appointment tomorrow morning about the Library of Congress Trust Fund, but I forgot it.

H.M.Jr: I will excuse you this time. Wonderful.

Bell: I am glad I didn't.

H.M.Jr: Harold, did you take care of my little mission?

Graves: Yes.

H.M.Jr: All right. Now, I will read this thing while Mr. Helvering is here. I take it you (Helvering) have been over this.

Helvering: Yes.

H.M.Jr: This is either the Secretary of War or the Secretary of the Navy, whoever they may be.

Sullivan: "Dear Fellow Republican."

White: Where do you get the "Fellow"?

Sullivan: I have got to --

Foley: They seem to be satisfied, don't they?

H.M.Jr: Well anyway,

"Under existing law the Treasury Department determines what portion of the cost of special additional equipment and facilities shall be charged against a contract of the War or Navy Department for the construction or manufacture of a complete naval vessel or army or navy aircraft or any portion thereof. Under a procedure for closing agreements provided for by section 3760 of the Internal Revenue Code, a procedure was adopted whereby the Treasury would, prior to the execution of the contract, fix the amount which under existing law may be determined in advance as chargeable to the contract. Such a closing agreement was entered into only after certification by the Secretary of War or the Secretary of the Navy, as the case may be. In such cases the contractor filed his request for a closing agreement with the Commissioner of Internal Revenue, and a copy thereof was filed with the War Department or the Navy Department, as the case may be, in order to facilitate certification by such department. If section 4 of H. R. 9822 (76th Cong., 3d sess.) becomes law, this practice of entering into closing agreements with respect to special equipment and facilities will be discontinued.

"Section 4 of H. R. 9822 would modify this existing practice by requiring the Secretary of War or the Secretary of the Navy, as the case may be, to determine in advance what portion of the cost of the special additional equipment and facilities shall be borne by the government and charged against the particular contract. The Secretary concerned will make certification as required by such section 4 to the Commissioner of Internal Revenue. Such certification would be binding

- 5 -

upon the Commissioner of Internal Revenue, subject to such regulations as the President may prescribe. The President has indicated that Treasury approval of the certification will be necessary. In the Treasury Department the duty of considering such certification and of recommending Treasury action thereon will be performed by a Treasury Committee composed of Timothy C. Mooney, Chairman; Herman T. Reiling, Vice Chairman; John W. Burrus; C. A. Appel, and Dean W. Martin. Under the new procedure the contractor's request for a determination by the Secretary of War or the Secretary of the Navy, as the case may be, shall be filed with the Secretary of the Department concerned. In order to facilitate action along the lines indicated by the President, it is suggested that--

"(1) Copies of the contractor's request should be forwarded immediately to Mr. Timothy C. Mooney,"

Do I know Mr. Timothy C. Mooney?

Sullivan: He is Deputy Commissioner in charge of Income Tax.

H.M.Jr: "Chairman, Room 4002, Internal Revenue Building.

"(2) Three copies of the certification by the Secretary concerned (agreed to by the contracting party), together with a copy of the contract or proposed contract shall be transmitted directly to the above-mentioned Chairman;"

Now does this say this shall all be prior to the planning of the contract, is that clear?

Helvering: You mean coming over to us?

H.M.Jr: Yes.

Helvering: Yes.

H.M.Jr: "(3) The certification shall itemize the special additional equipment and facilities,

- 6 -

state the necessity and cost (or estimated cost) of each item thereof, and the percentage of cost of each item to be charged against the contract or subcontract;

"(4) A certification shall not be approved by the Treasury unless a certification has been made with respect to the first contract or subcontract on which such special additional equipment and facilities are used, and has been made successively thereafter on any intervening contracts or subcontracts.

"Following consideration by the Treasury Committee referred to above, the Chairman or Acting Chairman thereof will make his recommendation for approval or disapproval of the certificate direct to the Secretary of the Treasury, whose decision will be forwarded immediately to you."

It looks all right to me. Have you seen it, Ed?

Foley: Yes, I have seen it.

H.M.Jr: Have you seen it?

Sullivan: Yes, sir.

H.M.Jr: And you have seen it?

Helvering: Yes, sir.

H.M.Jr: You don't want to see it, do you?

Bell: No.

H.M.Jr: I mean, unless you want to.

Bell: It sounds too complicated.

H.M.Jr: The way I read it, I don't blame anybody if they didn't understand it.

Gaston: Were you reading it?

H.M.Jr: If you saw this type --

- 7 -

White: You meant "aloud", didn't you?

Gaston: Thank you, Herry.

H.M.Jr: Two strings.

White: I am your pal.

H.M.Jr: Believe me, I am going away every Thursday night.

All right, stick around, and you (Helvering) will see how we do serious business.

Mr. White, I didn't have a chance to tell you that Mr. Welles said yesterday that you had been the most helpful of them all in preparing this thing you worked on.

White: It is an exaggeration, but it is all right with me.

H.M.Jr: Well, you would rather have him exaggerate on that side, wouldn't you?

White: Yes.

H.M.Jr: Anything else?

White: I showed the final letter to Mr. Bell and Mr. Gaston and Mr. Foley, and we all agreed it was all right.

H.M.Jr: Well, I signed it without reading it aloud.
(Mrs. Klotz entered the conference.)

H.M.Jr: You had better come. They are ribbing me terribly.

Klotz: I thought they were ribbing me.

H.M.Jr: There is such joy that I am leaving Thursday night that Sullivan got here five minutes ahead of time.

Sullivan: I was sitting in his chair when he came in.

H.M.Jr: I had better look out.

Sullivan: Don't worry about me, I'm not a Republican.

White: I move he be given a week's vacation.

H.M.Jr: Well, that takes care of you, Harry.

White: I am taken care of.

Nelson: I have nothing, Mr. Secretary.

Haas: I have nothing.

H.M.Jr: Phil?

Young: Fifty-five of the 93 planes are leaving Mitchell Field tomorrow at 3:30. They are taking off in groups of 9 in fifteen minute intervals, which, I am sorry to say, leaves one of them unaccounted for. That was the official information I received from the British. The rest of them are being boxed and will be shipped out of New York shortly. They expect to make a direct flight up to Halifax. They may possibly come down at Bangor, depending upon the weather conditions.

H.M.Jr: And the title will pass?

Young: When they cross the border, in the air.

Foley: We got a letter from Hull on that.

H.M.Jr: Is it all right?

Foley: Yes.

H.M.Jr: Any other good news?

Young: That is all for the moment. Oh yes, one other piece of good news you might be interested in. The British are trying to make a contract with the Miami Boat Company to build them 81 sub chasers.

H.M.Jr: Mrs. Klotz is mumbling something about tanks.

Young: Tanks, yes. Tanks --

H.M.Jr: What else?

Young: Tanks --

White: You are welcome, go ahead.

H.M.Jr: We are always like that, Guy.

Young: One French tank - the British are very anxious to have you send a message to our Government official at Bordeaux requesting the French to expedite this shipment of one French tank to this country.

H.M.Jr: You and Merle write the cable and sign my name to it, to Ambassador Biddle, if he is still there.

Cochran: All right.

H.M.Jr: You had better say "American Embassy, Bordeaux." The last I heard, Biddle was trying to get out of Bordeaux.

Cochran: This is a cablegram from Zurich concerning which Mr. Berle spoke to Mr. Bell. I am not sure it should be taken too seriously until we have further confirmatory information. The sender, Mr. Altaffer, is the American Consul at Zurich now in charge, pending a transfer of Consul General.

H.M.Jr: Who is this fellow?

Cochran: He is the Consul who is replacing the Consul General temporarily.

Sullivan: I understood that you gave some instructions this morning about tax stamps.

H.M.Jr: Right.

Sullivan: Right. Wrong in some details.

H.M.Jr: "Tanks".

- 10 -

Sullivan: Now, on some of the other things --

H.M.Jr: Didn't I say they would argue about it?

Thompson: You said no alibis.

Sullivan: This isn't an alibi. I am trying to protect you. You can't have a stamp for a third of a cent.

H.M.Jr: Why not?

Sullivan: How is he going to pay for it?

White: Three for a cent.

H.M.Jr: Why sure.

Bell: Don't you have postage stamps of half cents?

Sullivan: Yes. How do you pay for that when you buy one?

White: You don't buy one, you buy two.

Sullivan: On documentary stamps, we are going to have some trouble.

H.M.Jr: I am not worrying about it a bit, and I am sure on second wind you can find a way.

Sullivan: We can find a way on some of the things, and on some we can't.

H.M.Jr: I told you they had to be done.

Sullivan: You bet your life. Now, on tobacco, for instance, if the House insists on putting in the additional tax on tobacco, that would mean two stamps. Now, we can put in one and dress that old - the original stamp up, if you want us to.

H.M.Jr: Well, you study the thing over the week-end, will you?

Sullivan: I hadn't planned to. I will study it tomorrow.

H.M.Jr: All right.

- 11 -

Sullivan: I have gone over it with Mr. Helvering and there are certain things that will cause a lot of difficulty.

H.M.Jr: Have it as good as Ivory Soap and I will be satisfied.

Helvering: There are only two things, documentary stamps and admissions.

H.M.Jr: And everything else is okay?

Helvering: Yes.

H.M.Jr: Now why didn't you say that? Wonderful.

Helvering: But they have got to run - a pack of cigarettes --

Sullivan: Unless they put on one new stamp --

Helvering: But as I understood, your idea was that you wanted this stamp to show --

H.M.Jr: What I want to show is that this billion dollars, just as near as possible - I want a stamp on every single article that pays the tax to show that this tax - and I want a national defense stamp, eagle in the middle, battle ship on one side, and an airplane on the other, and I want this thing - even if it costs us money to print the extra stamps. In other words, if there is a 5¢ stamp, leave the old stamp on and the extra stamp, the new tax will show in this new national defense tax stamp, that this billion dollars is for national defense. I want that to show up.

Helvering: Couldn't we get that little Springfield we had in the Spanish-American War and have it on this?

H.M.Jr: Get two of them and cross them.

Sullivan: In cigarettes, for instance, we can't have the old stamp with a new one attached to that, can we? That will save duplicate operations.

H.M.Jr: Is he giving me orders?

Thompson: I gave him a written memorandum.

Sullivan: I didn't hear a word from him. I got this on the grapevine.

H.M.Jr: You may have got it on the grape, I don't know about the vine.

Helvering: Well, John, isn't Harold responsible?

H.M.Jr: You like the idea, though?

Sullivan: Yes, the idea is swell and we want to fix it, but we will save these extra operations for manufacturers if we can and some expense for us.

H.M.Jr: Just give me the results, is what I want.

Sullivan: We try to where possible.

H.M.Jr: Ed?

Foley: Judge Rosenman held that you couldn't make your talk --

H.M.Jr: Does that hold for everybody else in the room?

White: You can't keep some of us quiet.

Foley: You have got a decision.

H.M.Jr: Good. Thank you. That same, too - anything else?

Herbert?

Gaston: The British Purchasing Commission complained to F.B.I. and wrote a memorandum that goods on the docks, munitions, and supplies, were not properly protected and the F.B.I. took it over to the State Department and Berle called me up about it. The F.B.I. thought they didn't have jurisdiction to protect them. I told Berle that I thought it was primarily a local police matter, but we would

be willing to exceed our authority if necessary and if it didn't step on F.B.I.'s toes. I called up Hoover today and --

H.M.Jr: What did Hoover say?

Gaston: Well, I asked him if he would be willing to have a conference with us and go over the whole situation and he said he would.

H.M.Jr: Well, let me ask Basil Harris. If you have got a lot of merchandise and you are in the shipping business, who is responsible for the protection of that merchandise?

Harris: The shipper, primarily.

H.M.Jr: I don't see why a U. S. Government police agency should protect that. Let them hire somebody.

Gaston: Well, I think there is a little more than that to it. Of course, on the matter of explosives, we have a direct responsibility.

Harris: One of the difficulties is --

Gaston: If we can confer with the New York police and arrange some method by which the protection is more adequate than it is now, I don't see why we shouldn't do it.

H.M.Jr: I don't either, but I still think --

Harris: One of the difficulties, Mr. Secretary, is that in the port of New York when you want extra guards you can't select your own men. You take whom the Union gives you and it is very unsatisfactory from that standpoint. They can, for instance, go out and hire Pinkertons or Burns Detectives or anybody like that.

H.M.Jr: They can? Well, if you can do something, Phil Young would say, "Tanks". I hope everybody gets some rest. Divide it up and I will see you all Monday morning.

Incidentally, there is very encouraging news on the French fleet, very encouraging news. It looks hopeful.

Nelson: Fine.

MEMORANDUM
1-343543

My dear Mr. Secretary:

Under existing law the Treasury Department determines what portion of the cost of special additional equipment and facilities shall be charged against a contract of the War or Navy Department for the construction or manufacture of a complete naval vessel or army or navy aircraft or any portion thereof. Under a procedure for closing agreements provided for by section 3760 of the Internal Revenue Code, a procedure was adopted whereby the Treasury would, prior to the execution of the contract, fix the amount which under existing law may be determined in advance as chargeable to the contract. Such a closing agreement was entered into only after certification by the Secretary of War or the Secretary of the Navy, as the case may be. In such cases the contractor filed his request for a closing agreement with the Commissioner of Internal Revenue, and a copy thereof was filed with the War Department or the Navy Department, as the case may be, in order to facilitate certification by such department. If section 4 of H. R. 9328 (76th Cong., 3d sess.) becomes law, this practice of entering into closing agreements with respect to special equipment and facilities will be discontinued.

Section 4 of H. R. 9328 would modify this existing practice by requiring the Secretary of War or the Secretary of the Navy, as the case may be, to determine in advance what portion of the cost of the special additional equipment and facilities shall be borne by the government and charged against the particular contract. The Secretary concerned will make certification as required by such section 4 to the Commissioner of Internal Revenue. Such certification would be binding upon the Commissioner of Internal Revenue, subject to such regulations as the President may prescribe. The President has indicated that Treasury approval of the certification will be necessary. In the Treasury Department the duty of considering such certification and of recommending Treasury action thereon will be performed by a Treasury Committee composed of Timothy G. Mooney, Chairman, Herman T. Reiling, Vice Chairman, John W. Durfee, G. A. Appel, and Dean W. Martin. Under the new procedure the contractor's request for a determination by the Secretary of War or the Secretary of the Navy, as the case may be, shall be filed with the Secretary of the Department concerned. In order to facilitate action along the lines indicated by the President, it is suggested that--

- 2 -

(1) Copies of the contractor's request should be forwarded immediately to Mr. Timothy G. Mooney, Chairman, Room 4002, Internal Revenue Building;

(2) Three copies of the certification by the Secretary concerned (agreed to by the contracting party), together with a copy of the contract or proposed contract shall be transmitted directly to the above-mentioned Chairman;

(3) The certification shall itemize the special additional equipment and facilities, state the necessity and cost (or estimated cost) of each item thereof, and the percentage of cost of each item to be charged against the contract or subcontract;

(4) A certification shall not be approved by the Treasury unless a certification has been made with respect to the first contract or subcontract on which such special additional equipment and facilities are used, and has been made successively thereafter on any intervening contracts or subcontracts.

Following consideration by the Treasury Committee referred to above, the Chairman or Acting Chairman thereof will make his recommendation for approval or disapproval of the certificate direct to the Secretary of the Treasury, whose decision will be forwarded immediately to you.

Very truly yours,

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

HTR/ama/tew 6/20/40

June 20, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Bell
Mr. Gaston
Mr. Haas
Mr. Young
Mr. Thompson
Mr. Cochran
Mr. Graves
Mr. Schwarz
Mr. Nelson
Mr. Harris
Mr. White
Mr. Foley
Mr. Sullivan
Mrs. Klotz

H.M.Jr: Good morning, everybody. What have you got, Herbert?

Gaston: Well, nothing. All we can get on the Northland is two 3" anti-aircraft and four 50 calibre guns.

H.M.Jr: What else have you got?

Gaston: That is all. That matter I mentioned about Mexican oil going to Spain seems to be temporarily cleared up pretty well. The Maritime Commission has refused a charter to the particular boat they were worrying about.

H.M.Jr: All right.
Ed?

Foley: Larry Morris was down yesterday to talk about possible transfer of title of property owned by the Chinese counterpart of the Universal Trading Corporation in

- 2 -

French Indo-China. He talked with Harry and Merle and me and Harry and I believe that there isn't any significance that they ought to - nothing they should do in regard to transfer of title at this time that would in any way be effective. I merely wanted to mention it to you because there is all this talk about Japanese seizure of French Indo-China. The war goods, those goods they have there, undoubtedly would be seized and used by the Japs if they go in there, and the mere fiction of title, it seems to me, isn't going to be very much of a deterrent and they are not part of our security, Mr. Secretary. These are goods that they bought with the proceeds of the loan, but it isn't the tung oil, it is the security of the loan, so I think we had better leave the situation alone and that was what we told Larry and he was satisfied.

H.M.Jr: What else?

Foley: Nothing.

H.M.Jr: John?

Sullivan: You asked me to bring up this testimony of Furlong's.

H.M.Jr: Yes, what do you think of that?

Sullivan: I think I should call Compton and in view of the services he is asking, for us to tell him we will not do a thing for him as long as that sort of thing continues. There is no possible excuse for that.

H.M.Jr: No. I tell you what we will do. We will do it a little bit differently.

(Dictating to Mrs. Klotz a letter to the President.)

"My dear Mr. President:

"I am enclosing herewith report carried

- 3 -

by United Press in regard to testimony by Rear Admiral Furlong. I wish to draw your particular attention to the following sentence, 'They, the private manufacturers, hesitate to install equipment which runs into millions of dollars because equipment has to be amortized solely under the Vinson-Trammell Act.'

"Needless to say, Admiral Furlong's reported testimony makes it extremely difficult for the Treasury to carry out your wishes in regard to the strict interpretation --"

Foley: In regard to the administration of the Vinson-Trammell Act.

H.M.Jr: "In regard to the administration of the Vinson-Trammell Act."

Sullivan: I think you had better hold that until I check the testimony and make sure he said that.

H.M.Jr: I am just saying that it is what the United Press said.

Sullivan: I wouldn't send the second one.

H.M.Jr: No, I am just saying this.

"I would appreciate your taking the necessary steps to see that the whole of the Navy Department gets in step with your wishes. Sincerely,"

Foley: I don't like that last sentence.

H.M.Jr: Why not?

Foley: I think that is a little too strong. Why don't you say, "This attitude seems to permeate the entire Navy Department," and let it go at that.

Sullivan: I am for that the way you worded it.

H.M.Jr: He told them point blank that he wanted

them to do this, twice, that he didn't want the Admiral to go up on the Hill. I am not going to send it over there - and I want to send a copy of this to the Navy Department.

Gaston: I would appreciate - it seems a little bit peremptory to be addressed to the President.

Sullivan: Oh, excuse me, I thought he asked you to tell him whenever they didn't.

Foley: Well, it seems to me that he will know what to do and if you say that this isn't confined to Admiral Furlong but it is the general attitude of the people in the Navy Department, I think you can get the whole effect of it.

H.M.Jr: I am going to write it and take a look at it then. Do you remember when we had an argument once about writing the President and, I may be wrong, but - isn't that too late now?

Sullivan: I don't know. We may be able to use it in conference or when it comes back in the Senate.

H.M.Jr: Sit down a minute. As I understand it, according to the late paper this morning, Connally introduced a 300 page thing and they voted on that.

Sullivan: That is right. We knew that was likely to happen.

H.M.Jr: Where did Connally get that?

Sullivan: They have been working on it for years, a sub-committee appointed by the Senate Finance Committee.

H.M.Jr: Well, what is the sense - what did they pass yesterday, the Connally thing?

Sullivan: They passed both. The Connally Bill goes into effect only upon the declaration of war and it contains very high taxes.

- 5 -

The LaFollette Bill is a straight wartime excess profits bill. It is the old 1918 act with the 1921 amendments.

- H.M.Jr: Well, it looks to me now as though the horse had left the stable.
- Sullivan: I am afraid that it has, but this - it is quite likely that the House is going to reject the LaFollette amendment.
- Foley: Both amendments.
- Sullivan: And when it comes back to the Senate, that still may be useful.
- H.M.Jr: What do you think, Ed?
- Foley: I don't think it will do any harm, Mr. Secretary.
- H.M.Jr: Will it do any good?
- Foley: It may not do any good at all. It may do some good in conference. Pat Harrison wants to use it.
- Sullivan: I think it would have beaten it yesterday. You had Bob Wagner, you had Mead, you had Lister Hill, you had Pepper, you had all the Administration crowd voting for this amendment. Now, certainly Wagner and Mead and that crowd wouldn't have voted for it if that letter had been read yesterday afternoon, I don't think.
- Foley: Mr. Secretary, it might - why not do this? You might sign it and John might take it down and show it to Pat and ask Pat if he wants it.
- Sullivan: Oh yes. I wouldn't --
- Foley: If he doesn't want it, we will tear it up.
- Sullivan: I wouldn't send that to him without discussing it and perhaps holding it

until we see which way the situation develops.

H.M.Jr: Let me read it.

Sullivan: Yes, sir.

H.M.Jr: I don't want to sign it. I am sorry.

Sullivan: Very well.

H.M.Jr: No, I don't want to sign it, not after what happened yesterday. Now, would you let me know some time today what you and Mr. Helvering are prepared to do to give the Army and Navy 24 hour service on any contracts they want cleared as far as Vinson-Trammell goes?

Sullivan: Of course, you can't make a flat rule of 24 hours because on many of those the contractors would have to be here.

H.M.Jr: But on some that you could do in less time.

Sullivan: Yes, I will.

H.M.Jr: How is the machinery?

Sullivan: There is a Vinson-Trammell Committee set up in the Bureau. That is Mr. Burrus, Mr. Appel, and Mr. Reiling. Some time ago I asked Mooney to start supplementing that committee because Mr. Appel, who is extremely able, is 69 years old and they are gradually adding to that committee and I am going this morning to ask Mooney to come over and go through the fellows and make a much larger committee, because that work is going to increase a great deal.

H.M.Jr: I tell you what I want after lunch. I want to see you and Helvering and I want you to have a letter written for me to the Secretary of War and the Secretary of the Navy giving them directions how to send this stuff and to whom. If you

- 7 -

don't want it to come to your desk and pile up --

Sullivan: No, it should go direct to the Bureau.

H.M.Jr: That is what I think, but let me tell them so they can give the letter to them, if you will send the stuff to so and so --

Sullivan: Yes, sir.

H.M.Jr: See?

Sullivan: Yes, sir.

H.M.Jr: And supposing - two thirty?

Sullivan: Yes, sir.

H.M.Jr: You and Helvering.

Sullivan: Yes.

H.M.Jr: And the guy who is chairman of the Vinson-Trammell Committee.

Sullivan: He is away.

H.M.Jr: Where is he?

Sullivan: He is on leave.

H.M.Jr: Who is acting?

Sullivan: I imagine Reiling.

H.M.Jr: Whoever it is. At two thirty I want a letter to War and Navy saying, "Now, all contracts, if you will send them to --" in other words, let's outline the procedure to the Secretary of War and Navy. Don't you think so?

Foley: Yes.

H.M.Jr: And have those ready.

Sullivan: Very well.

- 8 -

H.M.Jr: What else?

Sullivan: That is all, sir.

Cochran: I am looking into the records and correspondence on this Tientsin silver. You may notice the British want to sell that. I am not ready to recommend it yet.

H.M.Jr: No?

Cochran: You refused to buy it when it was Chinese, you see.

H.M.Jr: I have a suggestion, but I am not going to make it. I have turned it down so often.

Cochran: I think they can still sell it in India easily enough.

H.M.Jr: Sure. Bombay pays more than we do.

Cochran: It is just a question of their having dollars rather than having to change from India money.

H.M.Jr: This cable saying that hostilities will continue by the French Navy and Air Force, are we doing anything about that? (From Gould, Consul at Casa Blanca, June 10.)

Cochran: We took it up with the committee with Mr. Bell yesterday evening and we are going to get a reply out today.

H.M.Jr: You are?

Cochran: That is all.

Bell: Does the Secretary understand about the gold thing that will appear in the papers?

H.M.Jr: When?

Bell: Saturday.

H.M.Jr: When is Saturday's daily out?

Bell: About ten o'clock.

H.M.Jr: You couldn't shove it over until Monday?

Bell: We might hold out a transaction.

H.M.Jr: I held this one out for about a week.

Bell: You would rather have it held out until Monday?

H.M.Jr: I think so.

Bell: All right.

H.M.Jr: Phil?

Young: I will have you a letter for Mr. Purvis this morning very shortly.

H.M.Jr: Which one?

Young: On the firm commitments for the engines.

H.M.Jr: I will tell you, Purvis called me up last night and on Tuesday he sent that letter directly to Mr. Knudsen and never let any of us know in the Treasury about it. You know, they have got to stop this business. After all, it is one thing for us to give all our time and all the fuss, but I mean they have just got to put a business organization in there with some kind of a business system. I am getting simply sick and tired of it. Not only did they send it over to Knudsen, but they didn't send us a copy. They sent the letter on the 20 boats I was fussing about directly to Admiral Spear.

Young: Yes, I found that out.

H.M.Jr: I am getting sick and tired. After all, they have got all these people. I don't know whether it is Ballantyne who is no good, but certainly they ought to have some business sense over there.

Young: Mr. Purvis thought he understood from you that you wanted him to write direct to Admiral Spear.

H.M.Jr: That is perfectly silly. When we had this thing here - there was all that fuss going on Sunday. They sent a letter to me and I delivered it to Knudsen and then they do it - Ballantyne could do something over there. I don't know what the man does, but the letter supposedly was delivered Tuesday. I don't know. All I have asked last night was for a copy. And then they are asking me day and night to do things for them, but just plain everyday business-like procedure, they just don't seem to know what it is.

Young: Unfortunately, I think there is a certain gap between Ballantyne and Purvis which is not bridged.

H.M.Jr: They had better get - Ballantyne had better move to New York or Purvis had better move to Washington, one or the other.

Nelson: Ballantyne said he had asked Mr. Purvis to send it the regular way, and Mr. Purvis said he was following your instructions in sending it that way. I think it is a misunderstanding. If Ballantyne is correct on Mr. Purvis' part in what you wanted --

H.M.Jr: In the case of Spear --

Nelson: In the case of Spear.

H.M.Jr: Well..... In the first place, they fooled around for two weeks and didn't send the letter. Then they finally sent a letter and it should have come this way, but I think the next time Purvis comes down if you two gentlemen would sit down and just talk to him about common, plain everyday business procedure. You didn't know this morning that the letter went to Knudsen on Tuesday?

Young: No, I didn't know that. Is he sending down another letter?

H.M.Jr: No, he is just going to let me have a copy of that for our files.

George?

Haas: (Handing report to Secretary). I have nothing.

H.M.Jr: We have only got 50 idle furnaces in United States. One hundred eighty-two are working.

Haas: It is probably that some of those idle ones are not in full repair.

H.M.Jr: All but two in Birmingham are working.

Basil?

Harris: I was waylaid yesterday by the heads of the Amtorg about holding up of their shipments. They were very nice about it. They said that all of this material is going into the production of automobiles in Russia and that holding up pieces here and there, we are curtailing their 1940 models, and I said, "Aren't you a little late?" We had a nice talk through an interpreter. I was not quite sure what they had said or what I had said when we got through, but we parted great friends.

H.M.Jr: What did they get?

Harris: I promised to go visiting in Russia some day.

H.M.Jr: You might ask them to let you go into the factories and see them making these 1940 models. Well, that sounds good. What else?

Harris: Nothing more.

H.M.Jr: Harry?

White: The State Department presented us with a final draft of the bill on the Inter-American Bank, and they wanted to know whether they would be able to say that the Treasury

Department goes along with them on it. We haven't been in on it in the last couple of months, but there isn't anything in there that is any different than what you had in mind as one - there are two new changes. One is that they have created an Inter-American Bank Committee consisting of the Secretary of State, Secretary of the Treasury, Chairman of the Federal Board of Governors, and the Federal Loan Administrator, who will appoint and have authority over the Director of the bank to represent this Government.

H.M.Jr: He will, alone?

White: These four will constitute a committee who will supervise - decide on the policy matters upon which the Director of the bank will act.

H.M.Jr: Who are the four?

White: Secretary of State, Secretary of Treasury, Chairman of the Board of Governors, and Federal Loan Administrator. That is one change.

H.M.Jr: How was it before?

White: Before, we thought that the President, with the approval of the Senate, would appoint the Director but there was no such arrangement. I think this is an improvement.

The second change --

Bell: The Senate won't think so.

White: The second change is that they want to limit the American participation in any bank to twenty-five million dollars, maximum stock. Those are the two points.

H.M.Jr: Okay.

White: Do you - and after the lawyers go over this, if there is nothing else I want to bring to your attention, do you want --

H.M.Jr: Do you want to get in on this, Bell?

Bell: No.

H.M.Jr: Gaston, do you want to get in on this?

Gaston: Oh, I would like to read it, that is all, like I have read other documents.

White: The by-laws and the constitution and the other things are unchanged.

H.M.Jr: Well, we will be like all the other delegates. We can say "Aye".

White: The draft of that letter to go to the President was prepared. Do you want to see a draft of it before it comes to you officially? I will have one in an hour.

H.M.Jr: I will see it once.

White: That is all.

H.M.Jr: What else?

White: That is all.

H.M.Jr: Nelson, just for my files, will you give Mrs. Klotz a copy of that letter that is going to be sent to the President on coordinating of purchasing?

Nelson: Yes sir, I will, Mr. Secretary.

H.M.Jr: Didn't I tell Bernstein that the morning we all walked over to Hull's and discussed whether we should freeze the world or just freeze France, didn't I ask Bernstein to write notes up on that?

Foley: Yes, you did.

H.M.Jr: What happened to them?

Foley: Well, I presume he has done it, Mr. Secretary. I know he took the notes.

H.M.Jr: I hope he didn't give them to the baby to play with.

Foley: I will speak to him about it.

Mr. Secretary, do you think, in view of all this talk on the Hill about these 20 boats, that we ought to get up for you just a chronological list of what happened, the meetings, and what was said at the meetings?

H.M.Jr: Yes, I think it would be grand.

Foley: If we can get from Mrs. Klotz the minutes of the meetings and so on, then we could put it all together.

H.M.Jr: Well, she can do it. She will have her organization do it.

Foley: There is a criminal statute that prohibits the transferring and all. It would have had to be done to some friendly power in the statute.

H.M.Jr: I had nothing to do with it.

Foley: I know it, and that is why I think we ought to put it all together.

H.M.Jr: I mean to this extent, there is nothing in writing. There is absolutely nothing in writing.

Foley: Well, you couldn't release them anyway.

H.M.Jr: No. It is no secret what I did. I mean, we had a talk here and I forget what it was, and Admiral Stark and I walked over to see the President and we jointly recommended that and the President said yes and then the rest of it was up to Admiral Stark. I was there yesterday when the President told Steve Early. He said, "Sure, tell them I passed on this thing," but then all the rest of the stuff was - all I can do is to bring it

- 15 -

to the attention of the Navy just as I told somebody yesterday, and there hasn't been a single case of anything that I recommended where either General Marshall or Admiral Stark had said they don't think this is in the interest of national defense, but what it stopped right there. There isn't a single thing but what either General Marshall or Stark personally passed on and it is solely their responsibility.

Foley: Well, the criminal statute would apply to Electric boats.

H.M.Jr: It would?

Foley: Sure.

Gaston: There is a perfect record made here for prosecution of the Electric Boat Company and I think a good many of the other people. Any way the transaction is worked out now, somebody is liable for prosecution.

H.M.Jr: Really?

Gaston: Any way it is worked out, yes. Isn't that right, Ed?

Foley: That is right.

H.M.Jr: Well, you fellows passed on this, didn't you?

Foley: No. We were all ready, but nobody asked us.

H.M.Jr: We had nothing to do with it. You didn't sit in on this like you did on the planes?

Foley: Well, I was ready on it.

H.M.Jr: Yes, but you didn't --

Foley: I sat over on the couch and Compton said it had already been done, so I kept quiet.

H.M.Jr: But I had nothing - I don't know how the Navy worked it out.

Foley: Well, I don't either, and I knew about the

statute and I didn't raise the question because he said he had already done it, and I think Cox was sitting next to me and I said, "You had better keep quiet. Let's not ask them how they did it."

H.M.Jr: Seriously, can you see any way in which I am personally liable?

Foley: No, not at all, and that is why I thought we ought to put it down on a couple of sheets of paper and put it away, because we don't know when we will be called on.

H.M.Jr: I mean, I hear that you again talked about that jail to Mr. Knudsen yesterday, and he said, "Don't mention jail again." Is that Atlanta jail a nice jail?

Foley: It is a big fine jail, up to date.

H.M.Jr: Running water?

Foley: They built it that way.

H.M.Jr: Not only have we not done anything, but much to my amazement, Early handled the press on that, although the President said it was to have been handled by Admiral Stark and told Admiral Stark that yesterday in my presence.

Gaston: None of them seem to know anything about this Section 33.

H.M.Jr: What is that?

Gaston: Title Eighteen of the Criminal Code.

H.M.Jr: What is that?

Gaston: Well, it makes it a penal offense with ten thousand dollars fine and a term in the penitentiary to equip and to sell a vessel to be used for belligerent purposes or to equip a vessel for warlike purposes when United States is a neutral, for a belligerent.

- 17 -

H.M.Jr: But if --

Gaston: We can sell any other kind of war supplies to the Allies under our laws, but we can't sell a boat which is to be used for warlike purposes, any kind of a boat.

H.M.Jr: You can't sell a boat through the Electric Boat Company?

Gaston: The Electric Boat Company can't sell the boat - the prohibition is against not only officers of the Government but citizens. No citizen of the United States --

H.M.Jr: Then it is on the Electric Boat Company.

Gaston: And anybody who conspired with them to do it.

H.M.Jr: I never talked to Electric Boat. I am serious. If I had had anything to do with it, Ed would have been in on it. Is it a crime to bring it to the President's attention?

Foley: Not when we have got the Attorney General. That is the only way the criminal laws of the United States can be enforced, through the Department of Justice.

H.M.Jr: I have been on lots thinner ice than that.

Nelson: We made the request for the letter on boats. Do we go to jail?

H.M.Jr: That sounds more serious --

Foley: It looks like a way out to me, Mr. Secretary.

White: They have got it in writing.

H.M.Jr: Ed, I let it slide in my usual careless manner and these high pressure fellows went ahead.

Nelson: I am on record as walking out of the room while it was being discussed.

H.M.Jr: All right. I will see you all in Atlanta.

Bell?

Bell: In view of the President's warning yesterday that there would be no transfer of territory in this Hemisphere to the Germans or Italians, we were discussing last night in our committee whether the President should make the same announcement with respect to other property in this country, personal property.

H.M.Jr: I don't think the two things are analogous.

White: They are one step further. This would apply to transfer of gold.

H.M.Jr: Not this morning, anyway.

Bell: It is pretty drastic, but we thought we ought to raise it. We discussed it last night.

H.M.Jr: Not this morning. No, it is all right, raise it again, because I can't say now.

Bell: The question was also raised --

H.M.Jr: I mean, after all, President Monroe didn't have that in mind when he talked about the Monroe Doctrine.

Bell: It isn't quite as old as the Monroe Doctrine. The question was also raised as to whether we should freeze property of Latvia and Lithuania and Esthonia.

H.M.Jr: Definitely. I have been waiting for somebody to say that each morning.

Bell: Oh, have you?

H.M.Jr: Yes.

Bell: I suppose they are invaded.

H.M.Jr: I don't understand why you fellows didn't do that.

- 19 -

Bell: Don't you?

H.M.Jr: Honest.

Bell: I think it is something we ought to discuss with the State Department.

H.M.Jr: I think today. I think it shows favoritism if you don't.

Bell: That was the purpose of it, wasn't it?

H.M.Jr: Seriously. I don't understand why you didn't do it.

Bell: There isn't very much involved, but the principle is there, certainly.

H.M.Jr: I think you ought to do it today. The President is leaving town tonight and I think you ought to do it today.

White: Without State?

H.M.Jr: No, with State.

Bell: Well, we will take care of it.

H.M.Jr: Anything else?

Bell: That is all.

H.M.Jr: Norman?

Thompson: I have sent an estimate of 600 thousand dollars along to the Budget to take care of additional costs on the Fund Control Operations.

H.M.Jr: You cut me 40%.

Thompson: Well, we already had 400 thousand over there, which makes it probably a little larger.

H.M.Jr: If you are going to take in Esthonia, that will cost 200 thousand more.

White: I think Latvia has as much as 10 thousand dollars here.

Thompson: An estimate of 6 million dollars, approximately, has gone over for the Internal Revenue Bureau to handle the new tax bill operations.

Sullivan: That may have to be more under some of these minimums.

Thompson: A million 6 hundred thousand has been submitted for the Bureau of the Mint to meet the original demands for coinage.

F.M.Jr: How much?

Thompson: A million 6 hundred thousand. And then a million dollars, approximately, for national defense purposes. The Budget has decided to send an estimate to Congress for this rather than to give us an allotment from the President's Defense Funds.

Bell: By the way, the House gave us a million six for the transportation of gold to Fort Knox.

H.M.Jr: Goodie!

Bell: There is an interesting sidelight of that.

H.M.Jr: What is it?

Bell: When I was up on this Fund Control, I told them I wanted to tell them something about that million six. It was confidential and off the record. I stressed the fact that you and the President had gotten together and discussed this and determined as a matter of policy that this gold should not be on the Atlantic Seaboard. For protection, it should be in the interior. I said I hoped they would give it very careful consideration. When Mrs. Ross came in, Mr. Ludlow said - Mrs. Ross said, "I don't think we ought to have this discussion on the record," and Mr. Taber spoke up very nicely what they wanted me to do and said, "I think so too." He said, "I don't think it ought to be on the record." He said, "Why can't we just have a sort of imaginary discussion of this problem." Charlie Schoeneman agreed to write the imaginary discussion, and Taber said,

"I give you my power of attorney to write my end of it." Charlie even had Taber interrupting some of the witnesses. The only place Fort Knox appears is in the table at the end.

H.M.Jr: That is fine. Well, the minute you get that, please begin to move it.

Bell: Yes.

H.M.Jr: All right everybody.

June 20, 1940.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Schwarz *CS*

Here is the text of the statement issued last night from the headquarters of the Advisory Commission to the Council of National Defense:

"To clarify certain reports that have been published, William S. Knudsen, member of the National Defense Advisory Commission in charge of industrial production, today issued the following statement:

" 'In negotiations with the Ford Motor Company it was made plain that 60 per cent of the order for Rolls-Royce engines was for the Allies and the balance for the United States Government. I was assured by Mr. Edsel Ford, president, that this arrangement was satisfactory to the Ford Motor Company. No contracts have been signed as yet. They are still in negotiation.' "

JUN 20 1940

My dear Mr. Smith:

I am attaching a letter which I have sent to the President requesting that \$2,000,000 out of the \$100,000,000 Emergency Funds made available to the President for national defense purposes be earmarked to pay royalties in connection with the development and manufacture in this country of the Rolls-Royce Merlin engine.

If additional information is necessary, I shall be happy to have my people talk to you about it.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

Hon. Harold D. Smith
Director, Bureau of the Budget
Executive Office of the President
Washington, D. C.

Enclosure ✓

cc to Thompson

KHF: 6/20/40

811 76

By Messenger / 4

62
JUN 20 1940

My dear Mr. President:

In order that the Government may have sufficient funds with which to pay the requisite royalties in connection with the development and manufacture in this country of the Rolls-Royce Merlin airplane engine, I suggest that you earmark \$2,000,000 for such purpose out of the \$100,000,000 Emergency Funds appropriated for your disposition for national defense purposes in the Military and Naval Appropriation Acts of 1941 (Public No. 588 - 76th Congress, and Public No. 611 - 76th Congress).

I am sending a copy of this letter to the Director of the Budget.

Faithfully yours,

Secretary of the Treasury

The President

The White House

8474
OBC/EHF: 6/20/40

By Messenger /

JOHN EDGAR HOOVER
DIRECTOR

302

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

June 20, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest, there is being transmitted to you herewith a copy of a memorandum incorporating information recently received from a confidential source relative to the attitude of the Communist party towards its members joining the armed forces of the United States in the event this nation becomes involved in war.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

June 19, 1940

MEMORANDUM

I, Amter, Chairman of the Communist Party of New York State, stated the National Committee of the Party took the stand that the Party and Young Communist League membership under no circumstances are to evade joining the armed forces of the United States in the event this country decides to go to war, "because, by joining the army or navy we will be in a position to do our work inside - propaganda within the army by insiders is much more effective than when it is done by outsiders. Of course, it will require special training of our membership for this kind of activities".

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

June 20, 1940

PERSONAL AND CONFIDENTIAL
SPECIAL MESSENGER

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

My dear Mr. Secretary:

Information has been received by the Los Angeles Field Office of this Bureau to the effect that the American Potash Chemical Company, Trona, California, is engaged in the production of potash which, according to Mr. J. L. Robinson, Public Relations Director of the company, is a product vital to the national defense.

Mr. Robinson has stated that the company employs approximately eleven hundred people and represents an investment of about \$20,000,000, one-half of which is controlled by interests in The Netherlands; one-fourth by interests in Transvaal; one-eighth by English and Canadian interests, and one-eighth by interests in the United States. The management of the company is reportedly handled by Goldfield, Ltd. of London, England, through the Goldfield Development and Mining Company. Mr. Robinson has expressed considerable concern because of the possibilities of changes in the personnel of the organization due to recent developments in The Netherlands and felt that because the company was largely foreign owned it would be of interest to the Government of the United States to make some arrangement to insure that the management of the plant would not be inimical to the best interests of the United States.

In view of the alleged position which the American Potash Chemical Company occupies in relation to the national defense, I thought you might be interested in the information received.

Sincerely yours,

J. Edgar Hoover

June 20, 1940

Mr. Fels

Mr. Cochran

Will you kindly send the following cablegram:

"American Consul.
Casa Blanca.
Morocco.

Reference your No. 30, June 18, 10:00 P.M. Under existing freezing order Moroccan credits in United States are frozen but Treasury Department states that it is prepared to give prompt consideration to applications to unfreeze such funds to be used for the purposes indicated in your cable. Banking institutions in United States holding Moroccan funds should be instructed to make applications covering payment of funds needed by Protectorate government. It is contemplated that there will be no significant delay in such funds being made available".



HNS/lap-6.20.40