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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania.

DATE: October 17, 1940, 9 p.m.

NO. : 617

My 607, October 15, 9 p.m.

With reference to the specific requests for dollar transfers contained in the memorandum of the National Bank the following comment may be of interest to the Treasury Department.

One. Request for \$3,000,000 for Iranian cotton. Rumania has had in peace time practically no trade relations with Iran and there is no trade agreement but in view of the cotton shortage in Rumania and inability to import from normal sources a contract was recently concluded for Iranian cotton against payment dollars. The Iranian Minister has informed me that the amount involved was 600,000,000 lei over \$2,800,000 at the official rate.

Two. Request in affidavit form for \$1,410,000 for 3,100 tons of Turkish cotton (reported in my 614, October 17, 7 p.m.). The Turkish Commercial Attaché has informed Mr. Edson that under the agreement signed September 26, 1940 Rumania undertook to pay for Turkish cotton, tanning extract, and fish oil on a basis of dollars against documents Istanbul Turkey had insisted upon this point because Rumania wished immediate shipment of the cotton whereas Rumanian shipments of petroleum, cellulose, and paper to Turkey which were also payable in dollars under the agreement were to be made gradually

gradually over a period of (*); Turkey therefore wished to be fully covered in dollars for the advance cotton shipments. The Attaché confirmed the figure of \$1,410,000 and stated that it was for the first shipment of 3,100 tons of cotton from last year's harvest to be delivered within a few weeks; and that an additional 8,000 tons of cotton from this year's harvest would be shipped during the winter. Turkish authorities were convinced, he further stated, that this cotton was for final destination at Rumania, and that these shipments would be stopped by Turkey in the event that this did not prove to be correct.

Regarding the low volume of shipments of oil to Turkey in the course of the past three months, the Attaché advises that a serious difficulty was the transport by rail between Ploesti and Constanza since the rolling stock has been diverted to transportation to Germany. Because of the fact that British tankers were unwilling to enter Constanza and that neutral tankers were scarce in the Black Sea shipments were caused to be impeded. It was also stated by informants in the oil industry that difficulty was experienced by Turkey in obtaining the desired petroleum products, especially Diesel oil and kerosene for the reason that Germany has particularly demanded those very products. Since the war the Turkish demand for gasoline has declined, although Rumania would gladly ship the overabundant supplies of gasoline which she has to Turkey.

It

-3-

It was intimated by the Attaché that as a weapon in bargaining Turkey plans to delay shipments of cotton in order to ensure deliveries of petroleum products to Rumania. It would seem, therefore, that Rumania's need for \$1,410,000 in the Turkish cotton matter is (?) but that the request in the memorandum of October 12th for immediate release of \$5,000,000 for Turkish cotton is unjustified. It is a fact that this amount is approximately the total value of the contract for about 11,100 tons of cotton. However, as the cotton is shipped the dollar disbursements will be made gradually and at the same time dollar payments by Turkey will be received by Rumania for petroleum products, and so forth, although the initial volume will be lower; the dollar payments should balance at the end of the contract.

Number 3. This concerns the Greek request for \$500,000 to obtain tanning materials. The Minister of Greece informs me that Rumania is indebted to Greece to the extent of 100,000,000 lei for tanning materials. At the official rate this is equal to about \$470,000. The difficulties which the Greeks have had in obtaining Rumanian petroleum have been reported before, but it would seem that, for the present, adjustment of these difficulties has been made.

Number 4. This concerns the amount of \$2,000,000 to \$3,000,000 for imports from the United States of petroleum equipment. It is stated by Romana-Americana that it has

fully

-4-

fully paid its imports of equipment but that, of course, it would like to have dollars for expenses of American administration and remittances of dividends. Romana-Americana was not aware of the position of the other companies, although, because of the insistence of the exporter, they believe that in most cases the imports of equipment were all paid. Since June it has been physically impossible to transport such equipment from the United States to Rumania.

I may add that the Yugoslav Ambassador has informed me that Rumania owes Yugoslavia 500,000 Swiss francs.

Five. With reference to Rumania's need for cotton imports the following Rumanian statistics may be of interest.

Imports from all countries in metric tons: 1937, 16,733; 1938, 20,304; 1939, 13,328.

January--June 1940, 10,738 of which the principal suppliers were Egypt 5,131, Turkey 3,111, United States 1,660.

Informants in the cotton industry confirm the cotton shortage.

In view of the above growing official resentment, and there is foreseeable difficulty ahead, it would help the Legation if the Treasury could expedite such licenses as are obviously bona fide.

GUNTHER

(*) apparent omission

EA:VCL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Knoke telephoned me at 10:30 this morning. He told me that he had discussed informally with his colleagues the matter of the Hungarian request for an American credit to provide dollar exchange for one year's service on American-held Hungarian bonds, Treasury bills and standstill credits. Mr. Knoke intimated that a five-year loan proposition was not particularly attractive to the Federal Reserve Bank of New York. At the same time, if the Treasury Department desired to suggest to the Hungarians that they take this matter up formally with the Federal Reserve Bank at New York, the latter would be glad to give the proposition all of the attention that it deserves.

Knoke reminded me that such a transaction would interest commercial banks in New York if the Treasury might see fit to take the step, discussed some months ago, of letting foreign central banks having gold on deposit with the Federal pledge this to commercial banks as collateral for loans.

I gave the above information to Under Secretary Bell this noon.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Santiago, Chile.

DATE: October 17, 11 a.m.

NO: 243

Confidential

In a very serious vein yesterday the President told me that it was very important that a speedy decision be reached in regard to the credit for the purchase of coal and the other Export-Import Bank credits. I agree with this view.

BOWERS

RA:JSH

COPY

October 17, 1940
11:25 a.m.

Frank
Knox: Hello, Henry.

H.M.Jr: How are you?

K: I was just talking to Pa Watson and that date of ours is postponed.

H.M.Jr: So I hear.

K: What?

H.M.Jr: So I hear.

K: Oh, you heard about it. I didn't know you had heard so I called you.

H.M.Jr: No, that's right. I don't know what's the matter and I don't know what'll happen to those flying boats but that's

K: Well, we ought to get - I think perhaps we'll see him this afternoon, I don't know. He's awful busy today so Watson says.

H.M.Jr: Well, what Watson said was that he was going to see you today but for some other reason.

K: Well, yes. I've got another story on my chest that had nothing whatever to do with that.

H.M.Jr: Well, maybe you could, if you see him, maybe you could say something to him about the other thing.

K: Well, maybe I will. If I get a chance I will.

H.M.Jr: Right.

K: All right. I just wanted to call you up so you wouldn't go over there and I wouldn't be there.

H.M.Jr: Thank you.

K: All right.

October 17, 1940
12:00 Noon

RE FOREIGN FUNDS CONTROL

Present: Mr. Pehle

Pehle: I wanted to check with you on the Romanian gold. I talked with Dr. Viner yesterday afternoon and he couldn't find any catch in it. He said he couldn't see any very good reason why they should do it, but he couldn't see any good reason why we should stop them from doing it. He thought that possibly they had heard something about this legislation that is pending that has to do with Federal Reserve Banks, and that they thought somehow they would be better off with their gold in the Fed. The Committee feels that the best guess is, they feel the dollars are going to be here for a long time and that they would be better off to have gold.

H.M.Jr: How does the Committee feel about it?

Pehle: They all feel that we should do it.

H.M.Jr: Okay, let's do it.

Pehle: That is all I have.

H.M.Jr: Is that all you have?

Pehle: That is all outside of Luxemburg. They only have 15 thousand, or she has, so we are freeing that.

H.M.Jr: That is all she has?

- 2 -

Pehle: That is all she has. The Count or whatever her husband's title is, did have a substantial amount which we freed some time ago when he came over.

H.M.Jr: Was that a big amount?

Pehle: Pretty substantial.

H.M.Jr: Bigger?

Pehle: I can let you know at the 9:30 meeting.

G-2/2657-220

RESTRICTED

No. 222

SITUATION REPORTM.I.D., W.D.
October 17, 1940.
12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

The German Air Force operated on a reduced scale, probably due to bad weather. There was some day and night bombing of London, Wales and the Midlands, notably Birmingham.

The R.A.F., also impeded by bad weather, raided Kiel, Hamburg, Bremen, Cuxhaven, the synthetic fuel plant at Leuna, and other industrial facilities.

II. Mediterranean and African Theaters of War.

1. No ground operations reported. The rumor of the resignation of Marshal Graziani, commanding in Libya, is incorrect.
2. Air operations were sporadic and widespread. The most important attacks were by the R.A.F. on Tobruk and by the Italians on the Gerarel airdrome in the Sudan.

RESTRICTED

CONFIDENTIAL

Paraphrase of Code Radiogram Received at the
War Department 9:07, October 17, 1940.

Moscow, filed 12:29, October 17, 1940.

In local circles it is generally believed that divisions of the Red Army are distributed in military districts as follows: First Far Eastern Red Army, 17; Second Far Eastern Red Army, 11; Leningrad Military District, 20; Kiev Military District, 20; Oral Military District, 1; Baltic Republic, 16 (including 11 in Lithuania); Trans-Baikal Military District, 7; Western Military District [a new military district; perhaps the White Russian], 20; Siberian Military District, 4; Trans-Caucasian Military District, 12; North Caucasian Military District, 3; Moscow Military District, 3; Volga Military District, 3; Odessa Military District, 20; Kharkov Military District, 3; Ural Military District, 2; and Central Asian Military District, 3. [Total number of divisions: 165.]

YRATCH

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

Paraphrase of Code Cablegram Received at the
War Department at 19:30, October 17, 1940.

London, Filed 16:47, October 15, 1940.

Whenever the weather conditions at their bases permit, the German Air Force carries out in a regular manner its nightly bombardment of the London area. The German planes average around 150 a night and are plotted at heights between 6,000 and 16,000 feet flying at speeds between 120 and 220 miles per hour. There is little concrete evidence of formation flights as most planes fly singly. Perhaps obsolescent types of planes are being used but there is no proof of this. Thus far there is no indication that the weather over London has any deterrent effect on the raiders. In the opinion of experts the German aircraft come in on a radio beam and release their bombs when at the intersection of a cross beam. Le Havre and Calais are the plotted locations of the beam stations. British attempts to block out the beam have not been very successful. The raiding planes drop their bombs in sticks of four or five with a pattern length generally ranging from 1500 to 2000 yards, with the spacing somewhat irregular. To spread the damage it is evident that the Germans swing their beams slightly.

During the night of October 18-19 I visited a 4-gun 3.7-inch antiaircraft battery and an antiaircraft control headquarters. Their power devices are not functioning smoothly and plotting is

done chiefly by sound. Batteries conduct their own fire control problems and, within assigned sectors, open fire at their own discretion, the plot furnished them being used only for advice and warning. Occasionally a fixed barrage is used but the present practice is to attempt to hit the plane. My impression from this visit was that control parties are well drilled but that apparatus and the whole approach to the problem is less scientific and precise than anticipated. Powder train fuses are mostly used. I noted a gun density of 40 (that is, 40 guns can fire on one target at a time - 0-2).

Damages from air raids mount nightly. The West End gets heavy attacks. One bomb last Thursday night that fell down Davies Street and another one last night with a two-hour delayed action fuse that fell 70 feet from the main door had a local effect on the Embassy building. Personal experiences indicate that the facility of movement about the city is appreciably curtailed. There is a definite interruption to consistent work and interferences with all public services varying in duration from a few hours to several days.

I am still of the opinion that the solution of the problem of making night bombing attacks unprofitable is of the utmost importance.

LEE.

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WPD
ONI

CONFIDENTIAL

14

BRITISH EMBASSY,
WASHINGTON, D.C.

October 17th, 1940

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated October 15th.

Naval.

On October 14th four British destroyers intercepted and sank in the North Sea an enemy convoy of three merchant vessels escorted by a trawler and a motor boat. The enemy merchant vessels comprised two ships of 7000 and 2500 tons respectively, and a third small ship, which blew up with great violence. One British destroyer was slightly damaged, one rating wounded.

British submarine reports that on October 8th she engaged with gunfire and presumably sank a small enemy submarine off the west coast of France.

H.M.A.S. "Paramatta" was unsuccessfully bombed by Italian aircraft in the Red Sea on October 14th whilst on escort duties.

During the night of October 12th-13th a British gunboat successfully bombarded Sidi Barrani.

On October 14th French destroyer escorted two French merchant vessels through the Straits of Gibraltar from west to east and then returned westward.

2. Royal Air Force.

Weather conditions were very bad over Germany on the night of October 13th-14th making location of primary targets very difficult. Principal targets located and attacked were docks.

at Wilhelmshaven, Hamburg and Kiel, an oil plant, Krupps works at Essen and two ships near Freshwater. Conditions over Channel ports were more favourable and successful attacks made against Boulogne, Havre, Calais, Dunkirk, Ostend and Flushing.

During October 14th twelve Blenheims were despatched to attack targets in Germany and occupied territory, but owing to adverse weather conditions only two located and bombed their targets, results being unobserved. One Blenheim missing.

During the night of October 14th-15th 74 heavy bombers despatched to attack docks and shipping at Havre, synthetic oil plants in Germany, and targets in Berlin. Reports not yet received.

3. German Air Force.

Full production has been resumed at the ammunition works reported damaged in paragraph 3 of my immediately preceding telegram.

Further reports of damage caused by enemy attacks on night of October 13th-14th show that certain damage was done to railways in London area and some lines are temporarily blocked. Provisional casualty figures for London region during this night are 175 killed and 7438 wounded, exclusive of casualties at block of flats referred to in my immediately preceding telegram which are not yet assessed. A fire was caused in the docks at Birkenhead, and bombing also took place in Kent and Surrey, but no military damage occurred.

During October 14th enemy air activity was on a relatively small scale and starting at about midday, single aircraft operated over London and southern counties. Later 50 enemy aircraft attacked

the south coast, and penetrated 12 miles inland. Targets attacked included two R.A.F. aerodromes. Casualties were caused at Southend, Luton, Canterbury and in Bournemouth area.

Particularly heavy attack was launched on London at night-fall October 14th-15th, high explosives, oil, and incendiary bombs falling in most districts. From 23 hours activity diminished and total enemy aircraft employed was appreciably less than on the previous night, some 130 operating over southeast England and 24 over the remainder of the country. Main enemy effort was against London but attacks were also made at Coventry, Birmingham, over Bristol Channel and in Lancashire. Preliminary reports show that four underground stations were damaged, and at one a bus fell through a bomb crater onto the platform below. 500 to 600 people were sheltering in this station and the majority escaped, though an unknown number have been buried. Damage caused to three factories engaged on war production, including one aircraft instruments factory, where it is hoped that production will be resumed in a few days. Three large fires caused in Piccadilly and one in Finsbury, but all are under control. Two high explosive bombs fell in Downing Street causing some damage to the Treasury buildings, windows/

windows, doors and ceilings in No. 10 Downing Street. Some damage occurred at the National Gallery due to a delayed action bomb. Total figure of casualties not yet assessed. Three attacks also made on Coventry and one attack on Brighton.

4. Air Casualties.

Three enemy bombers were damaged. No casualties to British aircraft, except 4 bomber aircraft reported lost in paragraph 2, sub-paragraph 2.

5. Shipping Casualties.

Ship carrying rifles and aeroplanes reported attacked by enemy U-boat in my telegram of October 12th has arrived safely at United Kingdom port.

It now transpires that attack against this ship was unsuccessful and she is undamaged.

On October 14th, New Zealand S. S. "Hurunui" (10,000 tons) torpedoed and sunk in convoy off northwest coast of Scotland, some survivors reported to have been picked up.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 17, 1940, 1 p.m.

NO.: 4349

FOR THE TREASURY FROM HEATH and for the information of the Department.

There has been a rumor current in Berlin during the last few days that in the near future all German balances in the United States would be frozen. This rumor has caused considerable disquietude in banking circles, extending to the Reichsbank. Private and official contacts have made numerous inquiries as to whether this rumor is true.

MORRIS

EA:LWW

C O P Y

FEDERAL BUREAU OF INVESTIGATION
UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

October 17, 1940

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

This Bureau has received information that communications have been dispatched by Herve Alphand, French Commercial Attache, to the Vichy Government concerning the use of French funds.

There are attached hereto the reported contents of two such messages which it was believed would be of interest to you.

Sincerely yours,

(Signed) J. E. Hoover

Enclosures

dm

10th October 1940.

Following is decoded translation of copy of telegram sent from French Consulate by Herve ALPHARD, French Commercial Attache.:-

"To the Finance Minister from the Financial Attache. I refer you to your telegram date 20/9/40 and mine of Sept. 26th. In spite of forceful negotiations with the U. S. Treasury and State Departments by the Ambassador and by myself, the American Government refuse absolutely our demands to deblock \$1,500,000 to pay the Argentine for meat destined as food supply for our prisoners of war in Germany. I must remind you at the same time that the American Government still refuses to give any favorable reply on the question of the amounts necessary for the treasury of our consular and diplomatic officers in Central and South America. Their reply is closely bound up with several diplomatic problems of which a telegram from the Ambassador dated today contains a resume.

Recognizing this attitude I think it would be prudent to seriously think of the possibility of using French holdings in Central and South America for the treasury of our diplomatic posts.

I will of course continue to pursue here these negotiations."

dm

C O P Y

11th October 1940.

Following telegraphed yesterday by ALPHAND to Vichy:

"ULTRA-SECRET."

For the Financial Minister.

Under present regime all sums put to the account of the State Bank of Morocco through the French American Banking Corporation are still free since June 28th. In order to benefit from money produced by exports from Morocco, it is absolutely essential to oblige American importers to pay their sums due exclusively into the account of the Bank of Morocco at the French American Banking Corp. This indicates a very definite discrimination against the American banks."

dm

JR

PLAIN

London

Dated October 17, 1940

Rec'd 1:10 p.m.

Secretary of State,
Washington.

3457, October 17.

For Treasury from Butterworth.

When the new 51,000 million vote of credit was debated yesterday in Parliament the Chancellor of the Exchequer while not stating categorically that there would be no further supplementary budget during the current fiscal year nevertheless stressed the undesirability of frequent tax changes and at the same time urged a much greater effort to increase savings. He indicated that the total war expenditure for the past four weeks averaged pounds 64 million a week or about pounds 9 million a day of which pounds 7,500,000 was for the fighting services, the other services connected with the war costing pounds 1,500 million a day. In this connection he pointed out that for the four weeks up to July 6 war expenditure was at the rate of pounds 55 million a week or pounds 7,500,000 a day of which 6,500,000 was for the fighting services, the other services connected with the war costing the remaining million. Thus is measured in money the increased effort which the Churchill

Government

-2- #3457, October 17, from London.

Government initiated at a time when new production was beginning to make itself felt. The Chancellor of the Exchequer also stated that the pounds 1,000 million vote of credit which brings the total for the year so provided to pounds 2,700 million would not suffice for the present fiscal year. For purpose of clarity I might mention that total expenditure averaged pounds 74.5 million during the past four weeks or pounds 10.6 million a day so that ordinary civil and debt services have averaged about pounds 1.6 million a day, a figure which fluctuates with periodic interest payments on Government debt, one of which fell on October 12.

KENNEDY

CSB

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania

DATE: October 17, 1940, 4 p.m.

NO.: 612

My 605, October 15, 1 p.m.

The Rumanian press yesterday published its first reference to the American blocking of Rumanian dollar accounts. The item consisted of a brief D.N.B. despatch datelined Washington quoting the WASHINGTON STAR and listed total foreign property declared frozen to date by the American Government as 3,465 million dollars of which 70 million was stated to be Rumanian. A separate press article stated that in the future export permits will be granted only for payment in Swiss francs or in dollars payable in Zurich but not New York. This morning the press published a brief despatch datelined Belgrade stating that the Rumanian and Yugoslav Governments had agreed to effect payments in Swiss francs instead of dollars. References have thus far been made to the blocking order in the press or other public channels (omission) its effective date or its significance. The reason for such rigid censorship may be either the uncertainty of the Government with regard to its significance, or a desire not to alarm the general public. It appears that the large number of German officers in the city has made the general public somewhat

- 2 -

somewhat uneasy, at least in Bucharest.

Several high officials in Rumania have in private talks expressed marked resentment against the action of the United States. Reference, telegram of October 15, 8 p.m., No. 608 from the Legation: In addition to the statements made by General Antonescu, most bitter comment has been made by several officials of the Foreign Office and National Bank. Open hints have been dropped about retaliating by nationalizing property of Americans in Rumania. For instance, a director of the telephone company was asked by a Rumanian Government official whether the Legation had given him notice of nationalization of the telephone company; this Government official told him that a notice to this effect was being prepared for transmission to the Legation.

GUNTHER.

EA:LWW

October 17, 1940.

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Gaston

WEG

Supplementing my previous memoranda, the following sale and charter of vessels of the United States to aliens are considered of interest:

Steam Screw Trawler GEMMA (Official No. 228022) - The British Purchasing Commission has submitted on behalf of Trawler Gemma, Inc., Gloucester, Massachusetts, owners of the GEMMA, an application for approval of the sale of said vessel to Hellyer Bros., Hull, England, with transfer to British registry and flag. Approved 10 October, 1940.

Steamship MICHIGAN (Official No. 218750) - Application filed on behalf of States Steamship Company, Portland, Oregon, for approval of charter to Amtorg Trading Corporation, an agency of the U. S. Soviet Government, for one voyage with a full cargo of wheat, machinery, pipe, and trucks from Columbia and Willamette Rivers and Puget Sound ports to Vladivostok, U. S. S. R., loading late October, 1940. Approved 10 October, 1940. CH-392.

THE SECRETARY OF THE NAVY
WASHINGTON

October 17, 1940

My dear Henry:

Thank you for sending me the
correspondence which you have had with Major
Fleet of the Consolidated Aircraft Corpora-
tion. I was indeed interested in it.

Yours sincerely,

Frank Knox

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

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

October 17, 1940.

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

Dear Mr. Morgenthau:

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

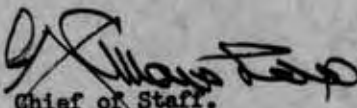
Part I - Airplanes

Deliveries of and New Orders for Airplanes,
June 9 - October 12, 1940; Unfilled Orders,
and Estimated Deliveries on October 12, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, June 9 - October 12, 1940; Unfilled
Orders, and Estimated Deliveries on October
12, 1940.

Faithfully yours,


Chief of Staff.

10/17/40 -

30

FROM: MR. GASTON'S OFFICE

TO: The Secretary

Col. Maxwell, export control administrator, has called a meeting for 3 this afternoon in the Munitions Building. I do not plan to attend. I called Maxwell to find what was to come up and he said the only thing was to be a discussion of the procedure to be followed in exercising the powers of a recent act to requisition material and machines for national defense. It has been suggested (at the meeting Oct. 4) that this power be exercised by Army and Navy through Maxwell. I have arranged for Feidler to represent me, since we are not much interested, except as a legal matter, and Jim Buckley will represent Phil, who is out of town.

W.S.G.

October 17, 1940

Dear Mr. Henderson:

Thank you for your letter of October 15, 1940 with reference to statistical information from the British Purchasing Commission.

Arrangements will be made with Mr. Ernest A. Tupper of your staff for a conference on these data as soon as possible.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Leon Henderson, Commissioner,
Advisory Commission to
the Council of National Defense,
Federal Reserve Building,
Washington, D. C.

Am
100-11200

Chambers

By Messenger *4* *on 11-1*

October 17, 1940

Dear Mr. Henderson:

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Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Leon Henderson, Commissioner,
Advisory Commission to
the Council of National Defense,
Federal Reserve Building,
Washington, D. C.

VOB:mec

By Messenger 4th on 10/21/40

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

October 15, 1940

My dear Mr. Secretary:

Through the very fine cooperation of Mr. Phillip Young and the Treasury staff working with him, we are currently receiving certain records of British purchases which are of great usefulness to the Commission.

It now appears that additional data regarding British purchases are vital to the work of the Commission, and that these data are probably not available in the Treasury Department. The information so essential to the Commission's work include such data as periodic reports on the current status of Purchase Negotiation Requests which have been approved by the Commission; a tabulation in as definite terms as possible of British requirements by items and components; time schedules of deliveries under contracts; and up-to-date reports on actual deliveries.

Mr. Ernest A. Tupper of our Bureau of Research and Statistics, who is fully informed of the Commission's need for these data, has been designated to make such arrangements as may be possible to secure the required information. It would be most helpful if he could discuss our needs with Mr. Young with a view toward working out procedures satisfactory to your Department.

Sincerely yours,

Leon Henderson
Leon Henderson
COMMISSIONER.

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

Paris, France, October 17, 1940

No. 7063

Subject: Franco-British Discussions with Regard
to British Blockade on French Exports.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to refer to the Embassy's despatch No. 6982 of September 26, 1940, reporting the imposition of prohibition on the export of many items in the French tariff schedule with some notable exceptions of interest to American import trade, and to the comments, on pages 3 to 5 of the despatch under citation, of officials in the Ministry of Finance with reference to the efforts which had been made to obtain from the British authorities permission to export at least a limited number of items of special interest in French export trade and specifically to the United States. It will be recalled that in the report under citation, the French officials indicated that their efforts up to that time had met with a blanket refusal on the part of the British authorities to waive even to a limited extent the prohibition imposed by the British blockade on prospective exports from France to the United States.

In another conversation, which an officer of the Embassy has just had with M. Leroy-Beaulieu, Director of the Bureau of Commercial Accords at the Ministry of Finance, at the latter's request, M. Leroy-Beaulieu

referred to his previous comments on this subject and stated that since that time the French Government, through Spanish sources and also through the French Consul in London, has been continuing conversations with the British in a further effort to obtain permission from the latter to admit the clearance of certain French products to other countries, and particularly to the United States. The French official indicated that after the initial refusal on the part of the British to consider this request, as reported in the Embassy's despatch under citation, the outlook appears somewhat more hopeful that the British may permit the French to export certain categories of merchandise under highly restricted conditions. It appears, according to the Embassy's informant, that the British have now accepted to consider the request for the export of French products, including gloves to the United States, on the understanding that the French shippers will agree that the payments therefor will be blocked in the United States and the monies obtained will not be returned to France until such time as the British may agree to such transfer.

The French official admitted that the agreement by the British to consider this proposal under such limited restrictions does not appear to represent important progress in the French effort to break the watertight British blockade against these exports, but argued that if the British agreed even to these limited and restricted exports, this agreement may be the forerunner of an expansion of a system of permits which may be extended to other products, including cigarette paper and possibly perfumes, wines and champagnes, in so far as the French official indicated that it is his belief that some of the American interests having holdings in French cigarette paper producing companies may be willing to permit

-3-

the blocking of the funds due in payment for such exports. With regard to such an arrangement for glove exports, the French official stated that several of the large glove manufacturers were willing to accept the temporary blocking in the United States of the payments for their exports to the United States.

Questioned with regard to the reaction of the German authorities to the sterilizing of such payments in the United States, the French official stated that the German authorities had so far expressed their willingness to authorize glove exports and that he believed they would concur in a similar arrangement for the export of cigarette paper, wines and perfumes if the British gave their consent to shipments of these products under the conditions outlined above.

The Director of Commercial Accords stated that he was leaving shortly for Vichy to be gone a week or ten days, but hoped to have news of a favorable decision on the part of the British authorities by the time he returns to Paris. The Department will be informed promptly of any further information obtained here with regard to these Franco-British discussions.

Respectfully yours,

(Signed) Maynard B. Barnes
Maynard B. Barnes
First Secretary of Embassy

In quintuplicate

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 17, 1940

Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Alphand, French Financial Attache in the United States, telephoned me at 12:30 this noon from New York. He stated that he had been in touch with his Ambassador in Washington, and that the latter had informed him that Under Secretary of State Welles, in their latest conference, had agreed to the giving of licenses to permit France to utilize dollar holdings in the United States to pay for the upkeep of French diplomatic and consular establishments in Latin America. In answer to Alphand's question, I stated that the Treasury Department had not yet received any word to this effect from the Department of State. I confirmed this later with the Secretary and Mr. Pehle. The Secretary did not desire that we take any initiative in pressing the State Department for a report on the alleged conversation between the French Ambassador and the Under Secretary.

October 19, 1940

When lunching with Lewis Clark, who is in charge of the French desk in the State Department, yesterday noon I mentioned the above matter, but he had no information as to Mr. Welles' reported conversation with the French Financial Attache.

At yesterday morning's staff meeting the Secretary referred to a matter which I had mentioned to him the preceding day, namely, the report from Charge d'Affaires Luck at Buenos Aires to the effect that the International Red Cross had obtained naviserts from the British for relief supplies to be purchased in Argentina and destined for French prisoners of war in occupied France and Germany. In accordance with the Secretary's instructions, I called Mr. Stopford of the British Embassy yesterday morning and asked whether he could confirm that a navisert had been issued by the British to permit a shipment of \$1,500,000 of Argentine beef on the French steamship "Mendoza" now in the port of Buenos Aires. I told Stopford that application for the release of the above sum in dollars on our market was still before our committee. Stopford promised to cable Buenos Aires for information, since there is a British office in that port competent to issue naviserts.

The Secretary also mentioned a confidential report which Mr. Klaus had given him with respect to certain information which the F.B.I. had obtained on French frozen accounts. I told the Secretary that I had the original correspondence on this subject and he understood from Mr. Pehle and myself that this matter was receiving attention. I have provided Mr. Pehle with a copy of the F.B.I. report, but have not otherwise circulated it in the Treasury, considering its very confidential character.

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At 11:15 yesterday morning Mr. Alphand telephoned me from New York asking whether I had yet received any word from the State Department approving the French request to use dollars in this country to keep up their diplomatic and consular establishments in Latin America. He understood that Mr. Atherton had told Counselor Truelle of the French Embassy that the State Department had approved this proposition and that I could call him, Mr. Atherton, for a confirmation thereof. I told Alphand that so far I had heard nothing following my conversation with Mr. Clark the preceding noon. I promised to look into the matter, however, and to let him hear from me later.

Shortly after this call was concluded Mr. Truelle telephoned me and gave me a message quite similar to that just received from Alphand. I told Truelle that I would endeavor to get in touch with Mr. Atherton and would let either Alphand or Lacour-Gayet know the result. I was not successful in reaching Mr. Atherton before I lunched with the Treasury Group at 12:30. Upon returning to my desk at 2:15 I found the following memorandum to me from Mr. Dietrich:

"The Secretary rang at one o'clock and said that Mr. Welles had called him stating that funds should be allowed for French Consular services and officials in Central and South America. The Secretary also said that the amounts involved should be very carefully gone over."

Upon an appointment requested earlier in the week, Mr. Lacour-Gayet, Financial Adviser to the French Government, called on me at 2:30 yesterday afternoon. He immediately raised the question above discussed. I telephoned Mrs. Klotz, who was good enough to send me an excerpt from the conversation which the Secretary had had with Under Secretary Welles yesterday noon. I told Lacour-Gayet that, following a conversation between Messrs. Morgenthau and Welles, we could not go ahead with the French application for licenses to take care of their people in Latin America. While Lacour-Gayet was present, I telephoned Alphand at 3 p.m. I suggested that he come to Washington next week, and an appointment was definitely fixed for Mr. Peble to receive him and the French Paying Agent in New York at 11 o'clock on Monday. I let him know that he should bring all data necessary to support currently correct applications for a license to pay French diplomatic and consular establishments in Latin America from dollar funds held in New York.

Both Lacour-Gayet and Alphand raised with me two other questions. They explained that the French Consulate General in New York had in error withdrawn from its freed account with the French American Banking Corporation in New York some \$24,000 or \$25,000 and had placed this money with the National City Bank, where it was promptly frozen. I explained that the license which we had given applied only to the one bank. I telephoned Mr. Peble in Lacour-Gayet's presence and it was arranged that this matter should be discussed at our yesterday afternoon's Control Session, and again when Mr. Alphand comes on Monday, if this may be necessary. It was further agreed that we should look into the question which the French officials raised as to their ability to make further withdrawals from the Purchasing Commission free account to pay for shipments made to

Guadeloupe and Martinique. Such transactions had been blocked since the Treasury had advised the Federal a day or two previously that the only payments for which the account in question was free was for those entered into with American contractors prior to June 17, 1940.

At yesterday afternoon's Group Control Session I brought up these two cases. I reminded Mr. Pehle that Leroy-Beaulieu had on one or two visits to Washington discussed the necessity of the French Government providing Martinique and Guadeloupe with funds from New York to pay for necessary imports from the United States, the food situation being serious, and communication with Europe being practically impossible. To Mr. Pehle I again confirmed this morning that such conversations had taken place and that I had understood our attitude had been favorable toward utilization of French funds for this purpose.

At 5:30 yesterday evening I told Mr. Livesey of the developments with the French, and I sent him for the strictly confidential information of himself and his colleagues in the Department of State who would be dealing with various letters which we have sent and are sending to that Department requesting their opinion on French applications, a copy of the F.B.I. report herein above mentioned.

Mr. Alphand called me at 11:40 this morning from New York in regard to applications filed for \$270,000 to pay for equipment and goods purchased in United States to outfit four French steamships which were sailing from the United States to England. He stated that Mr. Atherton of the Department of State had telephoned Counselor Truelle of the French Embassy this morning to state that everything was in order for the clearance of these vessels. Alphand had learned, however, that the Federal Reserve Bank has not yet received from the Treasury authorization to grant the license required for the release of the above-mentioned sum. Urgent action was required since one of the vessels, the S.S. Winipeg, is to sail tomorrow from New Orleans. I telephoned Mr. Pehle at 11:45 and gave the information I had received from Alphand. I expressed the opinion that we should get in touch with the Department of State and the Federal and clear this transaction this morning. When Alphand called back around 12:30, I transferred his call to Mr. Pehle.



October 17, 1940
3:30 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Buckley
Mr. Weir
Mrs. Klotz

Purvis: The first thing is something you might want to pass outside the Treasury at some time. The reason I have said that is that it deals to some extent, in some of the sections, with the financial question, and we thought that we had been asked to be extremely discreet about the financial question and the Reconstruction Finance and the Continental Motor deal and that kind of thing, and therefore if we divided it up, you could use it as you felt it was wise and proper. That is the first thing. I think it is divided up so that a glance at the longer ones will be enough, whereas the first one may give you almost what you want.

The next problem that arises out of it is, how quickly to place the new program. By that I mean, Knudsen's first half of the 3,000 excess upon the placing of which probably depends a successful situation in the war, say 6 months or a year from now.

H.M.Jr: 3,000 --

Purvis: Additional. You remember there was an idea at one time of 3,000 additional.

H.M.Jr: Per month?

Purvis: Yes. When Knudsen saw it, he found he couldn't

- 2 -

write his name to 3,000 in one section, but he was prepared to divide it into two. We are anxious now to go ahead immediately with the first half and leave the second half to be bitten off again six or eight months from now, and the only thing is that it is all important to get those orders in. There are certain bottlenecks, aluminum, alloy, not the ingots but the making of the alloy.

- H.M.Jr: That is a terrible situation. The more I hear about it the worse it is.
- Purvis: It has got to be tackled first, and we thought if we could get these production and technical committees set up and going, they could begin to see where the bottlenecks were and get that debris out of the way now.
- H.M.Jr: They tell me if you place an order on aluminum, you can't get it for 20 weeks.
- Purvis: I ran into Stettinius and Batt the other day and they said that was a temporary situation merely for new plants coming in.
- H.M.Jr: I am talking about castings.
- Purvis: I see. Well, those are the more difficult things.
- H.M.Jr: You mean - Glenn Martin was in here yesterday and he is terribly discouraged about any finished aluminum products, not the ingots but the castings particularly. He said that they are very slow in placing orders for new machinery, the aluminum company.
- Purvis: Yes.
- H.M.Jr: It is very critical.
- Purvis: Yes. Well, we recognize that as one of three difficult situations which don't brook any delay.
- H.M.Jr: One is aluminum.

- 3 -

Purvis: One is aluminum. I was just trying to think of the other two.

Buckley: Of course, one is engines.

Purvis: Yes, but this is --

H.M.Jr: It is like all of those things, though. There is no use talking about more airplanes if you can't get the --

Purvis: These ought to be fundamentally attacked first if we are going to get the bottlenecks out. The fabrication of raw materials - production of raw materials and their fabrication, which really comes down in the main to aluminum. The manufacture of machine tools, which again probably is not quite so difficult to get, if you plan it ahead and the production of engines and guns, which is partially tackled, so far as engines are concerned, and partially tackled so far as guns are concerned. It means making sure that we have got it rounded out for this kind of plant.

So really those are the burden of that, and I think the great importance in this is whether we can get the spade work done by, say, the setting up of production and technical committees to get ahead with the underlying problems in this new program.

H.M.Jr: Well now, have you asked for those ten or more technicians?

Purvis: Yes, those have been asked for, I understand. The details of yours have been given to Fairey and I understand our people have been asked to send their technicians, but this really means a planning committee on rather a broader scale than the standardization.

H.M.Jr: Let me read it.

Purvis: Yes.

H.M.Jr: There is just this thing that comes to my mind.

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If this important official is coming --

Purvis: Yes.

H.M.Jr: Before you got down to types, I would certainly think that he ought to take a look, so to speak, at our wares, which are still on the drawing board, not in production.

Purvis: That is a privilege, to do it.

H.M.Jr: What I would like to see him do would be immediately to go out to Dayton, you see.

Purvis: And see the inside.

H.M.Jr: And see the whole thing, and he would be permitted - for example, I don't understand, I have been waiting, you see, to get these figures on the pursuit planes, which I have a little bit better feel on than I have on the other things.

Purvis: I have myself.

H.M.Jr: I haven't got that yet. It isn't ready yet, is it?

Buckley: No.

H.M.Jr: But I was looking over this morning or last night and I see that the - we have just placed additional orders for a pursuit called H-87 with Curtiss-Wright. I don't know what that is.

Buckley: It is the P-40-D.

H.M.Jr: What is that?

Buckley: That is the F engine.

H.M.Jr: But the thing, for instance, what they have done out there with Curtiss, which is the sort of thing I'd hoped to avoid - I am just using this as an example. I mean, this is one - the newest one. The P-40, you get the 98 in February and 26 in March.

- 5 -

Purvis: Yes.

H.M.Jr: Then you only get the next so-called - the 87, you only get 2 in April, 10 in May, 20 in June, 40 in July, and you run up to 114 in October. Now, I had thought that the whole plan was that this P-40 which they are turning out was going to run through until the 1st of July, instead of which it sloughs off in February and stops in March, you see.

Buckley: There is another 150, Mr. Secretary, of that P-40, which is to be ordered.

H.M.Jr: Well, but it doesn't show up here.

Buckley: Well, it hasn't been ordered yet.

Purvis: But the manufacturer probably knows about it.

Buckley: The manufacturer knows about it entirely, based on the Buffalo conference. It just the lack of definitive action.

H.M.Jr: There is here 150 of P-40's which have been just placed. But it doesn't show up here. The P-40's stop altogether in March.

Buckley: I think there must be another 150 in there, but I will check on it with George Haas.

H.M.Jr: Check it.

Purvis: I agree. If I may suggest, I believe the new airplane program again gives us a chance if we could have a joint planning committee to fill up these gaps really with close study all the way through. It has got to be done.

H.M.Jr: I spent a half hour yesterday with Glenn Martin and his vice-president, and every time I listened to his people I learned a lot. They say, for instance, the plane they are making for you has a little shorter radius but on the other hand is much faster and much more maneuverable, but

- 6 -

your bomb rack is the wrong way. He is making them both ways, one way for the United States and one way for you, you see. The B-26 which he is making for us, he says, is a heavier ship but it is as good a fighting ship as this, but there is more room for the men in our ship and less in yours, but here there are two bombers going side by side. You have certain advantages, more speed, and the United States plane has certain advantages. They are both going down. Now, certainly between your technicians and ours we ought to be able to decide. After all, we should decide just what is the best bomber in a two engine fighter, granted that they want them for different tactical purposes.

Purvis: But even then it should be possible to bring it together.

H.M.Jr: Bring it together and it isn't only Glenn Martin, but additional orders could be on that basis.

Now, one thing for a minute. I am watching the time for you.

Purvis: Yes, because I have one other thing, too.

H.M.Jr: Just to take one minute. This is confidential. I have heard two stories. One was that you knew this and the other one was that you weren't supposed to know it. The story is this - I mean, that Knudsen has been working to set up a sort of an automobile type of production of four-engine or two-engine bombers and that he was successful this week with the people and they are going to make the parts for it.

Purvis: Stampings.

H.M.Jr: And I was told by Knudsen once and Knox said you knew all about it and he was there when you heard about it. Which is true?

Purvis: The funniest of all, Mr. Knudsen told us half an hour ago. Mr. Buckley was there.

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H.M.Jr: Well, I immediately, when I heard about it - my first question was, "How much can I get for the English?" That was my first question.

Purvis: Yes.

H.M.Jr: You know about it now.

Purvis: We know about it now. We learned half an hour ago that they have - he was very pleased, I can see, that they had agreed to do that.

H.M.Jr: Yes, but in the order which he is placing, isn't there room for you?

Purvis: That I - I didn't know it was a specific order.

Buckley: I think we had better check on it.

Purvis: He simply said they promised to support him by making stampings, the automobile people, putting their facilities at his disposal to make stampings.

H.M.Jr: I tell you what it is. It is 4-engine bombers and a 2-engine bomber.

Purvis: He evidently made a very broad statement.

H.M.Jr: I think he will need your orders because I don't think that the Army has got the orders to give him.

Purvis: There we get to the complementary program.

H.M.Jr: Yes.

Purvis: Well, that brings me to the next very important point, I think. Layton wants to sign --

H.M.Jr: Just one second. Did you see him about the boats?

Purvis: Yes.

H.M.Jr: Is he going to do anything on the boats?

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Purvis: Hulls are not our problem. I think what will come out of the meeting is that the real bottleneck is engines and armaments. The reason we haven't gone into boats is because we can't buy boats unless they are crash boats or rescue boats with the specific understanding they will not be used for war. What he had to offer were hulls. What we need are engines and armaments, so he is now going to investigate engines with particular reference - but I think it is - good is going to come out of it, I think, in the engine, but it wasn't there. We had to go back. Well, now, rising out of these memoranda on the end, which I hope will be - I think I have divided them so you won't have to go all the way through them. There is this question of the financing of this program.

The all-important thing now is to get the orders placed and to do it - it really needs quick doing. We have our pattern, as we know, and it is a question of setting it to work in this very important and urgent field. Now, here is a letter which I have written which Layton would sign when he gets back. He is away just now. But before it was written to you, I thought this thing was of sufficient importance that you ought to be able to read it and say, "I don't want to receive it in quite that form," or whatever you wish to say. I thought that we could deal with this thing with the greatest care.

H.M.Jr: I don't want to receive it.

Purvis: You don't?

H.M.Jr: No.

Purvis: I wondered whether I could --

H.M.Jr: No, he shouldn't be writing me that. In the first place, you know how Jesse Jones feels. I haven't got RFC. That is Jesse Jones' and --

Purvis: Would it be better - I mean, is it a question of

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knocking RFC out of it and simply leaving it on the basis of arrangements for the financing, leaving the vehicle out?

H.M.Jr: You and I don't write each other letters.

Purvis: I know. Now, I just wanted to - that is why I brought it to you.

H.M.Jr: He is over here and he tells me what his needs are. All right, that is an inventory of his needs. Now, when it comes down - you go over today and Mr. Stimson says, "We can do this and this and this," and then they will do it the way they have right straight along, but I don't want any letters.

Purvis: No. Would it be all right to make - to limit this letter to just a suggestion that there might be a committee on planning and production and financing of this program so as to have the request to you that we set up formally such --

H.M.Jr: That is all right.

Purvis: That section of it, I think, is all right, but this is exactly the reason I brought it to you as a protection - because when I saw the draft I think --

H.M.Jr: If we want committees, we have got one on airplanes now, and if you want one on finance, that is all right.

Purvis: Yes. A new program of this kind is so big and so important that it really requires, I think, a very good type of planning and it will need a planning committee of the finest type and it really should be joined, I think, because otherwise there won't come out airplanes of standard type. This is our great chance to get a standard product and it may have to mesh in with things that already exist.

H.M.Jr: They can change that.

Purvis: I will change it again and show it to you again

- 10 -

and make quite sure we get it right. That is exactly why I brought it to you.

H.M.Jr: I am glad you did.

Purvis: But I would like very much, if I could, if you think there is hope in getting these committees set up, I believe there is a big job of work to be done in getting it launched.

H.M.Jr: You can do it.

Purvis: And you see, there is also, if this ordnance situation goes on as favorably as indicated day before yesterday - I am hoping very much that Mr. Weir will be able to get into the actual order placing stage on that, because that also is tremendously urgent now and Mr. Weir is one of the few people in our organization who knows guns. He knows something about their production and also knows industry in general, so we are really very fortunate.

H.M.Jr: Well, at the rate that the War Department is moving, which is unusually fast considering the size of the thing, I should think that - you are seeing Mr. Stimson?

Purvis: Yes, and then I wanted your guidance a little this afternoon on just the - we have various tank additions to the pattern which I discussed in detail with your people, Mr. Buckley, Mr. Cox, and so on, and we think we are more or less set on those, are we not, as actual cases?

Buckley: I don't think --

Purvis: In addition to that, I proposed in accordance with what you said to me day before yesterday to try to get Mr. Stimson to call in Mr. Patterson and suggest that this policy be followed up in connection with the ordnance items which I take it he would officially talk to me about.

H.M.Jr: Oh yes. If he has called for you, that means

- 11 -

that he and General Marshall will be there.

Purvis: Yes, quite.

H.M.Jr: I don't know about Patterson, but Marshall will be there. Now, coming back to the financing, Mr. Stimson isn't particularly interested in that phase of it.

Purvis: No, that is what I wanted to get your guidance on.

H.M.Jr: The thing would be, when you get this thing through in the order stage, then you and Jones and I will sit down together.

Purvis: Good. All I need to do with him then is to get into his mind this afternoon as carefully as possible the idea that this series of letters saying that these materials are essential for United States national defense have got to be written in due course in order to bring the machinery into play for getting the orders placed.

H.M.Jr: That is right.

Purvis: I see. I thought that was what you meant, but --

H.M.Jr: Those letters go to Jones, don't they?

Buckley: They go to Schramm, and they come from the War Department and the Defense Commission.

Purvis: Mr. Secretary, do I understand the essence of what you are saying to me - I am sorry I am so short of time. I do feel this is one of the most vital things. Do I understand the essence of what you are saying to me is the same as you said the other day when Layton was here, "You can assume - you have got your pattern. Assume it is going to work. Feel it out, go ahead." Is that it?

H.M.Jr: Yes, definitely. I am not worrying about it.

- 12 -

Purvis: No.

Buckley: I have the feeling, in that regard, that you should sort of soft-pedal talking about it in terms of a big policy problem. I think the policy has been overcome. Just assume it is mechanics that have to be worked out rather than to argue the policy again.

H.M.Jr: I would go on the assumption that the policy is settled. I wouldn't even raise it in anybody's mind.

Purvis: No. Keep on raising it only where you want a specific letter.

H.M.Jr: Just raise it this way, that now - if it is an airplane joint program, in that connection again you will need the same kind of letters you did with Continental.

Purvis: That is clear, Mr. Weir, isn't it?

Weir: Yes.

H.M.Jr: And then when they get those letters, sit down with Jones and Schramm and yourselves and say, "Now look, this is the new program and this is this additional thing. Will you give it your attention, Mr. Jones?" Just take it that the letters come just as a part of the contract form, those letters, they just go forward.

Purvis: You know, in a way it is an extraordinarily good situation gradually to have arrived at, because I do honestly believe that placing the ordnance orders now and the airplanes are going to determine the course of the war six to nine months from now.

H.M.Jr: One little thing, I don't care how hot a telegram you send, but make it hot. The Secretary of the Navy says that if you fellows don't send him that pom pom gun, he is just going to not give you nothing. He is mad about it.

Purvis: Pom pom for Secretary.

- 13 -

H.M.Jr: He can't understand when he asks for something why it can't be put on a truck and sent on the first boat in the captain's cabin.

Purvis: I will put that in there.

H.M.Jr: And that goes for that 4 $\frac{1}{2}$ inch gun, too.

Purvis: Yes, I am bearing that in mind.

H.M.Jr: Knox was here for lunch yesterday and he said, "Why don't they give me that pom pom gun?" He says he just had returned from a demonstration of ordnance and he is very much upset because the only gun that he had any confidence in is our 50 millimeter, and he wants to make your pom pom gun and he will make it for you and himself but he can't do it until he sees it.

Purvis: It is a reasonable request.

H.M.Jr: Seriously, let them put it in the captain's cabin.

Purvis: Yes, I quite agree with you.

H.M.Jr: But when a man like Knox asks for that --

Purvis: I had a vague idea --

Buckley: Charles has been working on it.

H.M.Jr: Who is that?

Buckley: Ballantyne, on their side.

Weir: There was a cable just when I left which I hadn't time to look at of the state of the dispatches of the equipment we have asked for.

Purvis: From Salter?

Weir: Yes.

H.M.Jr: But these special things, the 4 $\frac{1}{2}$ inch gun which

- 14 -

you want, the pom pom gun which we want to make, those sort of things, as I say, those guns don't take up so much room. They can take one off a destroyer and stick it in the first boat that leaves.

Purvis: You encourage us to make the cable hot?

H.M.Jr: Yes.

Purvis: Thank you very much.

October 17, 1940

4 p. m.

Present:

The Russian Ambassador, Mr. Oumansky

Ambassador: The first is, I bring you the following message from Mr. Molotov. I owe you an answer to an additional request you had during our second conversation when you included, in the list of raw materials you desired, flax. The answer is affirmative. The Soviet Government is prepared to deliver to the American Government flax in quantities not mentioned, because we do not know your demands, and in doing so I am authorized, too, to reiterate our willingness to deliver those raw materials which we mentioned before, that is, manganese, chromium, asbestos, platinum.

HM,Jr: I think that covers the list.

Ambassador: Yes. To these we are prepared to add flax.

HM,Jr: Flax. I see.

Ambassador: That is message number one.

The other message is something which, from the point of view of the strictly speaking proper procedure, I address at this moment the wrong place. Still, Mr. Molotov asked me to bring this to your personal attention.

The Soviet Government would appreciate highly if the Secretary of the Treasury would intervene in the question of supplying the Soviet Government with various aviation items which I have listed here before me.

-2-

They are divided into two parts. First are items already provided for in an existing agreement between the Wright Aeronautical Corporation and our Air Motor Stalin Plant in an agreement which is still in force, dated August 29, 1939, which is working but where our Commission working within the Plant is experiencing difficulties in obtaining various descriptive materials provided for in the contract.

This is the list. I will leave you this little memorandum.

Technical material for Engine G-200; technical material for engine GR-2600, and technical material for these engines is provided for in the contract but is being withheld in connection, probably, with general regulations to which the execution of the contract was subject, so when I bring this to your attention it is not any complaint about non-execution of a contract, but a request for an exemption from the regulations which I do not know exactly, but which prevent, so far, the delivery of those materials.

The third is an engine duplex GR-3350, for which our plant has only an option right.

The fourth is a turbosupercharger for airplane engines which, according to the contract, should be available to us but which has been withheld too.

I want to make plain, finishing these first four items, and here I attach a note, that two of these airplane engines in question we already obtained and licenses for them too.

HM, Jr: Which two?

Ambassador: GR-2600. We shipped ten engines recently and the licenses were received from the State Department.

HM, Jr: I see.

Ambassador: The G-200, we shipped two engines

-3-

under licenses issued in December, 1939, by the State Department.

I put the emphasis not on the motors themselves, but on the descriptive technical material which, according to the agreement, should accompany them, but unfortunately does not so far.

That was "A".

And "B", are two items not provided for by any existing agreement and about which our people did not even contact the corporations in question because it would be simply useless. They would not negotiate.

Item 1. 10 engines, Pratt-Whitney, Double Wasp, Series C.

And the second item. 10 four blade propellers, Curtiss-Wright.

I understand that is all to this memorandum, which I will give to you.

HM, Jr.: I will just take a look at it.

Ambassador: Please.

HM, Jr.: That's plain. I can understand that. Does that finish that?

Ambassador: It does.

oOo-oOo

- A. Items provided for in the Agreement between the Wright Aeronautical Corporation and the Stalin Plant, U.S.S.R., dated August 29, 1939.

Technical material including working drawings, operation sheets, data, etc., for:

I. Military service airplane engine GR-1820 G-200

Radial, single row, 9 cylinders

Take off output - 1200 HP

All technical material for this engine was to be submitted to U.S.S.R. representatives in December 1939, as provided for in the agreement.

II. Military service airplane engine GR-2600

Radial, Double row, 14 cylinders

Take off output - 1500-1700 HP

All technical material for this engine was to be submitted to U.S.S.R. representatives in the period January to March 1940, as provided for in the agreement.

III. Airplane engine Duplex GR-3350

Radial, Double row, 18 cylinders

Take off output - 1800-2000 HP

The Stalin Plant has the option right to include this engine in the agreement on the same basis as the above-mentioned engines.

IV. Turbosupercharger

- 2 -

IV. Turbosupercharger for airplane engines

According to the terms of the agreement, technical material and data for the turbosupercharger shall be available to U.S.S.R. representatives.

B. Other items which it is desired to purchase, together with working drawings and operating sheets and descriptive material:

1. 10 aviation engines Pratt and Whitney

Double Wasp, series C

Radial, Double row, 18 cylinders

Take off output - 2000 HP

With expanded front end of the crankshaft

2. 10 four blade propellers with electrical drive,

Curtis-Wright

- 3 -

NOTE:

The following equipment has already been purchased by the Amtorg Trading Corporation and shipped to the U.S.S.R.:

10 GR-2600 airplane engines

2 GR 1820 G-200 airplane engines

The shipment of these engines was covered by export licenses issued by the Department of State in December 1939.

RE SUMMARY OF CONFERENCE
WITH AMBASSADOR OUMANSKY

October 17, 1940
5:20 p.m.

Present: Mrs. Klotz

H.M.Jr: The Russian Ambassador called on me and asked whether he could divide his conversation into unofficial and official. The official, Miss Chauncey has.

He then started in to say, "You undoubtedly read in the paper --" Before he started, he said, "I know of your interest in my country and after all, I remember, when Mr. Litvinoff came in '33 and '34 and I was with him, your friendly attitude, and therefore Mr. Molotov has asked me to talk to you." He said, "From reading the newspapers, you most likely would get the impression that we are making great progress between our two governments." He said, "The diplomatic usage does not permit me to answer, but I want to let you know that we are not making any progress at all." He said, "Mr. Welles and I had six meetings and then there is a gap of six weeks where we had no meetings." He said, "Two days ago Mr. Ray Atherton received me and told me of the 22 million dollars worth of machine tools that we wanted to buy, 17 million which we already had on order and 4 million which we wanted placed, in addition, that we could purchase roughly 7 million and that 10 million we could not purchase. Of this amount, a million and a half dollars was turned down two days ago."

In other words, they added a million and a half dollars to what they have already turned down, but didn't give him any fresh approvals. He feels that the orders which they had on hand prior to July, they should be permitted to go through.

He said, "After all, we are the two biggest and most powerful nations in the world which

- 2 -

are not at war, and I take it that you are interested in seeing that we stay friendly." He said, "Our policy is to keep out of war."

I asked him if he would care to educate me on their foreign policy and he said that in the Far East they were very close and friendly to Bulgaria; that their relations with Greece were neither good nor bad; that in connection with Turkey, their relations had been most unfriendly, but that they were getting steadily better; that he was hopeful that through diplomatic action they would be able to solve the situation, namely, keeping Germany from getting ahead further in the Balkans. He said, "The situation was serious enough that we had to announce to the world that we had not been informed of the German move in Rumania." He said, "While we will try to exhaust every possible effort to accomplish this through diplomatic moves, of course we can not let them get stronger in that territory."

He then told me that he was authorized to tell me on behalf of Mr. Molotov that they are not only prepared to sell us chromium, the various list of metals which we asked for, but also he told me today for the first time, flax. He couldn't answer as for quantities, but as to specific items, yes.

He said that they had placed an order for 100,000 bales of cotton, but they were very anxious to buy more, and he wondered if possibly we couldn't reinstate the export subsidy on cotton. I asked if they had considered at all the possibility of exchange of, say, cotton for manganese. He said no, but that he felt that a government-to-government transaction on cotton might be perfectly feasible.

- 3 -

He then also got on something which he said was purely his own idea, which wasn't quite clear to me. He said, "Possibly we may make a three-corner arrangement in South America." He said, "We are very much interested in buying the South American cocoa bean and rubber and sugar," and I said, "Well, what do you mean by a three-corner arrangement?" He said, "I don't know, but after all, the United States is interested in taking the surplus materials of South America and they are certain that you can't take in competition with your own and possibly some way might be worked out whereby through the United States we might be able to take some of the surplus materials of South America."

He said the head of the Amtorg was in today and that they have a great accumulation of orders that they want to place here.

During the conversation, he took the opportunity to let me know that naturally their foreign policy was molded by the attitude of other nations toward them and then he cited the example of what we had done in Finland. He said, "After all, if you and I had met six months ago, we couldn't even have discussed it." He said, "I don't know if you noticed what H. G. Wells said on his arrival," but he said, "After all, if a foreign power, and a small one at that, controlled Staten Island, you would take care to see that Staten Island came under the domination of your country," and he said the relationship between Finland and their closeness to Petrograd was exactly the same. He said that they could have come to a friendly agreement with Finland, and he intimated they would have if it hadn't been for the intervention of England. He then

- 4 -

took the opportunity to say that in the summer of 1939 they could have come to an understanding with England and France if it hadn't been for the stupidity of the representatives of these two countries at Moscow.

I asked him point-blank if they were about to enter a non-aggression pact with Japan, and he said it was perfectly possible but it was meaningless because, he said, "After all, what does a non-aggression pact mean? It simply means we won't attack each other."

He then got on gold, and said that this had been a very minor subject in their discussion with the State Department, but it got to be a very irritating one and all they wanted - and I wrote it down - was "the assurances that no prohibitive or restrictive measures would be applied to export or import of Soviet gold or silver, which would not be applied to all other countries." I said that I didn't believe that the matter had been presented to me in that way, that as far as I was concerned I couldn't see why we couldn't agree to that, but I wasn't saying so. He then said, "Please, please don't mention it to the State Department, but it is one of the things which is irritating us very much."

He then said that he was the Ambassador for the Russian people, and the boats which had formerly belonged to Estonia, Lithuania and Latvia - that many of the captains and the crews wanted to return to their countries and they were practically held as prisoners on their ships. I told him that I knew nothing about it and couldn't comment on it.

- 5 -

To my surprise, he didn't bring up the fact that we have frozen the assets of Lithuania, Latvia, and Esthonia.

His whole attitude was much more friendly than it had been the last time, and if I am a judge of human nature, I would say that the Russians would like to get closer to us at this time.

A little incident happened which was rather interesting. He kept staring at my loud speaker and I said, "That is not a dictaphone, and I will prove it to you," and I asked the operator for the time. He said, "Oh, I didn't think it was." He said, "You look at every move of mine so closely," which I took as a compliment to myself.

He said, "As far as China is concerned, you know how things are going, but we are doing a great deal more to help China than you are," and I said, "Granted." He said that the situation for China was bad. He referred to the fact that the Japanese would begin to bomb the Burma Road.

He said we had agreed that neither government would publicly insult the other government, and he said in Sumner Welles' talk out in Ohio, he took occasion while talking about the Far Eastern policy to talk about what the Russians had done to the Finns, and talked about the aggressors, and so forth and so on, and they felt it was entirely uncalled for.

Before leaving, he impressed upon me that Mr. Molotov is very anxious to get the request granted for airplane engines and planes, which he had asked for officially at the first part of the conference. I told him I would have to take the matter up with Mr. Hull.

THE WHITE HOUSE
WASHINGTON

October 17, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

In regard to the matter of the Hearst newspaper man going on two Coast Guard cutters.

I have no objection to his going as a guest of the Captain of the ship but no person is to be taken on a Coast Guard cutter or a Navy ship as a guest of an officer unless he agrees beforehand that he will not write or give radio talks or make speeches in regard to the trip or the service unless he gets specific leave from the Secretary of the Treasury.

That should always be a regular rule.

F. D. R.

October 16, 1940.

Memorandum for THE PRESIDENT:

Your memorandum of October 8th asked about one Charles E. Blake, who addressed a letter to Mr. Hearst after being aboard two Coast Guard cutters in Alaska.

Blake is a Hearst newspaper man who has worked in Chicago, in the Washington Bureau of I.N.S., and is now in Los Angeles. He is a Coast Guard fan and has written a good many favorable stories about it, as well as other Treasury activities. Early this summer he was on leave on account of illness, apparently due to overwork, and asked our Public Relations office if he could not be a guest on a cruise to Alaska. This sort of thing is occasionally done for working newspaper men and news writers, and arrangements were made for Blake to go north on the ITASCA and return on the SHOSHONE as a guest of the skipper in each case.

(Signed) H. Morgenthau, Jr.

HEG/r

By ~~Morgenthau~~

Mr. McHugh has name from President

THE WHITE HOUSE
WASHINGTON

67

October 8, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Please read enclosed by a
man who was on two Coast Guard
cutters in Alaska and then wrote
to Mr. Hearst.

How come?



F. D. R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from the account of the Reichsbank, Berlin, maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 16	\$90,580	German Gold Discount Bank	Irving Trust Company, New York, for account of Vongibara
	40,000	Reichsbank, Berlin	Riggs National Bank, Washington, D. C., to be paid to the German Embassy



October 17, 1940.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

MSA

Mr. Klaus handed me the attached excerpt from an article in FORTUNE for October. You may be interested to know that I have not attended any of these Special Intelligence Meetings since August 2. I was told the following week that Hoover was out of town and that I would be notified when the next meeting would be held. I received no notice of a meeting until Friday of last week when I was notified that there would be a meeting on Tuesday of this week. You will recall that I received notice while in the 9:30 meeting on Tuesday that Hoover's meeting had been called off. Later, on my return to the office, I had a call from General Miles, head of Military Intelligence, who told me that there had been a slight misunderstanding between him and Mr. Hoover, that a meeting was actually being held in his (Miles') office and that I could come if I cared to. Since it was late and I had other stuff on hand, I told him that it would be a relief to me not to attend the meeting. I attended several meetings but Berle was not at any of them.

Excerpt from
FORTUNE
October 1940

"Nazi Agents in the U. S."

In all its national-defense work the FBI has the cooperation of the army and navy intelligence units, the Treasury Department's Secret Service, and the State Department, and it serves as the co-ordinating and directing head of all the national-defense intelligence work done by federal and local agencies. Every Friday the heads of the army and navy intelligence units, and occasionally Assistant Secretary of State Adolf Berle and a representative of the Treasury, confer with Director J. Edgar Hoover at the bureau and discuss their mutual problems and findings. It is an effective police power they represent, and they know a great deal more about the activities of German and other foreign agents here than the agents imagine. And it is at once a reassuring and an alarming fact that though some 5,000 "alien enemies" were jailed here during the World War, the Bureau has many times that number on its lists "to be rendered harmless" this time. (p. 148)

October 17, 1940.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 17, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

STRICTLY CONFIDENTIAL

Among the communications received from the Federal Bureau of Investigation since my memorandum to you of October 15, 1940, are the following:

October 9th. An espionage investigation of the activities of Axel Wenner-Gren, former head of the Electrolux and Servel Corporations, who was overheard in June 1940 at the "21" Club to have talked about radio equipment and who was supposed to have been friendly to Hitler and to have been expelled from Sweden, has been closed without any additional information after investigating the other officers of Electrolux and Servel.

October 14th. German espionage agents in the United States have been issued instructions to concentrate on military more than technical questions in the United States and Canada, emphasizing that the information wanted is exact strength of air force, details regarding training of fliers, instruction books used, training of pilots for fighting in England, routes and dates of departure of pilots leaving for England. Agents are instructed to find "friends in the airport itself who may be able to give you such information." In view of the statement that "another 500 bucks" are being sent "for this purpose," I am taking the matter up further with FBI.

October 15th. An employee of the German Consulate in Chicago is reported to have stated that the German Consulate General in Chicago has instructed all employees to be sure that their passports are in good valid order by the end of the week on the ground "that no one can tell what might take place in the immediate future, in view of present circumstances and conditions throughout the world."

October 15th. \$400,000 was withdrawn in cash in bills of \$10,000 denomination on October 14, 1940, of which \$300,000 was apparently paid to J. P. Morgan on account of the Dawes' loan bond scrip.

October 17th. Two messages from Herve Alphand, French Commercial Attache to the Vichy Government, have been intercepted. The first, October 10, is to the effect that in view of refusals of the United States Treasury and State Departments to deblock \$1,500,000 to pay for Argentine meat destined as food supply for French prisoners in Germany and refusal to give a favorable reply on amounts necessary for support of French consular staffs in South and Central America "it would be prudent" to consider using French holdings in Central and South America for diplomatic posts; the second, October 11, points out that under American freezing controls Morocco presents a loophole and that to benefit from money produced by exports from Morocco, American importers must be obligated to pay their moneys exclusively into the account of the Bank of Morocco at the French-American Banking Corporation.

M.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil.

DATE: October 17, 6 p.m.

NO: 349

Confidential

Your 532, October 16, 3 p.m.

The Federal Reserve Bank of New York on the 16th of October was authorized by the Treasury Department to communicate the following by telegraph to Banco do Brasil:

GRAY.

"Your no. 22.

Par. 1: In accordance with terms and conditions set forth in the letter dated July 15, 1937 from the Secretary of the Treasury of the United States as supplemented and modified, upon receipt by us of advice from you by tested cable that you have credited on your books in a special account opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States" milreis 200,000,000 purchased by us from you at the prevailing buying rate here for cable transfers on Rio de Janeiro, that is 5 cents United States Currency per milreis, we in turn, as fiscal agent of the United States shall credit you \$10,000,000 on our books in a special account to be opened in the name of Banco do Brasil as fiscal agent of the Brazilian Government.

Par. 2: As also provided in said letter of July 15, 1937 we shall set aside from the gold which we hold under earmark for your account as fiscal agent of the Brazilian Government, 718 bars containing 288,684.792 fine ounces of gold and hold such gold subject to the terms of the agreement.

- 2 -

Par. 3: This bank's current rediscount rate having remained unchanged at one per centum per annum during last month interest on our milreis account is to be credited thereto monthly at 1-1/2 per centum per annum until this bank's rediscount rate is changed."

END GRAY

HULL

copy

pf

RDS

PLAIN

STOCKHOLM

Dated October 17, 1940

Rec'd 10:40 p.m.

Secretary of State,

Washington.

981, Seventeenth.

In million crowns September compared year ago: imports 148 compared 179, exports 106 compared 131; Reksbank October 15 metallic reserve 643, foreign exchange 762, loans discounts 685, circulation 1383, Navy in two requests asks 217 next budget year and 111 present budget year while Army asks 181 in next budget year. Clearing Board announces October 15 coupons Dawes loan 1924 to be redeemed. Labor Market Commission announces 470 million crowns construction work could begin by July 1941 if unemployment situation should demand. All stocks over 100 kilos of feed and bread grains and also beans, peas other than for human consumption were expropriated October 16. General cost of living index September 148, Exports 145, imports 184.

INFORM TREASURY, AGRICULTURE, COMMERCE.

STERLING

REF

PARAPHRASE

No. 493, October 17, 8 p.m. from Buenos Aires.

Reference is made to despatch no. 1309, September 27 forwarding a copy of a memorandum from the Argentine Central Bank regarding the balance of payments between Argentina and the United States, and to the Embassy's telegram no. 486, October 15, 5 p.m.

The Ministry of Finance of Argentina has proposed that the leading American agricultural machinery and automotive firms set up a corporation to foster Argentine exports to the dollar countries on the understanding that the exchange created by certain specified products which it is estimated would create the amount of dollar exchange allotted to the group, would be made available at an exchange rate to be determined by the Central Bank, and that the group would be given in addition the exchange arising from certain new products, all exchange to be distributed in accordance with a predetermined quota among the members.

The purpose of the plan is obviously to oblige American industries most concerned with exporting to Argentina to participate actively in increasing American importation of Argentine products by making the value of the former depend directly upon the latter. The American business community, while disposed to be cooperative in its efforts to improve commercial relations by increasing purchases by the United States, view some features of the proposal with considerable misgivings.

It is understood that the Finance Ministry proposes to divide imports into three categories approximately as follows: (1) essential imports, (2) imports controlled by the proposed corporation, the volume of which would depend upon certain specified exports, and (3) other imports. It is believed that categories (1) and (2) may correspond roughly with the classification of imports included in the tables in enclosure to the despatch referred to in the first paragraph of this telegram, from which it will be noted that estimated imports from the United States for 1931 indicate increases

- 2 -

in categories (1) and (3), but a decrease of about 21 million pesos in category (2), accounted for largely by agricultural machinery and automotive products.

(Signed) TUCK

COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Transactions of the six reporting banks in registered sterling were as follows:

Sold to commercial concerns	£32,000
Purchased from commercial concerns	£ 4,000

In the open market, sterling opened at 4.03-3/4 and closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 6,000
Purchased from commercial concerns	£ 6,000

With the exception of some widening of the Canadian dollar and Cuban peso discounts, there was little movement in the other currencies. The closing rates were as follows:

Swiss franc	.2318
Canadian dollar	13-1/2% discount
Swedish krona	.2386
Reichsmark	.4005
Mexican peso	.2070
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Cuban peso	9-1/8% discount
Lira	.0505

We sold \$15,000,000 in gold to the National Bank of Rumania, to be added to its earmarked account. In connection with this transaction, the Federal Reserve Bank received the Treasury's approval under Executive Order No. 8389, as amended.

We purchased \$50,427,000 in gold from the earmarked account of His Britannic Majesty's Government.

Having received the Treasury's authority under both the Gold Reserve Act and Executive Order No. 8389 as amended, the Federal Reserve Bank of New York effected the following transfer of gold in its vaults:

\$5,959,302 from B.I.S. account No. 3 to B.I.S. account No. 2. The aforementioned amount of gold represented the full balance in account No. 3, which is understood to have been the property of the National Bank of Hungary. Gold in account No. 2 is owned by the B.I.S.

- 2 -

The Federal Reserve Bank reported advice from the Chase National Bank that two gold shipments, having a total value of \$11,000,000, were consigned to San Francisco for account of the State Bank of the U.S.S.R. Of this gold, \$8,400,000 is due to arrive on October 20 via the S.S. Batumi and \$2,600,000 on October 21 via the S.S. Askassan Maru. While the shipper's name and country of origin are not yet known, it is probable that these shipments are similar to previous ones sent from Vladivostok via Yokohama, Japan.

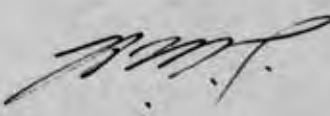
The Bombay gold price was equivalent to \$33.82, up 4¢ from Tuesday's quotation. The silver equivalent was 44.31¢, up 1/16¢.

In London, the prices fixed for spot and forward silver were both unchanged, at 23-7/16d and 23-3/8d respectively. The dollar equivalents were 42.56¢ and 42.44¢.

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

We made five purchases of silver totaling 300,000 ounces under the Silver Purchase Act. Of this amount, 125,000 ounces represented a sale from inventory, and the remaining 175,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed on the attached statement in Italian accounts maintained at the Chase National Bank.



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 17	\$74,000	Banca Commerciale Italiano, New York	Banca Commerciale Italiano, New York (check drawn by Curtiss Wright Corporation)	\$185,587	Banca Commerciale Italiano, New York	Two certified checks in favor of Credit Suisse, New York
	39,000	" "	Banca Commerciale Italiano, New York (Miscellaneous checks)	350,000	" "	Check to the order of Chase National Bank, for account of and under cable advice to Banco Espirito Santo y Commercial de Lisboa, Lisbon by order of Banca Commerciale Italiano, Milan
	400,000	Credito Italiano, New York	Guaranty Trust Co., New York (by order of Credito Italiano, New York)			
	100,000	" "	Credito Italiano, New York (Check drawn by Banca Commerciale Italiano, New York on National City Bank)	70,635	" "	Check to the order of Chase National Bank for account of Banco de la Provincia de Buenos Aires, in Buenos Aires, by order of Carlo Cattino in San Remo
	37,487	" "	Credito Italiano, New York (Miscellaneous checks)	500,000	Credito Italiano, New York	Banca de Italia del Rio de la Plata, Buenos Aires, by order Credito Italiano, Milan

MEMORANDUM

October 17, 1940

TO: The Secretary
FROM: James C. Buckley
RE: Municipal Problems Confronting the Glenn L. Martin Company

Messrs. Glenn L. Martin and J. T. Hartson, of the Glenn L. Martin Company met with me to discuss their "municipal" problems after leaving your office on October 16. Messrs. Foley and Kades were unable to attend, but I worked out an outline of the various points on which Mr. Martin would like our assistance.

Their plant is located in an unincorporated town, Middle River, Maryland, which is part of the Baltimore Metropolitan District. This means that they can connect with the Baltimore water and sewer systems, which naturally decreases the amount of money needed to work out their problems. Also, there is nothing that is terribly pressing at the moment, which gives us an opportunity to develop solutions which are not dictated entirely by expediency. The principal problems in the background are as follows:

I. Roads

This is probably their most important problem. They need improved highways between Route 40 and the plant, and also improvements to Eastern Avenue, which leads directly to the plant from Baltimore. The latter involves a new bridge, as well as underpasses and overpasses. These roads will clear up serious traffic congestion which affects workers going to or from the plant.

The State Roads Commission of Maryland already has a plan drawn up for the necessary improvements which has been discussed with the Bureau of Public Roads here in Washington, and which is agreeable to them. The total cost is estimated to be about \$3,900,000. The problem has been discussed with the Transportation Section of the Council of National Defense, who have no objection to the plan, but say that there is no money available to put it into effect.

II. Housing

The company has already built 24 small apartment houses containing 184 dwelling units. These have been financed with Federal Housing Administration insured mortgages and have worked out satisfactorily.

- 2 -

They now feel that arrangements should be made to build a minimum of 3,000 single dwelling units. The company has plans for a house which can be produced and sold profitably at \$2,500. This would permit amortization over a 16-year period with monthly payments of \$25. The Federal Housing Administration has not yet given a ruling as to whether loans on these houses would be eligible for insurance under their usual plan.

The company is not unwilling to carry the ball on the housing development but they will need financial assistance. They now own land suitable for about 1,500 houses, and they say that land can be procured quite easily for the second 1,500. They would probably be willing to invest as equity money in this 3,000 home development the land which they now own. This suggests that the project might be worked out under the Federal Housing Administration if this land is large enough to cover the entire equity requirement in the 3,000 home program, or if, in the alternative, the balance of the equity money could be procured through a preferred stock purchase by the Reconstruction Finance Corporation (Defense Housing Corporation).

The housing problem is not acute at the moment, but there is no substantial amount of private building being done in the Baltimore metropolitan area, and the sooner the program gets under way the better able they will be to take care of some 20,000 additional employees which will be added within the not too distant future. I suggested that there were several possible alternatives, and that we would investigate each possibility. Other factors being equal, they would prefer to have the housing worked out through some private corporation so that their own real estate department could take care of the selling and renting in order to develop and maintain the residential areas near the plant at a high standard.

III. Sewers

The company has in operation a sewage disposal plant which now serves the Middle River area, but which is greatly over-taxed and which cannot be expanded. The Baltimore Metropolitan District is financing the necessary extension of the Baltimore sewer system from Essex, Maryland to Middle River, and has already let a contract for the construction of this sewer. However, this contract involves the use of WPA money, and there is a scarcity of WPA labor in this region. As a result, completion of the sewer cannot be promised for twelve months. The situation is very bad and under normal operating conditions the sewer could be completed much more quickly. The problem here is not money but speed on the existing contract. To accomplish this it will be necessary to work out some arrangement with the WPA so that the contractor

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is permitted to use non-relief workers in order to expedite completion of the work.

IV. Water Facilities

The plant and the community are now served by a 12-inch water main connecting with the Baltimore water system. This main is exposed in certain places, and consequently puts the plant and the community in a vulnerable situation since all operations would be stopped if the main were broken. The Baltimore Metropolitan District has agreed to build a new 16-inch main, which will cost \$125,000. They are willing to issue bonds to finance this construction, but apparently this will take considerable time. If a source can be found for immediate financing they are willing to repay the money from the proceeds of a bond issue as soon as one can be floated. This problem is serious both from the standpoint of adequate water for the community, and also from the standpoint of fire protection at the plant. This latter point will become increasingly serious as construction proceeds on the new buildings.

V. Channel to Chesapeake Bay

In order to reduce the perils incident to the delivery of heavy flying boats to the Navy, it is necessary to deepen the channel in Dark Head Creek to a depth of ten feet. Approval of this deepening has already been included in legislation at this session of Congress, but no money to pay for it has been appropriated. The bill as passed provided for dredging to cost approximately \$105,000, of which one-half was to be paid by the Government and one-half by Martin. Mr. Martin says that they are willing to pay their half only if they are permitted to recapture it in the selling price of planes to the Navy, since he sees practically no commercial advantage to the plant in having the channel available.

In addition, when the plant reaches a production of 40 flying boats per month, it will be necessary to have readily available an anchorage basin in which to store these planes before the Navy takes them away. They have the stretch of water available for this, but it will have to be deepened to a depth of ten feet, which will cost about \$131,500. No legislation has gone through covering this item, and Mr. Martin emphasized that it would be sorely needed in the future even though it is not particularly necessary at the moment, since they are now delivering only one boat every two weeks and these are usually taken away as soon as produced.

VI. Educational Facilities

The company has been working out an educational and training program, and for the last few years has used various public and private schools in Baltimore, as well as facilities at the plant. At the moment they are in pretty good shape, but with the tremendous expansion of personnel during the next six to twelve months, it is anticipated that substantial expansion of the program will be necessary. Whether this can be done with the available facilities is extremely doubtful. Neither of the gentlemen who were here was particularly familiar with this problem, but they agreed to have the man in charge of their training program furnish us in a day or two with an outline of the situation indicating the problems on which he feels they will need assistance.

Copies of this memorandum are being sent to Messrs. Foley and Kades.

MEMORANDUM

October 17, 1940

TO: The Secretary

FROM: James C. Buckley

RE: Conference with Mr. Glenn L. Martin and
Mr. J. T. Hartson

At 3:30 P.M. on October 16, 1940 Messrs. Martin and Hartson of the Glenn L. Martin Company met with the Secretary to discuss possibilities of extending production between now and July 1, 1941.

At the outset Mr. Martin said that all contracts had been let for their new buildings, but that they were using their own money for this since they did not yet have a facilities contract. It appears that this contract cannot be executed with the Army until the Defense Commission approves the plan for the facilities. Informal approval has been given, on which basis Martin is going forward on his own responsibility, but formal approval is necessary before a facilities contract can be drawn up. Mr. Hartson is working directly with the Defense Commission on this problem, so the Secretary suggested that they work out this problem directly with the Defense Commission.

It was emphasized in the discussion that standardization between the bombers which they are now building for the U. S. Army and for the British Purchasing Commission would impede rather than increase production. This is due to the fact that their tooling is complete for both airplanes, and their orders are out well in advance for parts to be worked with those tools. To change now would throw their production scheme for the next several months completely out of gear, and would seriously impede production.

In response to a query as to when a change-over to a standard model could be made without impeding production, Mr. Martin said that it would take from twelve to fifteen months, and that in his opinion there would be no loss in production whatever by continuing the models now in production.

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In the course of the discussion the point was emphasized that delay is occurring right now because of delays in deliveries of aluminum forgings and castings and of corrugated aluminum. This is due to the situation at the Aluminum Company of America, which is being followed closely by the Defense Commission. The Aluminum Company does not have sufficient forge hammers and this is a type of machine which cannot be manufactured quickly. In addition, the Aluminum Company has had difficulty in securing adequate personnel to work a complete third shift. Although their plants are not now working on Sunday, the personnel situation indicates that it would be impossible to add Sundays to the production program at this time.

One point which was brought out which may be productive of help for the British later was that because of the probable shortage of Pratt and Whitney R-2800 engines, it is likely that substantial numbers of U. S. Army B-26 bombers will have to be stored next May and June without engines. If it seems inevitable that this situation will develop, it may be possible later to secure deferment on some Army deliveries so that additional quantities of British bombers which use the R-2800 engines may be produced.

There was then a general discussion of the help which might be given to Martin apart from production problems. Mr. Martin said that they had housing, water, sewage, and other municipal problems which had been more or less dismissed in their conferences with the Army, the Navy, and the Defense Commission. He was very enthusiastic about the possibility that he might find in the Treasury an agency which would consider all these problems and attempt to do something with them for him. The Secretary suggested that he go over them with Mr. Buckley and with Mr. Foley or Mr. Kades, and assured Mr. Martin that the Treasury would be glad to take responsibility for following through on these problems. A separate memorandum covering this subject has been prepared.

JS

MEMORANDUM

October 17, 1940

TO: The Secretary
FROM: James G. Buckley
RE: Defense Commission Report on Consolidated
Production Situation

The best information I can get is that the Defense Commission does not expect George Mead back until the end of the month, which suggests that we may not have their report for two or three weeks.

This seems quite a delay, and you might want us to do something about it after Mr. Young gets back from Pratt and Whitney. He will have some direct word on it, since I understand that Mr. Mead was trying to get in touch with him by telephone at Hartford today.



MEMORANDUM

October 17, 1940

TO: The Secretary
FROM: James C. Buckley
RE: Swedish Export Situation

I attended a conference Wednesday afternoon which was called for the purpose of negotiating a transfer of the Swedish contract with Republic to the Army. It was held in the Munitions Building and representatives were present from the Swedish Legation, the Republic Aircraft Company, and the Army Air Corps.

When I arrived everyone was sitting around more or less twiddling their thumbs. The reason was that when the Swedes arrived at 2:00 P.M. they announced that they were not doing any negotiating today, because at 1:00 P.M. their Minister had filed another request with the State Department for reconsideration of their export license situation.

We then had a brief informal discussion, the gist of which was that the Swedes want a double-barrelled case on record to the effect that they release these planes only to the United States. They even went so far as to suggest that they have a guarantee that the planes will be taken and used by the U. S. Army.

It was pointed out to them in plain language that since the Requisition Bill has passed, they will either sell these planes to the U. S. Army or the Army will take them if the State Department re-affirms its revocation of the export license.

They then calmed down a little bit and said that they would be perfectly willing to negotiate if the State Department re-affirmed its revocation of the export license, and if they were given a day or so to get clearance from their Government in Sweden, and on this note the meeting adjourned.

It seems to me, therefore, that in order to clear the slate of this deal which has been hanging fire for so long, the best thing to do is to suggest to the State

Department that they re-affirm their original decision with reference to these planes at once so that we can get on with negotiations. To this end I shall call Hugh Cumming and ask that he try to expedite action on this item.

RC
7

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In connection with this memo
see phone conversation with
Gen. Marshall at 10:55 am
Oct. 18th and HM Jr's meeting
with Purvis at 12:00 n ~~at~~
on 10/18. See also meeting
with Purvis 10/15

October 17, 1940

MEMORANDUM

TO: The Secretary
FROM: Mr. Buckley

Re: Mr. Purvis' Conference at the War Department
This Afternoon.

When Mr. Purvis and I arrived at the War Department this afternoon, General Moore told us that we were to begin a discussion with Generals Vesson and Lewis (Ordnance men) and Mr. Vance of the Defense Commission and that the Secretary would join us later.

We went over, point by point, the ordnance items which Sir Walter Layton had included in his memorandum and had discussed with General Marshall. We expected, naturally, an attitude that would be consistent with that outlined in General Marshall's memorandum which Mr. Purvis read in your office on Tuesday. However, quite the opposite was true. By items, the attitude of General Moore and the other Army men was as follows:

1. Twenty-five pounder field guns.

The Army is adamant that no capacity be allocated for this item and insisted that the British accept the 105 mm. Howitzer.

2. Medium Artillery.

The Army will go along on development in this country of productive capacity for the 4.5 and 5.5 guns.

3. Anti-Aircraft Guns.

The Army will go along on the British procurement program in this country if the British will use our 90 mm. and 37 mm. guns, but will not go along on any production of 40 mm. Bofors guns or any alternative to the 90 mm. heavy gun.

4. Tank and Anti-Tank Guns.

On tank guns there has already been agreement between the services on the 37 mm. and 75 mm. guns. The Army will go along on procurement by the British of six-pounders in this country but will not agree to the procurement of any two-pounders here in spite of the fact that this is apparently a very vital point with Layton.

The question of carriages for the two-pounders and six-pounders was left open.

5. Rifles

The Army will not agree at all to the creation of any capacity for the production of .303 rifles in this country. They wish to lease the equipment now in the Rock Island Arsenal for the production of .30 caliber rifles and will agree to the expansion of this capacity but insisted that they did not wish to go along on any order for .303.

This discussion did not end until about 5:45, and Secretary Stinson had not come in. We checked with his office and found that he had left for the day. In response to a question as to his reaction to the discussion, Mr. Purvis told the meeting that he felt that Layton could not help but feel that he had failed completely if this represented the answer to his proposals. On this note the meeting adjourned.

Mr. Purvis and I discussed the situation after the meeting, and he will get in touch tonight with Layton and try to have him down here in the morning. Apparently, Layton had never talked with any of the men who attended this meeting today, and since the result seemed so divergent from General Marshall's memorandum, it probably would be best to have Layton down here to discuss it again with Secretary Stinson and General Marshall. Mr. Purvis will let me know tonight or the first thing in the morning as to how soon Layton will be available, and I am leaving this at your house tonight with the thought that you may want to discuss it with them relatively early in the morning if Layton gets to town.

JR

PLAIN

London

Dated October 18, 1940

Rec'd 8:43 a.m.

Secretary of State,
Washington.

3460, 18th.

FOR TREASURY FROM BUTTERWORTH.

One. With reference to the information reported in paragraph one of my 1913, July 1, the British Treasury last evening stated that Rogers after a conference with the British banks in Shanghai and Reed of the National City Bank submitted about a month ago a very complicated proposal involving non-interest bearing deposits with the National City Bank as a means of getting around the danger and difficulty of the storing of the bank notes belonging to the Anglo-Chinese Stabilization Fund. Neither the Bank of England nor the British Treasury consider this proposal as desirable or practicable; they have not yet told this to Rogers, who is returning from a trip to Burma and Malaya, but they intend to inform him in due course and to recommend that he take steps to ship to Hong Kong and perhaps to Manila as many notes as possible and arrange for local storage through the agency of the National City Bank of the remainder. I did not gather that

-2- #3400, October 18, from London.

that the British Treasury felt that the danger of Japanese action in this respect had for the moment increased--rather the contrary.

Two. British Treasury also stated that the Japanese had requested that British purchases from Japan be paid for when loaded on ship. By way of reply they are requiring that similar action be taken in the United Kingdom and the colonies against Japanese purchases and have asked the Dominions to do likewise.

KENNEDY

TFV

TO THE
LEADERSHIP
OFFICE

NOV 16 1941

RECEIVED

October 18, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Bell
Mr. Cochran
Mr. Graves
Mr. Schwarz
Mr. Thompson
Mr. Haas
Mr. Buckley
Mr. Gaston
Mr. Foley
Mr. Pehle
Mrs. Klotz

H.M.Jr: Well, that is good. Was that on Walter Compton at 6:30?

Schwarz: Yes.

H.M.Jr: Would you have done it if I hadn't told you?

Schwarz: Yes, sir. It was already done.

H.M.Jr: Good for you. That is all right. You mean the others you have no report - that doesn't mean they didn't do it, does it?

Schwarz: It means they didn't do it. No report of this statement on their program.

H.M.Jr: Well, Walter Compton did it at 6:30 and WOL did it again at 10:30.

Schwarz: That is correct, and WRC this morning at nine o'clock.

H.M.Jr: They did it? I still haven't got the one from the Sunday statement.

Schwarz: I sent it in to Mrs. Klotz.

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H.M.Jr: Have you got it?

Klotz: No, sir. Miss Chauncey may have it.

Schwarz: I sent it yesterday.

H.M.Jr: George, could you have promptly this morning - I am interested in showing - you know, we had the airplane figures for December, '39, didn't we, on employment? Could you take a look at the steel figures? Do they have them separately for steel?

Haas: Yes, sir.

H.M.Jr: And see how they look, using the same period, you see.

Haas: All right.

H.M.Jr: Now, what other would come under the head of munitions, what would be outstanding? Well, think it over.

Haas: A lot of small industries, Mr. Secretary. Machine tools, for instance.

H.M.Jr: Think it over and be in here with something at 11:30, will you?

Haas: Yes, sir, I will do it.

H.M.Jr: And then also, you might give me the Federal Reserve Index Chart on production from December, '39, to date, production.

Haas: All right. I can give you that by breakdowns, too.

H.M.Jr: If that is good, you see, maybe we can give it to the White House. I want it partly for a speech. I am going to make a speech.

Haas: All right. The next month, Mr. Secretary, for the month of October, we are going to have the

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aviation industry, including all the part makers, too.

H.M.Jr: When would that come through?

Haas: Not until some time in November. We are working on it now. We are in October. We have to wait for the end of the month.

Gaston: November is a different era.

Haas: It will still be all right.

H.M.Jr: All right. Last night when I got your (Buckley's) statement and read it, I was quite shocked and so I took my pencil and wrote, "Dear Stimson, I am sending you this for your own eyes only," and sent it up there. At ten o'clock he called me. He was terribly upset. He took ten or fifteen minutes to explain why he hadn't come to this meeting with Purvis and that he just couldn't understand after General Marshall had done all this why the rest of them wouldn't, but he says, "It is like always in preparing a case, it goes bad in the beginning and gets better later on." So I called up Purvis and I said, "I want to sleep well tonight and I read this thing of yours," and told him what I had done and told him Stimson would see you and him at a quarter of eleven today.

Buckley: Is Layton coming down?

H.M.Jr: I don't know and I don't care. You contact Purvis. Stimson gave me a memorandum signed by Marshall himself in which he said he would do this, this and this, and then they go over there yesterday and they see this Wesson, oil fellow, and he just says they can't do this, they can't do that, and they give him the cold shoulder on a lot of stuff that they want, after Marshall had written that he would do it. But that was an awful stiff memo of yours and I sent that up. You didn't think he would see that, but just as soon as he got it he got on the phone and he got it right between the eyes.

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Buckley: I hated to disturb your evening.

H.M.Jr: That is all right, I passed it on.
Norman?

Thompson: After Mr. Cotton left we made replacements on all these committees except the interdepartmental committee in cooperation with American Republics. Mr. Gaston has been put on that committee.

H.M.Jr: He is a good natured fellow.

Now, Mr. Thompson, I was informed last night by no less a person than the Attorney General of the United States that the Civil Service Commission has issued a bulletin saying what employees can or cannot do under the Hatch Act.

Thompson: A recent bulletin?

H.M.Jr: Yes.

Gaston: Jointly with the Attorney General.

H.M.Jr: And in order that the employees of the Treasury throughout the United States can know what they can or cannot do, I would like to see that steps are taken for it to be put on all bulletin boards. It is a statement by the Civil Service Commission.

Thompson: We have put out everything up to date that they have issued.

Foley: It says you can wear buttons, too.

Schwarz: And stickers on your cars.

H.M.Jr: I would really like this to get a very good distribution, see.

Thompson: All right.

H.M.Jr: Will you - I mean, take steps to see that it goes all over the United States to Treasury employees and gets a thoroughly good distribution.

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Thompson: Yes.

H.M.Jr: And I would like this to be so that it would be in the hands of everybody no later than Monday.

Thompson: I will do it right after this meeting.

H.M.Jr: I like to help the Civil Service Commission.

Schwarz: When they are right.

Thompson: I have some maps of the planting of the magnolia trees.

H.M.Jr: If you stay behind, I am very much interested.

Well, how was the Hungarian goulash? Why didn't you take some of us along when you were invited up to that goulash dinner?

Bell: I invited Merle, and he wouldn't go.

Klotz: He likes vegetables.

H.M.Jr: Looking at Merle, I think he likes all foods.

Foley: Corned beef and cabbage.

Bell: You got all crossed up on Merle. He called me Wednesday and I made excuses. He changed the date to Thursday and I had no excuse for Thursday and I said I would call Mr. Cochran and they tell me in his office he is away until after elections.

Foley: Out campaigning.

Bell: I don't know whether he was campaigning or what.

H.M.Jr: What else?

Bell: Next week you said that we might do some financing on U. S. Housing.

H.M.Jr: Yes.

Bell: I am getting a little bit disgusted with them.

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They don't know from one week to the next what they want. Now they say if these amendments go through on the hill they won't need any Treasury financing at all except enough to pay us back, which is about \$30,000,000, so I am going to have a conference with them today. Do you want to do it next week if they want, say, a hundred million?

H.M.Jr: A hundred million next week? Sure.

Bell: I will find out today. Have you got any news on the Bank of America, the matter that I talked to you about the other day?

H.M.Jr: I spoke to the Comptroller and told him I would appreciate it very much if he told Mr. Jones that it did not have my approval.

Bell: You spoke to Jones?

H.M.Jr: No, the Comptroller. I have seen Mr. Jones several times and I have talked with him several times and I have been alone with him and he has never broached the subject.

Bell: The other question was, do you remember Mr. Ottley?

H.M.Jr: Oh yes.

Bell: He wanted a government deposit and we gave him one of a hundred thousand and we told him after we had analyzed the business he did for the Government we would give him more money later on. We are having quite a time with him. I have had a man down there for several days going over their costs in doing the Government business and they are about three or four times higher than any of the banks that we have done business with. They want \$750,000 deposits and we want to give them \$200,000 deposit and if we give them that deposit and we give it to every other bank on the same basis, it would cost us \$400,000,000, whereas we are going to get by with \$50,000,000 on the basis we have been doing it. Now, can

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I write him a nice letter and tell him the facts and that if he doesn't want to do business on this basis we would have to make other arrangements?

H.M.Jr: There is no way --

Bell: I am willing to compromise a little, but I am not willing to go to \$750,000,000.

H.M.Jr: You don't know what kind of a button he wears in his lapel, do you?

Bell: The depository has to be kept out of politics.

Foley: It doesn't make any difference down there.

H.M.Jr: I will leave it with you, Dan.

Bell: I will show you the letter before it goes down.

H.M.Jr: No.

Bell: We are going to point out that --

H.M.Jr: Go ahead.

Bell: He has talked to me several times about it.

H.M.Jr: We paid him a debt we owed him. He came up here several times.

Bell: He is always kidding about it, how tight we are on our deposits.

H.M.Jr: That is all right. I would like to know how much he ever gave to charity.

Bell: He has had $3\frac{1}{2}$ million dollars of our money on war loan accounts since 1936. He hasn't paid a cent for it.

H.M.Jr: His eyes are made of quartz. (Laughter)

Bell: All right.

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H.M.Jr: What else?

Bell: That is all.

H.M.Jr: I have got something that affects a number of you that I have got here from Merle, and I would like to take it up. Klaus points out here that a message of Alphand's has been intercepted. Have you people seen this?

Cochran: I have one this morning from Klaus on that giving a copy of the message.

H.M.Jr: Let me just get it, because I want you fellows to handle it.

"To the Finance Minister from the Financial Attache. I refer you to your telegram date 20/9/40 and mine of September 26. In spite of forceful negotiations with the U. S. Treasury and State Departments, by the Ambassador and by myself, the American Government refuses absolutely our demands deblock \$1,500,000 to pay the Argentine for meat destined as food supply for our prisoners of war in Germany. I must remind you at the same time that the American Government still refuses to give any favorable reply on the question of the amounts necessary for the treasury of our consular and diplomatic officers in Central and South America. Their reply is closely bound up with several diplomatic problems of which a telegram from the Ambassador dated today contains a resume.

"Recognizing this attitude I think it would be prudent to seriously think of the possibility of using French holdings in Central and South America for the treasury of our diplomatic posts.

"I will, of course, continue to pursue here these negotiations."

And here is a telegram from Alphand, also.

"For the Financial Minister.

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"Under present regime, all sums put to the account of the State Bank of Morocco through the French-American Banking Corporation are still free since June 28. In order to benefit from money produced by exports from Morocco, it is absolutely essential to oblige American importers to pay their sums due exclusively into the account of the Bank of Morocco at the French-American Banking Corporation. This indicates a very definite discrimination against the American Banks."

Pehle: We knew about that.

H.M.Jr: Well, will this committee take care of that, please? Can I forget it?

Pehle: Yes.

H.M.Jr: Off my hands?

Pehle: Yes.

Bell: Morocco is frozen, isn't it?

Pehle: Yes, but there is one bank which has a 25% licensing under which new deposits are free and we have a letter going over to the State Department to see if they still feel we had better do that sort of thing in Morocco and Indo-China, both.

H.M.Jr: Merle, when you see somebody, Pinsent or somebody, ask them how come that they have issued navicerts for relief supplies from the Argentine for prisoners of war. I would like to have an official answer on that.

Cochran: All right.

H.M.Jr: Merle, this thing on the gold up in Canada, that isn't anything new, is it? I mean, that is just - they haven't acted on the French gold in Canada?

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Cochran: No, sir, they have not.

H.M.Jr: This is just a report?

Cochran: That is right.

H.M.Jr: But you don't know what they are going to do with it?

Cochran: No, sir.

H.M.Jr: That is a tidy sum, though, isn't it?

Cochran: Indeed it is. We have practically all of the Central Bank reserves accounted for now.

H.M.Jr: Well, that would keep them going quite a while, wouldn't it?

Cochran: Yes, it would postpone any call for two or three months.

H.M.Jr: The one thing I don't understand, the Bank of England has also transferred to Ottawa a certain amount.

Cochran: That had been earmarked with the Bank of England by the Bank of France at London. Now, in shipping it over they have placed it in the name of the Bank of England with the Bank of Canada.

H.M.Jr: And the figure you gave there, that figure is all inclusive?

Cochran: That includes that.

H.M.Jr: That is what I wanted to know.

Cochran: Yes, sir.

H.M.Jr: Then would you ask the State Department to send a message for me to Mr. Gunther and tell him before we froze the Romanian assets that we had the approval of Mr. Hull?

Cochran: Yes, sir.

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H.M.Jr: I want that definitely to go. What a nice so and so Gunther is. He tells the Romanians - he says, "Just before I left, I had it very surely that the Treasury Department made an independent decision on this without consulting the State Department beforehand." I want him to know it and I want it in the record.

Cochran: I think we were working on a reply yesterday.

H.M.Jr: Tell them I want that.

Cochran: All right, sir.

Bell: That is all.

Buckley: Have we any money anywhere that we can use to buy nickel? We have exhausted currently everything through the national defense, procurement, and there is this new Caledonia nickel, which the British have on option which if we don't take it up will go to Japan.

Bell: How about the RFC Metal Company?

H.M.Jr: Now, wait a minute. The English are going to let it go?

Buckley: That is the point. As it stands now, apparently they have no way of taking it.

H.M.Jr: Isn't that an English colony?

Buckley: No, it is French.

H.M.Jr: Oh.

Buckley: But they are in a position where their principal product is this nickel ore. Unless they sell it, they can't live, and I have asked them to try to get the option extended for a little longer and Don Nelson has worked on it but he called me yesterday and said that he had reached the end of his rope over there because Stettinius' group won't certify that we need it because we get a lot of it from Canada and the Army won't say it is strategic. That is why the Procurement Division

- 12 -

can't buy it and we can't get an independent producer of the International Nickel to buy it because there is an 8% loss in the thing.

H.M.Jr: Why?

Buckley: It will cost the American user 8% a pound more to use that than it will cost to use Canadian, so somebody has got to underwrite an 8% loss to keep it away from the Japanese.

H.M.Jr: Tell me this: How much is involved in dollars?

Buckley: The loss will be around \$175,000.

H.M.Jr: I mean, how much is the purchase?

Buckley: That must be about \$600,000.

H.M.Jr: Is that all?

Buckley: Six or seven hundred thousand dollars.

Foley: It would be more than that, wouldn't it?

Buckley: No, the loss is the difference between 43¢ and 36¢, which is \$175,000 so add four more to that. It is about \$650,000.

H.M.Jr: Well, isn't that up to Jones?

Buckley: As I gather it, there is no way that he will go along when it involves a purchase at a price above the market, the domestic market. They had the same problem on scrap awhile ago, I understand.

H.M.Jr: Well, he was willing to do it if anybody had pushed him on it.

Buckley: I would like to go along and do something on this if you think it advisable.

H.M.Jr: The first thing I ever did on strategic materials was the nickel.

- 13 -

- Buckley: Well, this is more of it and I don't think this particular problem for this particular colony has come up before and we don't have any pattern for that.
- H.M.Jr: Who could carry the ball on this? Should I get Stettinius sold on it?
- Buckley: That is the one possibility; if they would say that it is necessary and then the Army would say that it is strategic material, then I believe Procurement could buy it regardless of price.
- Graves: It would depend on the decision of the Munitions Board as far as Procurement is concerned.
- Buckley: That is what I mean. Stettinius says we ought to have this amount and then the Army and Navy Munitions Board would say this is a strategic material.
- H.M.Jr: Have you talked to Stettinius?
- Buckley: I haven't talked to him, but Nelson says they have ruled on it and say they can't go along.
- H.M.Jr: Would the English go fifty-fifty?
- Buckley: I will be glad to work out the merits this morning and see if we can't work out something on it.
- H.M.Jr: Why not let's go fifty-fifty and they buy it and that will reduce our loss by half. Why can't they take it?
- Buckley: What they are trying to do is get Australia to take it. It is a much more economical move.
- H.M.Jr: That is all right. Let's go fifty-fifty with the British anyway.
- Buckley: The trouble is with that, that they can't get the deal worked out soon enough to take up the option.

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Cochran: On that, Mr. Secretary, you might find the British buying directly for Canada for Canadian exchange. There might be that difficulty.

Buckley: They are interested in it for Australia, but the option was supposed to have expired several days ago.

H.M.Jr: Who brought this to you?

Buckley: This came to Phil from the Embassy and it has come up since Phil has been away.

H.M.Jr: Okay, I will get Stettinius.

Buckley: I think that is all I have of importance.

H.M.Jr: Okay.

George?

Haas: I take it you are going to get a letter from Purvis today with some tables. Do you want a scoop on that?

H.M.Jr: Scoop?

Haas: Yes, in other words, do you want to see it before he gives it to you? I have a copy of it.

H.M.Jr: Let me read it first.

Pehle: The only thing I have, as I told you yesterday, we have freed the accounts of the Grand Duchess which were \$15,000 and I told you we had previously freed the other account of the Grand Duke. They didn't amount to as much as I thought they did. They were about \$130,000, including securities.

H.M.Jr: That ought to keep them for a couple of months. Anything else?

Pehle: No.

H.M.Jr: George?

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Haas: I have one other thing. You said you might be interested in knowing what the shipments classified by planes were to Great Britain since the war started.

H.M.Jr: Yes.

Haas: I worked those figures out with the British Purchasing Commission.

H.M.Jr: I see. God, George, what an awful business. I can't read it.

Haas: The total amount to Great Britain is 1620.

H.M.Jr: As of when?

Haas: As from the beginning.

H.M.Jr: All right. George, why do you take my nice big books away and give me these little measly books?

Haas: I thought maybe you would like that. It is a neater job.

H.M.Jr: No, I think my eyes are getting steadily worse.

Haas: All right, I will see that you get the larger ones.

On this job, you might be interested to know some of your people were here until three o'clock this morning getting that out.

H.M.Jr: Will you say, "Thank you" to them?

Haas: Yes.

(McKay brought in Gallup Poll Report.)

H.M.Jr: You see, this is what these devils did. It is very interesting. Willkie - if this bores anybody.....

Bell: Wouldn't it be terrible if somebody got up and

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walked out?

H.M.Jr: This is what happened yesterday. Since October 6. Willkie lost 2% in Vermont and 3% in Maine. He gained 4 in Indiana, 5 in Illinois, 4 in Michigan, and 4 in Iowa and 4 in Wisconsin, and those are the ones in which they have advertised.

Now, he has gained, of course, in Nebraska, the Dakotas, and Kansas.

Now, Roosevelt has gained 2% in Massachusetts.

Foley: He gained in Pennsylvania.

H.M.Jr: Yes, but I mean - in Minnesota he lost 2, New Hampshire he gained 1, Missouri he lost 2, no change in New York, Ohio he lost minus 1, Wyoming, minus 3, Colorado, minus 3. Now, let's see the important states. In Idaho he lost minus 1. He gained 2% in Pennsylvania. Now, that is the important thing.

Foley: It is up to 55 now.

H.M.Jr: And he gained one in New Jersey. He lost one in California and one in Washington and gained 1 in Oregon. He gained 3% in Connecticut. He gained 1 in Rhode Island. In Delaware he gained 2. In Maryland he gained 4%. That is very interesting.

Foley: The state I don't understand is Delaware. I always thought Delaware was Republican.

H.M.Jr: 61%. But you see, they highlighted this Indiana, Illinois, Michigan, Iowa and Wisconsin. Now we know why Pugh walked twelve miles down the track to see Willkie.

Foley: And woke him up on Sunday morning on the railroad tracks. (Laughter)

H.M.Jr: In Pennsylvania he has got 55%. That is a 2% gain. I am sorry to worry you like that.

Schwarz: Also, the New York Times this morning had the full text of the statement.

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H.M.Jr: Yes, but I don't think the Trib had it at all.

Schwarz: Not a line.

H.M.Jr: But I think we are getting good distribution on the radio.

Schwarz: They have given it considerable attention.

H.M.Jr: Once or twice at night like that, everybody listens to it.

Schwarz: It also helps to take the sting out of the original charge.

Haas: Byrnes gave you a good lift on that. He gave a speech the other night, called it "On Hand and On Order."

Schwarz: Wednesday night. Byrnes defended us on the Sunday night speech on Wednesday.

H.M.Jr: Good.

Cochran: I have these paragraphs here, if you want to see them.

H.M.Jr: If you and Foley stay behind a minute, I will take a look at it. You and Foley stay behind.

Cochran: All right, sir.

Foley: A letter came over to you from Secretary Knox yesterday that Mrs. Klotz sent down to me, and we will have a reply for you some time this afternoon. It asks for clarification of the tax situation insofar as subcontractors are concerned. They want to know whether or not the special amortization is available to subcontractors.

H.M.Jr: We give them the usual 24-hour service.

Foley:- We are giving them 24-hour service.

H.M.Jr: Be darned sure, will you?

Foley: Yes. It should have come to me anyway, because

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it is a legal matter.

H.M.Jr: What else?

Foley: I have some papers that were sent to Mr. Bullitt by some friend of his by the name of Stanwood, asking whether or not this camp of his --

H.M.Jr: Oh, he gave me that personally.

Foley: How do you want to handle it? I am afraid that we haven't got enough information here, but on the basis of the information, even if they gave us additional information, I'm afraid they are not exempt from Social Security taxes, which he is asking for.

H.M.Jr: Social Security taxes?

Foley: That is what he wants. He wants an exemption on the ground it is an educational institution, but I don't think he is going to be able to get it. How will we handle it, write?

H.M.Jr: Call up his man, Offie.

Foley: Yes.

H.M.Jr: Offie. What else?

Foley: That is all.

H.M.Jr: Did you get the copy of this report of Glenn Martin?

Foley: Yes.

Buckley: I sent it to him.

Foley: Jim sent it to me yesterday.

H.M.Jr: When you get a breathing spell --

Foley: I will take care of it.

H.M.Jr: All right.

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Buckley: Mr. Secretary, I should have mentioned that that Allison engine, the E engine, I wasn't able to get the one that came off last Saturday, but I can get the one that comes off this Saturday to go to Bell for the British.

H.M.Jr: Do they only make one every Saturday?

Buckley: Apparently at this stage they make them on Saturdays only.

H.M.Jr: I am glad you spoke about it.

George, this fellow Buckley challenges you.

Haas: I accept it.

Buckley: This is all news to me, George.

Haas: What did he say?

Foley: He has got him covered.

H.M.Jr: Maybe it is me. Just come around here a minute, George. You see, on this Curtiss-Wright at Buffalo, what I was questioning of the English was why they let the Curtiss P-40 stop in March and whereupon Buckley said they had placed an order for 150, so then we looked over on the new orders. We found that they had placed an order for 150, you see, but they claimed that that order of 150 - this thing ought to run up until about July, you see. It ought to fill in this gap here.

Buckley: I think the thing there, Mr. Secretary, is that there is another order for 150 which is just now under negotiation.

H.M.Jr: Will you find out, George? What I want is, I want this thing continued - to continue its pace up to there, until this new one comes along, you see. They ought to have enough machines on order to keep them going - well, up to the first of August. That gap - 1, 2, 3, 4 and so on. Will you find out?

- 20 -

Haas: Yes. Evidently Curtiss doesn't have that.

H.M.Jr: It is the height of stupidity if they don't keep that thing going up until the first of August.

Buckley: I know for a fact that there at least 150 more.

H.M.Jr: They should keep the Curtiss going at full speed up until the first of August and then this new machine begins to roll in.

All right, gents.

EXCERPT FROM GROUP MEETING ON
OCTOBER 18, 1940, AT 9:30 AM

Present: Mr. Bell
Mr. Cochran
Mr. Graves
Mr. Schwarz
Mr. Thompson
Mr. Haas
Mr. Buckley
Mr. Gaston
Mr. Foley
Mr. Pehle
Mrs. Klotz

HM Jr: Last night when I got your (Buckley's) statement and read it, I was quite shocked and so I took my pencil and wrote, "Dear Stimson, I am sending you this for your own eyes only," and sent it up there. At ten o'clock he called me. He was terribly upset. He took ten or fifteen minutes to explain why he hadn't come to this meeting with Purvis and that he just couldn't understand after General Marshall had done all this why the rest of them wouldn't, but he says, "It is like always in preparing a case, it goes bad in the beginning and gets better later on." So I called up Purvis and I said, "I want to sleep well tonight and I read this thing of yours," and told him what I had done and told him Stimson would see you and him at a quarter of eleven today.

Buckley: Is Layton coming down?

HM Jr: I don't know and I don't care. You contact Purvis. Stimson gave me a memorandum signed by Marshall and himself in which he said he would do this, this and this, and then they go over there yesterday and they see this Wesson, oil fellow, and he just says they can't do this, they can't do that, and they give him the cold shoulder on a lot of stuff that they want, after Marshall had written that he would do it. But that was an awful stiff memo of yours and I sent that up. You didn't think he would see that, but just as soon as he got it he got on the phone and he got it right between the eyes.

- 2 -

Buckley: Have we any money anywhere that we can use to buy Nickel? We have exhausted currently everything through the national defense, procurement, and there is this new Caledonia nickel, which the British have on option which if we don't take it up will go to Japan.

Bell: How about the RFC Metal Company?

HM Jr: Now wait a minute. The English are going to let it go?

Buckley: That is the point. As it stands now, apparently they have no way of taking it.

HM Jr: Isn't that an English colony?

Buckley: No, it is French.

HM Jr: Oh.

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HM Jr: Why?

Buckley: It will cost the American user 8¢ a pound more to use that than it will cost to use Canadian, so somebody has got to underwrite an 8¢ loss to keep it away from the Japanese.

HM Jr: Tell me this: How much is involved in dollars?

Buckley: The loss will be around \$175,000.

- 3 -

HM Jr: I mean, how much is the purchase?

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HM Jr: Well, he was willing to do it if anybody had pushed him on it.

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- 4 -

Graves: It would depend on the decision of the Munitions Board as far as Procurement is concerned.

Buckley: That is what I mean. Stettinius says we ought to have this amount and then the Army and Navy Munitions Board would say this is a strategic material.

HM Jr: Have you talked to Stettinius?

Buckley: I haven't talked to him, but Nelson says they have ruled on it and say they can't go along.

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HM Jr: Why not let's go fifty-fifty and they buy it and that will reduce our loss by half. Why can't they take it?

Buckley: What they are trying to do is get Australia to take it. It is a much more economical move.

HM Jr: That is all right. Let's go fifty-fifty with the British anyway.

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Cochran: On that, Mr. Secretary, you might find the British buying directly for Canada for Canadian exchange. There might be that difficulty.

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HM Jr: Okay, I will get Stettinius.

October 18, 1940
10:15 a.m.

H.M.Jr: Hello.

Sumner
Welles: Good morning, Henry.

H.M.Jr: Hello, Sumner.

W: How are you?

H.M.Jr : I'm O. K.

W: I was delighted to see in the papers this morning that you had very effectively put a gentleman called Wendell Willkie in his place.

H.M.Jr: Well, that's the second time I've done it this week.

W: It's been very well done.

H.M.Jr: Hope you liked it.

W: Very much. Grand.

H.M.Jr: Thank you. I thought Stimson's statement was magnificent.

W: Yeah. It came through very well. I was sorry it was delayed. Henry, I wanted to tell you that when I was talking with the President two or three days ago he authorized me to tell the French Ambassador that in view of the fact that they are giving us certain facilities which we needed for observation and so on in all the French colonies in this hemisphere, that the President would be willing to let the French Embassy here have on a monthly basis what you felt was required for their diplomatic consular establishments in the rest of the hemisphere.

H.M.Jr: Right.

W: But with the understanding that it had nothing whatever to do, that it was separate in other words, from the arrangement regarding their

- 2 -

Consulates and Embassy in this country and that it was only to be on a month to month basis.

H.M.Jr: Well, that's what the one in this country is.

W: Yeah.

H.M.Jr: Now, let me just see if I understand. We get them to put in a request as to how much money they need for Central and South America and if it seems reasonable, we'll give it to them for one month. Is that right?

W: That's right. That's right exactly.

H.M.Jr: All right.

W: All right. If it's agreeable to you I'll tell him and then he can send his financial counselor to the Treasury Department to talk over the details with your people.

H.M.Jr: Yes. Tell them to see Merle Cochran.

W: Merle Cochran.

H.M.Jr: Yeah.

W: All right, Henry.

H.M.Jr: Now, if you've got a moment - I called up Hull yesterday before I saw Oumansky.

W: He told me.

H.M.Jr: And he divided the thing into two parts - the first he said was official where Mr. Molotov asked me for certain airplane engines and plans, which I will send over to Mr. Hull and ask him to advise me what he wants. See?

W: I see.

H.M.Jr: And I imagine that - well, he can take a look at their request.

W: Yes.

- 3 -

H.M.Jr: The other thing - he then stayed on for an hour to talk and sometimes there's no hurry about what he has to say - I mean, it isn't a matter of hours, but if you had a chance sometime next week I would like to tell you about it.

W: Well, I'll drop in any time that's convenient to you.

H.M.Jr: Well, now, I tell you, I hope to stay out part of Monday anyway. Last week I did and I got back Sunday afternoon, so

W: Yes. Well, I'll call your office and try to arrange sometime

H.M.Jr: Well, we'll do it now - I'll do it with you Tuesday. Do you like the morning or the afternoon?

W: I think the afternoon would be better for me.

H.M.Jr: How's three o'clock?

W: Three o'clock Tuesday? Fine.

H.M.Jr: And what he said will keep until then, but it's a general - he went over the whole situation and as I say he took an hour and I listened very carefully and said nothing.

W: Yes. Complaints you mean about

H.M.Jr: Oh, yes, I mean about they couldn't get enough machine tools, on the gold - I mean, not the gold - he just - I was amazed, he didn't mention about freezing the money up in Esthonia and Latvia. He didn't mention that.

W: Well, he has to me many times.

H.M.Jr: Well, he did about the gold, about the machine tools and about - well, he did say they would sell us flax which we asked originally, you see.

W: Yes.

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H.M.Jr: And then he brought in a most curious thing which he said was just his own idea, that possibly they could work in with us in their purchases of coffee and cocoa and things like that in South America.

W: That's peculiar, isn't it?

H.M.Jr: Which was a curious one. What?

W: Yeah.

H.M.Jr: And he also said that they had their pockets stuffed full of orders - they're very, very anxious to buy a lot of stuff

W: Yes, he's always indicating that.

H.M.Jr: And so I listened and I don't think it did any harm. I certainly got a liberal education.

W: I think it's very helpful.

H.M.Jr: The only other thing which he said which most likely is not news to you - I said, would he talk a little bit about the Balkans and he said he was still hopeful that through diplomatic action that they could stop the Germans but that if they can't that they have to.

W: You know, of course, that half an hour after he left you he was reporting everything you had said or he had said to the German Embassy.

H.M.Jr: Well, anything he got out of me he could report to the world. I had a very curious thing - you know, I have a loudspeaker on my desk.

W: Yes.

H.M.Jr: And he kept staring at it and I said, no, Mr. Ambassador, it's not a dictaphone and I'll prove it to you. So I called up the operator and said please let me have the correct time. He says, you are so suspicious.

W: (Laughs).

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H.M.Jr: All right.

W: Well, that's fine. Well, I'll drop in
Tuesday at 3, Henry.

H.M.Jr: Thank you.

W: Thank you very much.

LAR

PLAIN

London

Dated October 18, 1940

Rec'd 10:17 a.m.

Secretary of State,
Washington.

3462, Eighteenth.

FOR TREASURY FROM BUTTERWORTH.

One. After five weeks of Blitzkrieg bombing, the city continues to perform its routine functions. But with the Government doing even a larger part of the Nation's business, both domestic and overseas, and with the scope of international trade so reduced by the ever widening conflict with threats to trading areas still neutral, banking business, especially in the foreign field, is reduced to a mere trickle. Wherever possible financial houses have sent further departments to the country. Most City houses now keep permanently in their cellars or air raid shelters such departments as their cash and bill sections, the others only seeking refuge when the watchers on the roof notify that enemy planes are overhead and gunfire begins. Darkness which will shortly descend about four o'clock will vastly complicate existing

LAR-2- 3462, October 18, 1940 from London.

existing bombing difficulties and various schemes are now under consideration in the City to meet the situation.

Two. The Stock Exchange, now hit, continues business in a basement room and by telephone; though business has contracted, it is by no means snuffed out. Markets, particularly for gilt-edged securities, are strong. Such is the potency of British Government controls that the FINANCIAL TIMES Index of Government security prices (November 15, 1926, equals 100) has remained above 110, since September 7 when air bombing of London commenced, a level reached in the previous week after a steady recovery from the low of 105.6 at the time of the collapse of France. Meanwhile, as the imminence of invasion receded the FINANCIAL NEWS Index of thirty ordinary shares (July 1, 1935, equals 100) has risen from 50.4 on June 24 to 66.5, the upward movement having continued since the eve of London's bombing when it was 64.1. (See my No. 2831, August 20). The Government's plans for air raid insurance has lent further strength to the industrial markets.

Three. The pounds fifteen million increase in the clearing banks' investments to pounds nine three six million in September following an increase in August of pounds twenty-four million reflects official planning without official pressure. The jump in the London clearing banks'

LAR-3- 3462, October 18, 1940 from London.

banks' deposits of pounds one one five million to the all-time record of pounds two five nine six million was due largely to a pounds six five point five million increase in their loans to the Treasury by six months' deposit receipts, and to an increase of pounds thirty-five million in checks et cetera in transit, the latter being a result of clearing delays under air raid conditions. Nevertheless, the increase represented a considerable expansion of credit. The increase in deposit receipt loans to the Treasury was partly offset by reductions in bills and call money of pounds twenty-nine million and pounds four million, respectively. The decline in advances which has been continuous since March was arrested in September but remained at a level (pounds nine three seven million) well below the March figure which was Pounds one naught naught six million. The Exchequer's switch from heavy borrowing through tap bills in July and August to borrowing from the clearing and Scottish banks on six months' deposit receipts (pounds one sixty million of the pounds one ninety million which the Treasury will have so borrowed by the end of this week having been issued since the beginning of September) indicates heavier domestic expenditure in September and October, whereas in July and August, larger payments abroad doubtless enabled the

LIR-4- 3462, October 18, 1940 from London.

the Exchange Equalization Account to finance the Treasury by taking up tap bills as a result of gold sales. This movement may be reversed in the coming months as overseas payments bulk larger. The effect of London's bombing and of special war weapons weeks in provincial cities has increased the weekly small savings from pounds seven million to nearly pounds ten million per week while sales of two and one-half percent "on tap" war bonds last week jumped to pounds fourteen million after averaging under pounds ten million per week since August.

Four. The British Treasury after losing some windows and plaster by a near miss earlier in the week received last night a smack. The City office of the National City Bank has now cleared away enough debris to reopen with a brave "Business As Usual" air: the business may be as usual but the building doesn't look it.

KENNEDY

ALC

October 18, 1940
11:05 a.m.

H.M.Jr: Hello.

Edward
Stettinius: Hello, Mr. Secretary.

H.M.Jr: How are you?

S: Good, sir. How are you?

H.M.Jr: I'm pretty well. Look, I wonder if you can do a very difficult job.

S: I can do it for you.

H.M.Jr: Nickel happens to be the very first thing that I tackled oh, I don't know how many months ago.

S: Nickel.

H.M.Jr: Nickel. And I got the Canadians to agree to stop shipping nickel into the Pacific. They were very good about it. Of course, during the last World War they didn't, you know, they shipped it all over the world.

S: Right.

H.M.Jr: Now, there is a block of nickel which the English have on option in British Guiana - no, no - New Caledonia.

S: In New Caledonia.

H.M.Jr: Yes. If they can't - I think it amounts to \$6 or \$8 hundred thousand.

S: \$6 or \$8 hundred thousand. Yes.

H.M.Jr: Yeah. It is higher - it sells at 6 or 7¢ higher than what we can buy it for. They're very anxious that we buy it.

S: Right.

H.M.Jr: The suggestion that I'm making is that why can't we go 50-50 with them.

S: With the British?

H.M.Jr: With the British, and there is talk that possibly they could send it down to Australia.

S: Right.

H.M.Jr: But I think to let this nickel get out of New Caledonia at this time in the hands of the Japanese is just the height of stupidity and even if we lost - well, if we took the whole lot, they tell me, we'd lose \$170 thousand on it which is nothing compared to what the whole picture is.

S: Of course, Mr. Secretary, somebody has got to reach a decision that we can start taking some losses on these things. Up to this time Jesse Jones just refuses to take a loss on anything.

H.M.Jr: Well, what I'm asking - I'll do anything, but after all raw materials is your baby and if you could give this thing enough time this morning because I understand like all of these things they bring them to us late - but this option I don't know just when it's expiring but you could get it from Purvis.

S: Yeah.

H.M.Jr: And I just would hate to see this nickel go to Japan.

S: O. K. Well, I'll run it down and see if there is any way - see what

H.M.Jr: They tell me Nelson knows about it, but you were so helpful on the scrap iron - you've got a little imagination which I'm afraid some of the other fellows haven't.

S: Donald Nelson knows all about this.

H.M.Jr: I understand he knows all about it and they say they can't do anything, they have no money and this and that and the other thing but I

- 3 -

S: Well, that's the trouble with this picture that we just

H.M.Jr: Well, Jones has got - he hasn't reached his limit.

S: I know it but, damn it, he won't take losses on it.

H.M.Jr: Yes, he will. If you and I go after him he will.

S: O. K.

H.M.Jr: I mean, if you make up your mind you want it and we say to Jesse, now, look Jesse, we've just got to have it and he always loves it if he can get another fellow to take half of it.

S: All right. I'll jump right on him.

H.M.Jr: And if Australia would take half, I think it might sweeten the picture.

S: I'll jump right on it.

H.M.Jr: Thank you.

S: Thank you, sir.

October 18, 1940
11:30 a.m.

H.M.Jr: Hello, Philip.

Philip
Young: How are you?

H.M.Jr: I'm pretty well.

Y: Good. Has Forrestal gotten in touch with you?

H.M.Jr: No.

Y: He went back last night.

H.M.Jr: Did he call up Knudsen the way I asked him to?

Y: Yes, he did. He talked to Biggers. Knudsen evidently wasn't there at the time he called.

H.M.Jr: Oh.

Y: He talked to Biggers and Biggers promised to talk to Knudsen about it.

H.M.Jr: What did he tell Biggers?

Y: Evidently just explained about it to him. Knudsen was out of town when Forrestal called him before the trip started so that he couldn't reach him. He did try to get him.

H.M.Jr: I see.

Y: So I think that's relatively clear.

H.M.Jr: Good.

Y: We spent all yesterday afternoon at Brewster and that's a pretty bad situation there. It's similar to Consolidated.

H.M.Jr: It's what?

Y: Similar to Consolidated difficulties, primarily management, but it's pretty sickening anyway.

- 2 -

H.M.Jr: Right.

Y: Went to Grumman in the morning and that's a very nice show but on a small scale. They are turning out stuff.

H.M.Jr: Good.

Y: Now, I have a date to go out to Sperry now and take a look at both of their plants here at Long Island City and and to talk with Dull, who is the vice president and the production man. That's about all I have on my mind.

H.M.Jr: O. K.

Y: Does that sound all right?

H.M.Jr: Sounds all right to me. Thank you for calling.

Y: You won't be there when I get back.

H.M.Jr: That's like, when will the last train leave for Buffalo. When do you get back?

Y: (Laughs).

H.M.Jr: (Laughs). You know that story don't you?

Y: Yeah.

H.M.Jr: About the woman who rushed up to the starter at the Grand Central and says, all out of breath, when will the last train leave for Buffalo, and the fellow answered, you should live to see it. So you say, will I be here when you get back? When do you get back?

Y: I won't get back until late this evening.

H.M.Jr: Well, the answer is no.

Y: The answer is no. Is there any excitement there?

H.M.Jr: Plenty, but you can get it. Plenty.

Y: Plenty. I see.

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H.M.Jr: Yeah. It'll hold. Plenty for you to do when you get back.

Y: All right.

H.M.Jr: Write up your trip and have it for me Monday.

Y: Right.

H.M.Jr: Thank you.

Y: Thank you.

October 18, 1940
11:35 a.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Hello.

Wm. S.
Knudsen: Yes.

H.M.Jr: Bill, did you have a good shower?

K: I beg your pardon?

H.M.Jr: Did you have a good shower?

K: (Laughs). Yes. I didn't even hear him when
he handled (Laughs).

H.M.Jr: What?

K: I had a cold that I was trying to boil out.

H.M.Jr: Good. Good. I just wanted to make sure that
you got word from Forrestal about that trip.
I asked him to call and I understand he
explained it all to Biggers.

K: Yeah.

H.M.Jr: You got that did you?

K: I got that, yeah.

H.M.Jr: That's all I wanted.

K: Yeah. Well, these boats, we sort of went
hay-wire on them :.....

H.M.Jr: Well, I guess I jumped the gun on them a little
bit in telling it to you. I thought that was
what they wanted.

K: Well, I went back at them this morning and
he'll take some more engines up in Packard.

H.M.Jr: He will.

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K: That seems to be the only thing they want right now.

H.M.Jr: Well, I - they

K: They told me something I didn't know before.

H.M.Jr: What's that?

K: That you can't build a boat that'll be used as an armed vessel against a country that you are at peace with.

H.M.Jr: Well, I knew that, but what they did is - they gave them a lot - they call them rescue boats and we call them crash boats - and the Ambassador signed an affidavit or something that they never would be used to fight.

K: Well, they called it off and I called it off in Detroit. It's all off.

H.M.Jr: Well, I'm sorry if I caused you any inconvenience.

K: Well, that's all right.

H.M.Jr: O. K.?

K: Bye-bye.

(Handed by Mr. Hays, Financial Adviser to the Hungarian Legation, to Mr. Cochran in the Treasury at 11:45 a.m., October 18, 1940.)

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CONFIDENTIAL MEMORANDUM FOR THE TREASURY.

The total dollar amount needed for the annual service of Hungary's American-held debts (private and public, bonded or other debts) is less than \$1,000,000.

According to the information received from the National Bank of Hungary, it is estimated that to continue the service of the Kingdom of Hungary loan at $4\frac{1}{2}\%$ would necessitate about \$300,000. Other non-governmental (municipal and corporate mortgage bonds) issues serviced at $1\frac{3}{4}\%$ would require about \$400,000 at the most. Experience in the past two years shows that not more than \$300,000 were needed to service in dollars, as some of the bondholders received satisfaction in Hungarian currency.

The outstanding amount of the dollar portion of the Kingdom of Hungary loan is about \$6,000,000, the other non-governmental issues coming under this plan aggregate about \$20,000,000.

Among the non-bonded debts the outstanding Treasury bills of the Hungarian Government total about \$4,000,000 and the bank credits covered by the Standstill Agreement amount to \$10,800,000. Under the plan envisaged now by the Hungarian authorities the Treasury bills would be serviced at $1\frac{1}{2}\%$, the Standstill credits at $1\frac{1}{2}\%$, necessitating about \$200,000.

In addition to the information disclosed in the telegram of

Mr. Quandt, head of the Hungarian Standstill Delegation, to Mr. Gibson, President of the American Standstill Committee, and to Mr. White, the President of the Foreign Bondholders Protective Council, the following information is submitted:

The Foreign Bondholders Protective Council expressed its appreciation repeatedly for our efforts and they were advised that the present parleys in Washington are held to make the continuation of the present service possible without any interruption for the bondholders, most of whom are scattered throughout the United States, owing small amounts.

On the other hand, the banks participating in the American Standstill Committee requested the Swiss Standstill Committee to represent them in Zurich and negotiations there reached a deadlock because the American banks insisted that besides the interest of 1-1/4% an amortization of 1/4% of the principal outstanding should be maintained. They were informed that under no circumstances would the Hungarian authorities request a loan from the American authorities to tide over the war which would provide any principal repayment for them. Some of the New York banks, in spite of the fact that they were informed that parleys are in progress with the proper American authorities, without awaiting their outcome, proceeded to attach the funds of Hungarian banks because we have been unable to continue to make amortization payments after October 15th.

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It is essential to bear in mind that the proposed action of the Hungarian authorities to continue the service on all American loans is not a refinancing operation, because the collateral offered is an asset which can be converted into dollars at a fixed ratio at any time.

The purpose of the Hungarian offer is rather to demonstrate that every effort is being made by Hungary during the period while the country cannot trade with freely convertible currency countries, to meet the interest service.

Although Hungary is within the orbit of the German dominated European continent which discards gold as a monetary medium and substitutes clearing exchange of goods, the Hungarian authorities are anxious not to lose contact with currencies supported by gold, in the expectation that after the end of the hostilities gold will resume its place in European as well as in world trade.

That Hungary possesses only a very small amount of gold is well known to Mr. Cochran who is familiar with the B.I.S. scheme to help the Hungarian National Bank.

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OIL FOR PORTUGAL

Mr. Turner has arrived in Lisbon on behalf of His Majesty's Government to negotiate an oil agreement with the Portuguese Government. In general our proposals are to limit imports to current requirements and to fix stocks at a reasonably low figure, but the negotiations are proving extremely difficult.

2. All imports of petroleum and products into Portugal are regulated by Portuguese import licenses. The market is served by:

- (a) SACOR, a Portuguese refining company, in which the Government has a substantial interest. SACOR holds a refining monopoly in Portugal and is guaranteed 50% of the Portuguese market.
- (b) Atlantic Refining Company
- (c) Socony-Vacuum Oil Company
- (d) Shell Oil Company
- (e) S.O.N.A.P., a small Portuguese importing concern and other small importers of lubricating and special oils.

3. SACOR imports crude oil supplied chiefly by Socony from Colombia, and by Shell from Venezuela, although SACOR also purchases spot cargoes from other companies in the U. S. Gulf. Because the Portuguese have no tankers, SACOR is dependent upon company vessels or the independent tanker market.

4. Atlantic, Socony, and Shell import products for distribution through their own organisations in Portugal and, in addition, Shell does a bunkering business at Lisbon.

5. Under the Portuguese Petroleum Law, the companies must maintain in Portugal 4 months' reserve stocks of each product. Because they are not allowed to touch these reserves they normally maintain additional commercial stocks equivalent to between 2 and 3 months' requirements. Thus the companies hold stocks of from 6 to 7 months' requirements for half the market, to which must be added any stocks maintained by SACOR.

6. Our difficulty is to arrive at an import programme which will satisfy Portugal's legitimate current needs and at the same time reduce stocks to 2 months' requirements of crude and 2½ months' requirements of products, which we proposed as a reasonable level of stocks.

7. At a meeting on October 9th, Dr. Salazar stated that the Petroleum Law had been designed to safeguard Portuguese requirements in the event of war. He did not consider that the difference of approximately 40,000 tons between the level of stocks proposed by us and the level required under the Petroleum Law would constitute a menace to Portuguese safety or in itself be sufficiently attractive to Germany to provoke an invasion.

8. We have been informed that stocks of aviation spirit belonging to Socony-Vacuum at Sal Island (Cape Verde islands) have been requisitioned by the Portuguese for the purpose of refuelling LATI, the Italian trans-Atlantic airline. On being asked whether he would give an assurance not to refuel LATI from these stocks at Sal Island, Dr. Salazar replied that once an agreement was signed guaranteeing the stocks of oil for Portugal which he was requesting, he would give us this assurance, but that if no agreement was reached no assurance in regard to LATI would be given.

9. With a view to avoiding a complete deadlock, Dr. Salazar was asked whether, if a satisfactory shipping programme were arranged, he would be prepared to sponsor legislation to amend the Petroleum Law in such a way that minimum reserves would become maximum reserves. This would mean that companies would be allowed to encroach from time to time upon their legal reserves and would not have to maintain additional commercial stocks. Dr. Salazar said that he was prepared to examine this proposition as a basis for an agreement.

10. Under this proposal stocks of products other than lubricating oil and bunkers would be maintained at approximately 2,500 tons more than the stocks suggested in our original proposals. The increase is relatively unimportant and since, on political grounds, it is most undesirable that our negotiations with Portugal on quotas of oil and other commodities should break down, we are disposed to adopt the suggested compromise and to put it to Portugal as our last word.

11. Dr. Salazar would expect the same formula to apply to lubricating oil, in respect of which the same Portuguese laws are in force. Consumption of lubricant oils is about 10,000 tons per annum, which means that under the Petroleum Law the companies would have to keep 3,300 tons in stock. But lubricating oil is Germany's most important deficiency in petroleum products, and it is hoped that it may be possible to reach an agreement on other products and to obtain the assurance about LATI while the lubricating oil position is being further examined. Details of present stocks in Portugal and suggestions for dealing with them are to be telegraphed to the Embassy in Washington as soon as possible.

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THE WHITE HOUSE
WASHINGTON

October 18, 1940

My dear Mr. Secretary:

I have your letter of October 8, 1940, urging the enactment and approval of H. R. 10412, in order to provide funds for the construction of housing for persons engaged in national defense activities, and citing the need for such facilities at the Consolidated Aircraft Corporation plant in San Diego.

As you have no doubt learned, the bill has been enacted by the Congress, and was approved by me on October 14, 1940.

Sincerely yours,

A large, elegant handwritten signature in cursive script, reading "Franklin D. Roosevelt". The signature is written in dark ink and spans across the middle of the page.

The Honorable,

The Secretary of the Treasury.

Buckley's memo referred to in **145**
this conversation is dated
10/17 and filed as of that date.
See also meeting with Purvis at
noon Oct. 18th. See also meeting
with Purvis 10/15.

October 18, 1940
10:55 a.m.

H.M.Jr: Hello.

General
Marshall: Good morning, Mr. Secretary.

H.M.Jr: How are you?

M: Fine, thank you. Could I have Mr. Buckley come over and talk to me this morning?

H.M.Jr: Surely.

M: When could I do that probably?

H.M.Jr: Well, let me explain. He is supposed to be at Mr. Stimson's office at a quarter of 11 with Purvis.

M: Oh, I see. Could he stop here on his way over?

H.M.Jr: With Purvis?

M: No, no. I want to talk to him alone.

H.M.Jr: Want to talk to him alone.

M: Well, he's coming to Mr. Stimson's office, is he?

H.M.Jr: Purvis and Buckley are due at Mr. Stimson's office at quarter of 11.

M: At Mr. Stimson's office. Oh, I see. Well, then there's no point in my trying to get him in. I didn't know that.

H.M.Jr: But

M: All right, sir. I'll have to contact him over here if at all.

H.M.Jr: Well, you tell me what you want and

M: I wanted to talk about the meeting last night.

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H.M.Jr:

Well, I, frankly, I'd like to talk a minute myself. Buckley sent me a report up to the house last night and I was terribly disturbed about it because it was not at all in tune with what Mr. Stimson had shown me you had written him, so I just wrote across the face of it "for your eyes only" and sent it up by messenger to Mr. Stimson and he called me at 10 o'clock last night and he was terribly disturbed.

M:

Yes.

H.M.Jr:

So I said wouldn't he please see Mr. Purvis this morning and if you could possibly be there.

M:

Now, Mr. Secretary, you give me a good opening. I had one hour to prepare that memorandum that you discussed on this thing. That's a very intricate thing involving a tremendous affair to try to settle in an hour.

H.M.Jr:

Yes.

M:

Now they are going into another meeting while I haven't been even able to talk to Mr. Stimson, he hasn't seen anybody connected with that meeting, and he's going to be discussing with Mr. Purvis about it. Well, that's a most unfortunate situation. When he talked to me this morning, I hadn't even gotten the report - General _____ just started to tell me, so I couldn't say a word to him of any kind about it, so he, feeling very strongly as a result of your memorandum and without any knowledge of the back-and-forth of the thing, is on the verge, I presume though he's pretty careful when he gets down to it, committing himself about something he hasn't heard. I didn't know - I do know now, so that when we do these things at high speed that are a year or 2-year program, we're just walking into trouble every time we turn around.

H.M.Jr:

Yeah, but

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- M: Now, I've just had all the people down, I've analyzed, cross-questioned, brought up a whole lot of different things and I wanted to get to Buckley and get his reaction, but now they're coming into a meeting with Mr. Purvis. Well, I wouldn't discuss it in front of Mr. Purvis. But they're into things that go clear up into 1942 and 1943 and we have an hour to make an estimate.
- H.M.Jr: Well, General
- M: Well, every time we do that we're just in for a combined set of headaches.
- H.M.Jr: (Laughs). Well, if you don't mind
- M: Now I'm through - (laughs) - I've said mine.
- H.M.Jr: Well, now I'd like my say, and my say is this, if you don't mind - this is not - the situation you which you described is not my fault.
- M: I know it - I'm just telling you what our difficulties are.
- H.M.Jr: But, I mean, I want you to know that.
- M: Yes. But each time they want to meet on something - some things can be done right away, like shipping planes or doing something like that or sending the ammunition but these other things are tremendous affairs.
- H.M.Jr: Well, when Mr. Stimson showed me your memorandum, I was simply amazed and I said that you'd moved so fast
- M: Yes, but I said in that that that was a - that was the best I could get from the Ordnance people sitting with me and General Moore, but when we ran into the - that was their estimate on it - when we ran into the Advisory Committee, Mr. Vance and Mr. Knudsen, we got into another thing all mixed up with machine tools and things which cut down on certain aspects of the thing. However, there were other phases of it that impressed me quite a bit as where the British can get action then they're not going to take it.

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H.M.Jr: Yeah.

M: But the whole thing is - it's exceedingly difficult to keep all these balls in the air and we don't get a chance to get set with the thing. Now I had to do that in one hour, that is, I have to find out all about it, dictate the memorandum and get the typewritten script of it all in just one hour. That was all the time Mr. Stimson gave me. Now that's a pretty big program to give an estimate. Now, a good bit of that is worked out all right

H.M.Jr: Now, look.

M: Yes.

H.M.Jr: I'm trying to be helpful.

M: I know you are - that's the reason I'm being very frank.

H.M.Jr: Yeah, well I - how in the future can we do this thing?

M: Well, I was trying to get hold of Buckley to talk to me about it - let me go into some of these things - but the main thing is on these big things to give us time to get to the various agencies involved because the ramifications are something tremendous and

H.M.Jr: Well, that's

M: and when we got across the street in the thing, there's where we began to run into some of the details where the Defense Commission differed from the Ordnance people. Of course, the Ordnance fellow had to give his estimates here in a chair and in a period of about 15 minutes.

H.M.Jr: Well, I'm glad to get your side but I couldn't dream any of this.

M: I know, and now, you see, my embarrassment at this moment is that the next meeting as a

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result of last night's meeting occurs before I can even talk to the Secretary.

H.M.Jr:

Well, I think it's very unfortunate.

M:

So that I am still more seriously embarrassed. In my rush I have picked up certain further facts and certain further impressions, but I wanted to get a chance to talk to Buckley and get him to react to what impression he had gotten out of it, but I'm denied that opportunity. However, I'll make the best of it and

H.M.Jr:

Hello. Supposing I tell Buckley to hurry up and - couldn't he leave word that maybe Mr. Stimson would be late and that

M:

Well, Mr. Stimson is not here, he's with Mr. Hull.

H.M.Jr:

Well, why doesn't Buckley come over immediately to your office

M:

Well, I can see him right now if he'll come.

H.M.Jr:

He'll be there in five minutes.

M:

All right. Thank you.

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See meeting with Purvis 10/15,
Buckley's memo of 10/17 reporting
conf at War Dept., HM Jr's phone
conversation with Gen. Marshall
at 10:55 a.m. 10/18, and Purvis
meeting with HM Jr at noon 10/18

October 18, 1940
12:00 Noon

RE BRITISH PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Buckley
Mrs. Klotz

Purvis: The Secretary says that he didn't get into the meeting. He definitely intended to. When he handed you the memorandum, he knew that General Marshall had consulted to some extent the ordnance people. He therefore was extremely happy about the situation, because from the very first he had had the same grave doubts about the field guns and the rifles, the two essential elements that Layton has been most keen on, possible problems that might be insuperable. He was very nice about the fact that something had happened that was a little difficult in the situation and said that he --

H.M.Jr: Happy about it?

Purvis: Unhappy. He was very nice in his expressions to me about the regrets, I mean, that this thing had broken in that way and he did indicate to me rather indirectly but very indefinitely, nevertheless, from my view, being moderately sensitive to those things, that the problem was not in his crowd. They were carrying the ball, perhaps, but it was not in his crowd. It was in the Defense Advisory Council.

H.M.Jr: That is right.

Purvis: And I must admit the minute I saw his face, I thought it was a red flag, but the ball was so completely carried by the Army throughout

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as no doubt they had to that you got the impression as the meeting went on that it was an Army Board.

H.M.Jr: Who was at the meeting?

Buckley: General Moore, General Wesson, General Lewis.

H.M.Jr: Not Marshall?

Buckley: No.

Purvis: No.

Buckley: And Vance. They referred to him. They would say what they could and couldn't do and referred to Vance for support, you see.

Purvis: He then said it was his intention to take this upon himself personally, that Layton must be willing, however, to give him two or three days. He urged upon me his desire to do everything he could to meet Layton's view. He had not underestimated in any way the difficulties so far as the field gun or the rifles are concerned. He had been given the machine tool angle rather solidly. I therefore answered it in the way I genuinely believe. The only thing I said in the whole meeting was to put into the back of his mind the thought I think should be quite governing in handling them, namely, that there is a way which - that we know about and discussed, of considerably opening up a machine tool bottleneck immediately if the machine tool makers will cooperate and to get away a little bit from this same thing that we had at the time of the airplane engine thing, of the Defense Advisory Council busying themselves dividing up what exists.

H.M.Jr: This - I will have to get a more detailed report later, because this isn't a very good time for me. This may be a good medium to work out the machine tool thing. You have been fooling around with it.

Purvis: That is right, this is the time, I think, to get

- 3 -

pressure in that fundamental production thing in the machine tools.

H.M.Jr:

I have just got to give you (Buckley) a little background. You (Purvis) listen to what happened this morning. This is very much off the record.

Marshall called me up, very much excited, at 10:30. He knew something had happened; he didn't know what. He said he had written this memorandum to Stimson and he had only had an hour and he hadn't had a chance since then to discuss it. He wanted to know what had happened yesterday, and he wanted to get it from you. He had not yet got the report.

So I told him quite frankly what I had done last night. He kept on, so I said, "Now look, wait a minute, General Marshall. By the wildest imagination you can't blame me for what is going on in the War Department. I don't want you to say - you can't blame me if Stimson doesn't give you time enough. After all, it is over there and the War Department is your show and not mine." "Oh yes," but he just wanted to get it off his chest. Then he wanted to see you, I want to know what happened.

Buckley:

I went over and went in to see the General and he started to talk before we - without taking time to read the memorandum which I offered him, not acrimonious, especially, but to point out that as far as he could find out the Army was basing the bulk of its conclusions on the Defense Commission, and I said, "Well, General, I don't doubt but that may well be true, but in the meeting yesterday, and your own men will confirm this, these decisions were given to the British as the considered judgment of the Army and it was so given to them." Then he read the memorandum and checked it and didn't have anything to say particularly about it.

H.M.Jr:

Did he keep it?

Buckley:

I took it back.

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H.M.Jr: Good.

Buckley: I thought it would be better to have only one floating around, so we talked in general about it and then he said also, "We didn't realize that this was a 1942 program. We were thinking in terms of what the British can get quickest."

H.M.Jr: Who was that?

Buckley: General Marshall.

Purvis: Stimson made that point.

H.M.Jr: Go ahead.

Buckley: He then said that, "We may well be able to work out something that will offer the British things they want, maybe 16 to 18 months hence, and carry on our own program," but he said, "What I don't want to see happen -" and I think this is a fair statement, Mr. Purvis - "is for us to set up something to give the British what they want 18 months hence and then have them come in 6 months hence and want our production when they wouldn't go along to expand the facilities."

Purvis: That is very good.

Buckley: I think so, too.

(Telephone conversation with Mr. McReynolds follows:)

October 18, 1940
12:12 p.m.

H.M.Jr: Hello.

Wm. H.
McReynolds: Mr. Secretary.

H.M.Jr: Yes, Mac.

McR: The Commission has just been discussing this nickel ore and they can't find a way to bring it in in view of the fact that they've got more than they can use now.

H.M.Jr: Oh, damn! Can't they - hasn't somebody got an imagination over there?

McR: Well, they've discussed it now for fifteen or twenty minutes and the answer seems to be negative.

H.M.Jr: Well, if Jones wants to do it, they won't feel mad about it

McR: Oh Lord no.

H.M.Jr: What?

McR: No. It's merely a question of a certificate from them and they decided they couldn't certify.

H.M.Jr: Oh. Well, O. K., Mac.

McR: Good-bye.

H.M.Jr: Thank you.

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H.M.Jr: Mr. McReynolds says the Commission for 15 minutes has been sitting on this new Caledonia nickel and they cannot certify it. You (Buckley) give me a memorandum and tell McKay to put it in my hands when I go to Cabinet. I will take one more shot at it, but have the facts and see that McKay puts it in my hands.

Buckley: Before two o'clock?

H.M.Jr: Ten minutes of two.

Buckley: All right.

H.M.Jr: Now, I am taking over the week-end to read that report you gave me last night because I am just physically unable to read it.

Purvis: Yes.

H.M.Jr: Does that hold up anything?

Purvis: No, not a thing. I mean --

H.M.Jr: I mean, by not reading it until Saturday or Sunday --

Purvis: It won't hold up anything. After all, you have got to have time to do those things.

May I ask you to read a new draft of the letter at the same time, not now, and then we will decide whether or not that is all right, and may I say --

H.M.Jr: The nickel thing you (Buckley) get to McKay at ten minutes of two.

Purvis: At last I have, and I really think you will - I don't mean to say we shall fill it in and fill it in and fill it in, but with the help of your own people who have been simply wonderful about the mechanical end - very shortly, because it makes so much difference in time, volume, orders filled to date of all the main items, October to December, first quarter,

- 6 -

second quarter, and after that, additional orders, we would like to place, totals, spread over the same thing, and in the other statement dollars tied up with the statements given to you under your own heads. Balances, due October 1st, how they go on the existing orders, unfilled orders, orders we have not yet placed, I mean, and the way we very generally estimate they would be given, these being separate totals. I think for the first time - now, mind you, it is only the first general picture which in desperation I myself decided to get, I mean, it is very difficult to get it from the sections themselves, but it is all right and ties in with our - now, we have got to fill in the gaps in commodities which are outside BPC or a little distant from us, and that may leave Treasury out - that is Pinsent's job to get. I am having a little talk with him. I am again asking him whether that could be kept pretty confidential. I have three more copies which - that is No. 1. If I give two, three, and four to Buckley for you to decide what to do with, will that be all right?

H.M.Jr: Have you got a safe?

Buckley: Yes, we have a safe in Phil's office. You may be interested to know that General Lewis was asked by General Marshall to make a report on yesterday's meeting. He called me up a few minutes ago when Mr. Purvis was in and asked if I would read my notes to him over the telephone. He had not had an opportunity to make notes.

Purvis: I took notes, Mr. Secretary, as I went, and I can only say we agreed the last iota - it was extraordinary to me, hearing that conversation and hearing the report of the thing. It is accurate to the last detail.

Buckley: I read my notes to Lewis.

H.M.Jr: Well, they are not questioning - the argument

- 7 -

isn't about what is in the notes. The argument is this, Stimson has me for lunch and gives me a signed memorandum from the Chief of Staff saying 1, 2, 3, 4, you see. No maybe, if, or and. No out. Now, he didn't say this - if the Defense Council says this and that.

Purvis: No. In fact, he expressed, as you gave it to me at the time, that General Marshall felt he could carry this with the Defense Council.

H.M.Jr: General Marshall shot before he saw the whites of their eyes. That isn't a very good statement, is it, telling a Britisher that?

Purvis: Yes, but this is a broader atmosphere. You always get a laugh at me.

H.M.Jr: I have got to. My heavens, I just go day and night the way you do, and I have got to have a little humor.

G-2/2657-220

RESTRICTED

No. 223

SITUATION REPORTM.I.D., W.D.
October 18, 1940.
12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

German raids on London were the longest of the war but were rather light. Liverpool was heavily bombed. Today the Germans resumed their operations on East Coast towns in Scotland.

There were no offensive operations by the R.A.F. due to bad weather.

II. Mediterranean and African Theaters of War.

No ground operations. Weather was adverse to aerial activity along the Mediterranean coast. However the Italians operated against the Kheila airdrome near Alexandria and made attacks near Mersa Matruh and El Daba. Aden was also bombed.

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Paraphrase of Code Radiogram
Received at the War Department
at 12:49 p.m. October 18, 1940.

London, filed 19:33, October 17, 1940.

1. Daylight missions of the Bomber Command scheduled for Wednesday, October 18th, were cancelled owing to the lack of clouds. That night a total of 79 planes were dispatched, 43 against naval targets in Germany, 13 against naval targets in occupied territory and 23 against oil targets in Germany. No planes were lost. During the day the Coastal Command sent out 80 missions which engaged in 85 sorties and escorted 19 convoys. The Command lost one plane and destroyed one of the enemy. During the night of October 18-19th the Fighter Command dispatched 40 patrols that were engaged in 41 sorties. The following day it operated 73 patrols engaged in 234 sorties.

2. German daylight activity on October 18th was on a small scale with about 40 planes conducting sporadic single raids over Southwest England. There was fog and rain over England last night. German activity was heavy up to about midnight but negligible for the rest of the night. London suffered the main attacks but there were a few raids over Wales and the Midlands. Most of the raids originated in Holland.

3. During the day German plane losses were two confirmed and one damaged; while the British lost one plane and no

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pilots. Three German bombers were shot down by British fighters during the night.

4. Four airframes were attacked, with two hangars and eight planes destroyed and five casualties at the only one suffering damage. Four factories were set on fire but no reports have been received of the effect on production. The gas supply at a die-casting plant was interrupted for a short time. There have been five interruptions of railroad lines near London. Unexploded bombs have stopped traffic at one railway station, affected the meat supply to North London, and stopped the use of one gas works. Additional reports indicate that the damages in London were even more extensive than reported in yesterday's dispatch. The May and Bakers chemical works at Baginbham have suffered from fires. Ten mines are still unexploded from about 18 dropped. The extent of the damage done when the Vickers plant at Grayford was hit is unknown.

5. There is no change in the situation in Libya.

6. Two convoys with a total of 55 ships have arrived safely in Britain. Submarines torpedoed four ships in an outbound convoy but further details are not available. A 5,000-ton freighter straggling behind a convoy from Halifax was sunk.

7. Continuous information indicates that preparations for the dispatch of a sea-borne expedition from the Baltic coast have abated, but that they are still going forward on the Channel coast. It is concluded here from many indications that the probability of an invasion has greatly diminished. A considerable strengthening of the forces in the Eastern Mediterranean may be

expected in the near future.

8. Reliable reports indicate that two or three out of the total of eight Hungarian army corps have been demobilized.

9. A report from the American Consul in Manchester describes the all night raids of October 10-11th, when much damage was done, and during the following night when the damage was even more extensive, with hundreds of houses wrecked and 29 persons killed or wounded. The following is quoted from his report: "This report would be incomplete without a mention of the manner in which the people in this part of England have stood up to the attacks. They have shown extraordinary fortitude and endurance and are far from dismayed or losing courage. The German raids have aroused an anger of the cold, deliberate kind and everywhere there is evidence of their determination to carry the war through to a successful conclusion regardless of cost."

LEE

Distributed to:
Military Aide to the President
Secretary of War
State Department
Secretary of Treasury ✓
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence.

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Paraphrase of Code Cables Received at the
War Department October 18, 1940.

London, filed 16:30, October 18, 1940.

1. All daylight missions of the Bomber Command for Thursday, October 17th, and those for that night were cancelled because of bad weather. During the night of October 16-17th this Command lost three planes and had 14 crash on landing. The Coastal Command operated 33 daylight missions, engaged in 14 convoy escorts and 32 sorties, during October 17th. All operations that night were cancelled because of weather. No planes were lost. The Fighter Command operated 230 planes on 100 patrols with 563 sorties.

2. German fighters made four daylight sweeps, consisting of about 75, 80, 80, and 60 planes, respectively, during October 17th. The first raid reached London without interruption, but the second was engaged by one British squadron, the third by four, and the fourth by one. During that night there were sporadic raids over the Midlands and in the London area.

3. German plane casualties were four confirmed, six probable, and five damaged. The British lost three planes with their pilots.

4. German attacks dislocated rail communications in several places, including several points near London. There were civilian casualties in St. Pancras Station in London. An unexploded

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bomb in the Thames River close to the Battersea Bridge has caused it to be closed to traffic. There was a direct hit on an engine of a lock in the Regent's Canal. Bombs struck the Home Office, the Treasury, the (P) office and the National Gallery. The London plant of Vickers-Armstrong suffered the most serious damage with production in several departments affected. Attacks on air fields resulted in the destruction of the photograph and equipment section at one and fires in planes at another. The main line of a railroad at Birmingham was blocked by a direct hit on an engine and on a bridge but there was little industrial damage.

5. The weather finally seems to be changing here and it is the general opinion that serious danger of an invasion of the British Isles has greatly diminished. However, for obvious reasons the British military authorities are not inclined to accept this point of view. Troops are now being billeted and quartered indoors.

6. I was informed today by a member of the Cabinet that at this juncture the British are aiming at a decisive victory over the Italians in some theater. There are frequent intimations here that additional British reinforcements have already been dispatched to Egypt from Great Britain. The situation there seems to have been strengthened by the visit of Mr. Anthony Eden, Secretary of the State for War. Admiralty officers here are of the opinion that while the British Navy does not command the Mediterranean Sea it is still possible to transit heavily guarded convoys through it from west to east at opportune moments.

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Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

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BRITISH EMBASSY,
WASHINGTON, D.C.

October 18th, 1940

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,
Very sincerely yours,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated October 16th.

Naval.

Monitor bombarded Dunkirk docks on the night of October 15th-16th.

Naval Patrol vessel sunk off the West Coast on October 15th, 4 casualties and 2 survivors.

Further information received regarding the naval operations in the Mediterranean referred to in paragraph 1 of my telegram of October 13th reveal that H.M.S. "Ajax" sighted 3 (not 2) Italian destroyers on the night of October 11th-12th and sank two of them outright. Later she sighted a cruiser and 4 destroyers, 1 of which she damaged, the other ships disappearing in the darkness.

On the morning of October 12th H.M.S. "Ajax" and H.M.S. "York" located damaged destroyer "Artigliere" of 1620 tons completed in 1937).

She was in tow of another destroyer, but this at once slipped tow and escaped under a smoke screen. The crew of "Artigliere" then abandoned ship, and when they had done so, the "Artigliere" was sunk by gun fire. As the ships were in the vicinity of air bases and the sea was calm survivors were not rescued but their position was reported en clair by W/T.

Subsequently/

Subsequently our fleet was attacked by aircraft for four hours, but suffered no damage. Four enemy aircraft were certainly destroyed, and probably two more.

Naval aircraft attacked Italian Naval Base in the Dodecanese on the night of October 13th-14th. Attack was a complete surprise and many hits obtained on military targets.

British destroyer and aircraft attacked and probably damaged enemy submarine in the Eastern Mediterranean on August 10th.

2. Royal Air Force.

During the night of October 14th-15th four German synthetic oil plants were attacked successfully and particularly severe damage was inflicted on two of them. Successful attacks also made on Le Havre. Military objectives near the center of Berlin and gas works, marshalling yards and aerodrome in the same city were also attacked. Secondary targets attacked included aerodromes, docks, railway targets, and factories in Northwest Germany. During the night of October 15th-16th one hundred and fifty-six aircraft were despatched to attack Channel ports, Kiel shipbuilding yards, aluminium works, marshalling yards, oil plants and oil stocks in Germany, shipping at Lorient and at Flushing. Mine laying also carried out. All aircraft returned safely. Reports not yet available.

3. German Air Force.

From reports so far received about 170 persons were killed and 650 injured in London region during the night of October 14th-15th.

Six major raids, consisting almost entirely

of fighters took place over Southeast England on October 15th and some aircraft penetrated to London, causing damage to two railway stations.

Two hundred and fifty enemy aircraft attacked this country on the night of October 15th-16th, 200 on London.

Birmingham was the principal provincial target, though light attacks were also made on the Bristol area, Glasgow, and some places in Somerset, Norfolk and the home counties. A feature of the attacks on London was the large number of parachute mines dropped, many of which have not yet exploded.

Two enemy bombers shot down by our fighters in the course of these raids.

Preliminary reports indicate damage to London docks, railway stations and public utilities. Several shelters damaged but assessment of casualties not yet available. Amongst buildings damaged was the B.B.C. at Langham Place.

4. Summary of Air Casualties.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Bombers	3	-	1
	(2 by fighters)		
Fighters	16	5	2
Totals	19	5	10

British: Fighters 15 (9 pilots safe)

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5. Shipping Casualties.

On October 15th 2 British ships (totalling 12,000 tons) were torpedoed in outward-bound convoy Northwest of Eire. Survivors are in H. M. ships.

On October 15th British ship (2000 tons) torpedoed in Northern Atlantic, and is reported sinking.

Convoy unsuccessfully bombed in the Thames Estuary on October 15th.

Information just received that S.S. "Port Gisborne" (8390 tons) bound from Auckland to Cardiff was torpedoed 300 miles west of Scotland.

No further news at present.

6. Middle East.

Nine British bombers successfully attacked Benghazi on night of October 13th-14th.

British bombers successfully attacked Gura aerodrome (Eritrea) on night of October 13th-14th and Diredawa (Abyssinia) on night of October 14th-15th.

Three enemy bombers attacked British convoy in Perim Straits on October 15th but attack was repulsed by our fighters but one enemy aircraft probably destroyed.

British mechanised patrol inflicted heavy casualties on 120 enemy astride the river Gash southeast of Kassala on October 13th.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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Transactions of the six reporting banks in registered sterling were as follows:

Sold to commercial concerns	£43,000
Purchased from commercial concerns	£ 8,000

The Federal Reserve Bank sold £15,000 in registered sterling to a non-reporting bank.

Open market sterling was first quoted at 4.03-1/2. It moved to 4.03-1/4 in the early afternoon and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£14,000
Purchased from commercial concerns	£25,000

In very light trading, the Swiss franc rate advanced to .2319-1/2 this afternoon. It closed at .2319, as compared with .2318 yesterday.

The other currencies closed as follows:

Canadian dollar	13-1/4% discount
Swedish krona	.2386
Reichsmark	.4005
Mexican peso	.2070
Argentine peso (free)	.2378
Brazilian milreis (free)	.0505
Cuban peso	9-3/16% discount
Lira	.0505

There were no purchases or sales of gold consummated by us today.

In accordance with the terms and conditions set forth in the letter dated July 15, 1937 from the Secretary of the Treasury to the Minister of Finance of Brazil, as supplemented and modified, the Fund today purchased 200,000,000 Brazilian milreis from the Banco do Brasil as fiscal agent of the Brazilian Government. The milreis were credited to a special account opened in the name of the "Federal Reserve Bank of New York as fiscal agent of the United States" on the books of the Banco do Brasil. The U. S. equivalent of \$10,000,000 was credited to the account of the Banco do Brasil as fiscal agent of the Brazilian Government on the books of the Federal Reserve Bank of New York. In accordance with the agreement, the Federal Reserve Bank of New York set aside, as collateral, gold valued at \$10,103,967.74 from the gold held by it under earmark for the account of the Banco do Brasil as fiscal agent of the Brazilian Government. This is the first exchange transaction that has taken place under the aforementioned arrangement.

Having received the Treasury's authority under both the Gold Reserve Act and Executive Order No. 8389 as amended, the Federal Reserve Bank of New York effected the following transfer of gold in its vaults:

\$1,065,525 from B.I.S. account No. 2 to the account of the National Bank of the Kingdom of Yugoslavia. Gold in B.I.S. account No. 2 is owned by the B.I.S.

The Federal Reserve Bank of New York reported that the Bank of Portugal shipped \$3,260,000 in gold from Portugal to the Federal, to be earmarked for its account.

The State Department forwarded to us a cable stating that the following gold shipments were made from Hong Kong, for sale to the U.S. Mint at San Francisco:

\$266,000 shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco.

103,000 shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.

\$369,000 Total

The Bombay gold price was unchanged at the equivalent of \$33.82. Silver in Bombay was priced at the equivalent of 44.25¢, off 1/16¢.

In London, the prices fixed for spot and forward silver were both unchanged at 23-7/16d and 23-3/8d respectively. The dollar equivalents were 42.56¢ and 42.44¢.

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

We made five purchases of silver totaling 575,527 ounces under the Silver Purchase Act. Of this amount, 305,000 ounces represented two sales from inventory, and the remaining 270,527 ounces consisted of new production from various countries, for forward delivery.

J.M.P.
CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brasil.

DATE: October 18, 4 p.m.

NO. : 538

Department's no. 349, October 17, 6 p.m.

Today the Bank of Brasil will send to the Federal Reserve Bank in New York the following telegram:

GRAY

"We are today crediting in our books in a special account in the name of 'Federal Reserve Bank of New York as fiscal agent of the United States' 200,000,000 milreis in accordance provisions your telegram."

BURDETT

eh

TO THE SECRETARY
LEONARD W. TROTT
OFFICE OF THE

COPY

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INTERNATIONAL DEPARTMENT
RECEIVED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed on the attached statement in Italian accounts maintained at:

Chase National Bank

National City Bank



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 18	\$1,100,000	Credito Italiano, New York	Credito Italiano, New York (Certified check drawn by Post & Flagg on Bank of Manhattan Company)	\$1,000,000	Credito Italiano, New York	Chase National Bank for account Banco de Napoli Trust Company, New York
				100,000	Banca Commerciale Italiano, New York	Check to order of Guaranty Trust Company, New York for account of Banca Commerciale Italiano, New York
				80,000	" "	Chase National Bank for account of and by order of Banco della Svizzera Italiano in Lugano, Switzerland
				65,000	Credito Italiano, New York	Chase National Bank for account of Banca de Italia del Rio de la Plata, Buenos Aires, by order Credito Italiano, Milan

National City Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 18				\$196,700	Bank of Naples Trust Company, New York	Check to the order of Swiss Bank Corporation, New York

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed below in German accounts maintained at the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 18	\$ 45,000	Deutsche Gold Discount Bank, Berlin	Irving Trust Company, New York for account of Vongibara
	32,163	" " "	Irving Trust Company, New York for account of Carl Marks & Company, Inc., 50 Broad Street, New York, N. Y.
	162,600	Banco Allemand Transatlantico, Santiago	Chase National Bank, New York for account of Reichsbank, Berlin



For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

With reference to my memorandum of October 15 regarding the transfer of \$4,500,000 by the German Gold Discount Bank, Berlin, to the Marine Midland Trust Company, New York, for the account of Topken & Farley, it was reported that the amount of this payment was debited to the account of the German Gold Discount Bank, Berlin, at the Crocker First National Bank of San Francisco. I am now informed that the Crocker First National Bank did not enter into this transaction the funds were paid from the account of the German Gold Discount Bank, at the Chase National Bank, New York.

JMF

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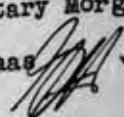
TREASURY DEPARTMENT

CONFIDENTIAL 179

INTER-OFFICE COMMUNICATION

DATE October 18, 1940.

TO Secretary Morgenthau

FROM Mr. Haas 

In response to your request we talked to the British Purchasing Commission about the delay in shipments of Curtiss-Wright and North American planes. The gist of the Commission's explanation is as follows:

Since the report of October 12, a large number of the Curtiss-Wright P-40's have been shipped, and it is expected that the report for October 19 will show the situation practically cleared up.

The North American trainers were being accumulated for shipment and it is believed that they have all been shipped by now into Canada.

AIRPLANES

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Summary of Orders* of the British Empire,
October 12, 1940

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	Status of orders			Status of deliveries						Under option
	Orders to date	Deliveries to date	Un-filled orders	Shipments to date 1/				At factory awaiting equipment or in transit in U. S.	Awaiting shipment	
				Total	To Great Britain	To Canada	To Australia			
New Units:										
Classified by Company										
Bell Aircraft Corp.....	810	-	810	-	-	-	-	-	-	-
Boeing Aircraft Co.....	291	-	291	-	-	-	-	-	-	168
Brewster Aeronautical Corp.....	780	36	744	36	36	-	-	-	-	360
Cessna Aircraft Co.....	216	-	216	-	-	-	-	-	-	64
Consolidated Aircraft Corp.....	414	-	414	-	-	-	-	-	-	184
Curtiss-Wright Corp.....	1,694	368	1,286	299	299	-	-	93	109	504
Douglas Aircraft Co.....	910	199	751	194	174	24	-	-	1	552
Grumman Aircraft Engineering Corp.....	215	70	145	64	62	2	-	6	6	-
Lockheed Aircraft Corp.....	2,195	508	1,667	507	407	-	100	1	1	1,079
Glenn L. Martin Co.....	812	62	750	62	62	-	-	-	-	360
North American Aviation, Inc.....	2,898	851	2,047	834	660	174	-	17	17	180
Northrop Aircraft, Inc.....	240	-	240	-	-	-	-	-	-	-
Vought-Sikorsky Aircraft.....	50	-	50	-	-	-	-	-	-	-
Wiley Aircraft, Inc.....	624	-	624	-	-	-	-	-	-	28
TOTAL ALL COMPANIES.....	12,109	2,054	10,055	1,920	1,620	200	100	117	134	3,499
Classified by Type of Plane										
Bomber.....	5,130	731	4,399	729	603	26	100	1	2	2,103
Pursuit.....	4,606	472	4,134	357	357	-	-	99	115	1,132
Trainer.....	2,370	851	1,519	834	660	174	-	17	17	264
Transport.....	3	-	3	-	-	-	-	-	-	-
TOTAL ALL TYPES.....	12,109	2,054	10,055	1,920	1,620	200	100	117	134	3,499
Secondhand Units:										
Classified by Type of Plane										
Trainer.....	60	99	1	99	3	56	-	-	-	-
Transport.....	15	6	9	6	1	4	1	-	-	-
TOTAL SECONDHAND.....	75	65	10	65	4	60	1	-	-	-

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

* Including spares.

1/ Shipments outside of the United States.

Source: British Purchasing Commission.

October 18, 1940
4:10 p.m.

H.M.Jr: Hello.

Operator: Mr. Forrestal.

H.M.Jr: Hello.

James
Forrestal: Henry, I just wanted to report to you that we had, I think - we got, I won't say great results, but that the trip was worth while and Philip Young is going to make a report which I am going to ^{go}over with him.

H.M.Jr: Good.

F: One thing that just stood up like a sore thumb - that is, that there is no uniform - there's no exchange of shop experience. I mean by that, if one fellow has a particular process - in this Grumman which is a hell of a good little plant up in Long Island - it's the best that I've seen. They're right on top of their job and they know their labor and the fellows are very good. They had one little device which is very simple to understand. They dig out a pit, instead of hoisting the planes up on trusses and then having scaffolding to work on them, they make a pit in the concrete and sink it in that and have an elevator, you see, to lift it to shoulder height. Well, it's a very minor thing but it's an obvious saving of time.

H.M.Jr: I see.

F: Well, now, I think that we ought to have somebody who is going to create a pool of shop experience and our fellows said that they didn't think the companies would want to give that up. Well, I asked this particular fellow. Why, he said, I'll give anything up now. But that's just one of those obvious things - it's minor, but I'm sure that there are others.

H.M.Jr: Right.

- 2 -

F: Well, I'll give this whole thing to - when Philip gets back we'll give you the final result.

H.M.Jr: Well, I'm glad you had a good trip and I'll look forward to seeing you on Monday.

F: O. K.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 18, 1940

see Federal Register of 10/19

TO Secretary Morgenthau
FROM Mr. Eichholz *MEH*

Pursuant to your request, I have checked with the Advisory Commission and with the War and Navy Departments respecting publication in the Federal Register, pursuant to the amortization provisions of the Second Revenue Act of 1940, of the terms and conditions of contracts with reference to reimbursement of the cost of emergency facilities.

I have just been informed by Mr. Ginsberg, of Mr. Leon Henderson's office, that the form of Emergency Plant Facilities Contract (the draft of October 10, 1940 which was attached to Mr. Sullivan's memorandum to you of October 15, 1940) has been filed with the Federal Register today and will appear in print in tomorrow's issue, October 19, 1940. I had told Mr. Ginsberg, and he agreed, that it would be preferable to publish the contract together with the Commission's regulations respecting application by the contractor for certification of facilities under the amortization provisions, provided such regulations could be completed this week. It now appears that there are several matters of a minor nature with respect to these regulations upon which there is not yet complete agreement between Mr. Henderson's office and the War Department. It will, therefore, be impossible to publish the regulations in the Federal Register until the beginning of next week. I, therefore, informed Mr. Ginsberg that it was our desire at least to have the contract appear this week and he has accordingly arranged for its publication.

Colonel Rice, acting for Judge Patterson, has informed me that the appropriate provisions of two Emergency Plant Facilities Contracts negotiated by the War Department were filed with the Federal Register yesterday. Inasmuch as the War Department and the Federal Register people are not yet in complete agreement on the form in which these contracts are to be published, it appears that they will not be published before Tuesday or Wednesday.

Secretary Morgenthau - 10/18/40 - 2

Mr. Detmar of Mr. Forrestal's office has informed me that his staff is busy working out summaries of a number of contracts negotiated by the Navy Department, and that they will be published in the Federal Register early next week.

A draft of the Treasury Department's proposed regulations under the amortization provisions of the Second Revenue Act of 1940 is being informally reviewed in this office and the preparation of a formal draft should begin tomorrow or Monday.

October 18, 1940

Secretary Morgenthau

Mr. Kiehl

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Secretary Morgenthau - 10/14/40 - 2

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RRE:RTM

October 15, 1940

Secretary Morgenthau

Mr. Richbels

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RBE:WFM

Draft of October 10, 1940

Note: Changes indicated are those made since September 20th draft.

EMERGENCY PLANT FACILITIES CONTRACT

THIS CONTRACT entered into this day of ,
1940, by the UNITED STATES OF AMERICA, hereinafter called the Govern-
ment, represented by the Contracting Officer executing this contract,
and * _____, a corporation organized and existing under
the laws of the State of _____ *a partnership consisting
of _____
*an individual trading as _____ of the City of _____
in the State of _____ hereinafter called the Contractor,
WITNESSETH that:

WHEREAS, the Government and the Contractor are entering into
Contract No. _____, hereinafter called the Contract for Supplies, for
the sale by the Contractor to the Government of certain supplies con-
sisting of _____, and

WHEREAS, in order for the Contractor to be able to manufac-
ture and deliver said supplies in accordance with the terms of the Con-
tract for Supplies and within the time therein specified it is necessary
for the Contractor to acquire or construct certain additional facilities,
which include items making up a Separate Complete Plant (as hereafter
indicated) and items designated collectively as one or more Complete
Additions to an Existing Plant (as hereafter indicated), all of such

* Delete all lines which do not apply.

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items being herein collectively referred to as Emergency Plant Facilities; and

WHEREAS, the Government and the Contractor propose in the negotiation of the price charged to the Government for the manufacture and delivery of said supplies to eliminate so far as is practicable, charges for amortization and depreciation of Emergency Plant Facilities; and

WHEREAS, the Contractor is willing to undertake the acquisition or construction of the Emergency Plant Facilities hereinafter described in consideration of the execution by the Government of the Contract for Supplies and of the further agreements by the Government contained in this contract; and

WHEREAS, the Government, in view of the present emergency and the necessity of making possible the manufacture and delivery by the Contractor of the said supplies in accordance with the terms of the Contract for Supplies and within the time therein specified, in order to expedite production and in accordance with provisions of law enacted to provide for national defense in connection with said emergency, is willing in consideration of the execution by the Contractor of the said Contract for Supplies and of the further agreement by the Contractor herein contained, to provide the Contractor with funds in reimbursement of expenditures to be made for the acquisition or construction by the Contractor of Emergency Plant Facilities to the extent herein set forth and on the terms and conditions hereinafter set forth;

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NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained to be performed by the parties hereto respectively it is agreed as follows:

ARTICLE I - EMERGENCY PLANT FACILITIES
TO BE ACQUIRED OR CONSTRUCTED

1. The Contractor shall, with due expedition by contract with others or otherwise, acquire or construct the Emergency Plant Facilities generally described below and set forth in further detail in Appendix A hereto annexed, furnishing or causing to be furnished the labor, materials, tools, machinery, equipment, facilities, supplies and services, and doing or causing to be done all other things necessary for the acquisition or construction thereof. The Emergency Plant Facilities are designated as constituting Separate Complete Plant and one or more complete Additions to an Existing Plant or Plants. All of said Emergency Plant Facilities shall be in general accordance with the drawings, specifications and instructions, if any, set forth in Appendix A.* (Appendix A, in so far as practicable should contain a full description of each principal item or group of items of Emergency Plant Facilities; should allocate actual or estimated cost to each item or group of items; should designate which of the Emergency Plant Facilities constitute a Separate Complete Plant and which constitute one or more complete

New * When Government supervision of construction is contemplated, an appropriate clause may be inserted which will provide for the issuance by the Contracting Officer of periodical certificates stating that the Contractor has satisfactorily complied with the provisions of Section 1 of this Article during the period covered by such certificate.

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Additions to Existing Plant or Plants; should indicate if, and the extent to which, any item or group of items of the facilities replace other facilities of the Contractor and are necessary to enable it to conduct its normal operations, the price at which the Government shall be entitled to purchase the Contractor's land upon which any Complete Separate Plant is located unless the land on which the facilities are to be located is to be acquired by the Contractor and to be included as a part of the Emergency Plant Facilities, and should specify the rate or rates of depreciation, obsolescence and loss of value to be applied under section 2 of Article III hereof.)

It is estimated that the total cost of the acquisition or construction of the Emergency Plant Facilities will be approximately _____ Dollars (\$ _____), and that such Facilities will be ready for utilization by the Contractor within _____ months from the date of this contract. It is expressly understood, however, that the Contractor does not guarantee the correctness of either of these estimates but will use its best efforts to acquire and construct said Emergency Plant Facilities in accordance with the estimates herein.

2. The Contractor may at any time make changes in or additions to the drawings and specifications, provided, however, if any such change will cause delay or a material alteration in the character of the work to be done under this contract, or will result in an estimated increase in the cost of the Emergency Plant Facilities of more than _____ Dollars (\$ _____), the written consent of the Contracting Officer to such change shall be first obtained.

Now | Additions to Existing Plant or Plants; should indicate if, and the extent to which, any item or group of items of the facilities replace other facilities of the Contractor and are necessary to enable it to conduct its normal operations, the price at which the Government shall be entitled to purchase the Contractor's land upon which any Complete Separate Plant is located unless the land on which the facilities are to be located is to be acquired by the Contractor and to be included as a part of the Emergency Plant Facilities, and should specify the rate or rates of depreciation, obsolescence and loss of value to be applied under section 2 of Article III hereof.)

It is estimated that the total cost of the acquisition or construction of the Emergency Plant Facilities will be approximately _____ Dollars (\$ _____), and that such Facilities will be ready for utilization by the Contractor within _____ months from the date of this contract. It is expressly understood, however, that the Contractor does not guarantee the correctness of either of these estimates but will use its best efforts to acquire and construct said Emergency Plant Facilities in accordance with the estimates herein.

2. The Contractor may at any time make changes in or additions to the drawings and specifications, provided, however, if any New | such change will cause delay or a material alteration in the character of the work to be done under this contract, or will result in an estimated increase in the cost of the Emergency Plant Facilities of more than _____ Dollars (\$ _____), the written consent of the Contracting Officer to such change shall be first obtained.

3. The title to all the Emergency Plant Facilities shall be in the Contractor. The Contractor shall, however, allow no mortgage or other lien to be an encumbrance upon the Emergency Plant Facilities (including the lien of any mortgage now existing upon property of the Contractor and any lien existing upon the Facilities prior to their acquisition), and shall make no conveyance or transfer of such Facilities or of any item thereof, unless the written consent thereto of the Head of the Department concerned is first obtained; provided that in the event of the assignment of claims arising out of this contract in accordance with the provisions of Article VII hereof, the Government will not, because a mortgage or other lien has become an encumbrance upon the Emergency Plant Facilities in violation of the provisions of this section, refuse payment of sums due as Government Reimbursement for Plant Costs in excess of the indebtedness secured by such mortgage or other lien. The restriction of this section prohibiting liens shall not apply to liens of contractors, laborers, supply men, tax liens, and other similar liens or charges created or incurred in the ordinary course of the Contractor's business, but all such liens shall be promptly removed unless contested in good faith. The Contractor shall, in respect of each of the Emergency Plant Facilities carry, until the same shall be transferred or tendered for transfer to the Government pursuant to any provision of Article III hereof, such fire insurance and other forms of insurance customarily carried in connection with similar facilities located in the same area, and of such kinds and in such

New

amount not exceeding as to any risk the cost of such facility to the Contractor, as the Contracting Officer shall specify by notice in writing.

4. The Contractor shall, not later than the 15th day of each full calendar month after the date hereof, furnish the Contracting Officer a monthly statement, certified as correct by the Contractor, and within 30* days after the close of each calendar year an annual statement certified as correct by an independent public accountant approved by the Contracting Officer, showing in detail the amount, if any, expended during the preceding calendar month or year, respectively, in connection with the acquisition or construction of the Emergency Plant Facilities which amount shall not include the cost of obtaining and furnishing such annual statement or any profit to the Contractor but may include an amount to cover the costs of the services performed by the Contractor's organization and other carrying charges during construction to the extent set forth in Appendix A and interest on funds expended as provided in Section 5 of this Article; and shall promptly after its completion of the acquisition and construction thereof, or as promptly as practicable after the giving or receiving by it of the Termination Notice provided in Section 1 of Article III prior to such completion, file with the Contracting Officer a statement in detail, similarly certified by the independent public accountant theretofore approved, and verified by the Contractor, setting

* The Contracting Officer may find it advisable in some instances to provide in the Contract a longer period of time for the preparation of these statements.

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forth the total amounts expended in connection with each item of such acquisition or construction, including amounts, if any, expended by the Contractor in connection with the termination of this contract in accordance with Section 4 of Article II through the cancellation of contracts or commitments, or otherwise (which statement is hereinafter called the Final Cost Certificate).

5. Except as provided in Section 4 of this Article and specifically set forth in Appendix A, no salaries of the Contractor's executive officers, no part of the expense incurred in conducting the Contractor's main office or regularly established branch offices, and no overhead expenses of the Contractor of any kind shall be included in the cost of the work as set forth in the Final Cost Certificate. Interest on funds expended shall be included in such cost. Such interest shall be computed at the annual rate of ___ per cent* on funds expended from month to month less payments or advances, if any, made by the Government in connection with the acquisition or construction of the Emergency Plant Facilities. Such computation of interest shall cease with the completion of the acquisition and construction of the Emergency Plant Facilities.

6. In the event that, after the filing of the Final Cost Certificate in connection with the Emergency Plant Facilities described in

* This percentage should equal as nearly as possible the interest costs incurred by the Contractor in raising funds to carry out this contract and to the extent that the Contractor uses his own capital the fair interest return on such capital, but in no case should this percentage exceed _____ per cent.

Appendix A the Contracting Officer shall determine that further Emergency Plant Facilities, either in connection with a Complete Separate Plant or an Addition to an Existing Plant are required for the purpose contemplated in this contract, he may enter into a contract amending this contract and Appendix A and the additional cost of such further Emergency Plant Facilities shall be determined by the filing of an amendment to the Final Cost Certificate in the same manner as hereinbefore provided in respect of the Final Cost Certificate.

7. The Contractor shall, to the extent of its ability, take all cash and trade discounts, rebates, allowances, credits, salvage, commissions and bonifications available to the Contractor, and when unable to take advantage of such benefits it shall promptly notify the Contracting Officer in writing to that effect and the reason therefor. In determining the actual net cost of articles and materials of every kind required for the purpose of this contract, there shall be deducted from the gross cost thereof all such cash and trade discounts, rebates, allowances, credits, salvage, commissions and bonifications which have accrued to the benefit of the Contractor or would have so accrued except for the fault or neglect of the Contractor. Such benefits lost through no fault or neglect on the part of the Contractor shall not be deducted from gross costs.

ARTICLE II - PAYMENTS TO CONTRACTOR BY GOVERNMENT

1. The amount to be paid by the Government to the Contractor under this contract in respect of the Emergency Plant Facilities set forth

in Appendix A, as from time to time amended, shall be the total amount set forth in the Final Cost Certificate. In the event that changes or additions shall be made in respect of the Emergency Plant Facilities with the written consent of the Contracting Officer in accordance with the provisions of Section 2 of Article I or in the event that this contract and Appendix A shall be amended as provided in Section 6 of Article I or an Additional Final Cost Certificate shall be filed pursuant to Section 1 of Article IV, the amount to be paid by the Government shall be the total of the amounts set forth in the Final Cost Certificate and any and all amendments thereto and any Additional Final Cost Certificate. In no event shall the total amount to be paid by the Government pursuant to this Section exceed \$_____, or such larger sum as the Head of the Department concerned may from time to time approve. The amount to be paid by the Government is herein sometimes referred to as the Government Reimbursement for Plant Costs.

Subject to the obligation of the Government to anticipate any unpaid balance of the Government Reimbursement for Plant Costs remaining unpaid at the time of the termination of this contract as provided in this Article and in Article III hereof, the contractor shall be entitled to receive from the Government the amount of the Government Reimbursement for Plant Costs as established by the Final Cost Certificate, over a period of sixty (60) consecutive calendar months beginning with the first calendar month following the completion of the acquisition, construction and installation of the Emergency Plant Facilities in the following manner and pursuant to the following terms:

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There shall become due by the Government to the contractor as Government Reimbursement for Plant Costs, on the last day of each of sixty (60) consecutive calendar months beginning with such first calendar month, 1/60th of the Government Reimbursement for Plant Costs so determined and the Government shall pay such amounts to the Contractor when and as the same become due; provided that if the Final Cost Certificate is not filed with the Government until after the calendar month in which the acquisition, construction and installation of the Emergency Plant Facilities are completed, then the Government shall pay to the contractor on the last day of the calendar month succeeding the month in which the Final Cost Certificate is delivered to the Government the amount then payable in respect of the calendar months then elapsed beginning with the calendar month following the completion of the acquisition, construction and installation of the Emergency Plant Facilities; and thereafter the Government shall pay to the contractor on the last day of each month 1/60th of the Government's Reimbursement for Plant Costs, as established by the Final Cost Certificate until the entire amount thereof shall have been paid. That part of the Government Reimbursement for Plant Costs as established by any amendment to the Final Cost Certificate or the Additional Final Cost Certificate, if any, shall become due and payable by the Government at such time and upon such terms as the contracting officer and the contractor shall agree at the time that the changes or additions to the Emergency Plant Facilities shall be consented to as hereinabove in this Section provided.

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2. In the event that, on the date 90 days preceding the close of each of the fiscal years which shall be wholly or in part included in the period between the date of this contract and the date of full payment by the Government of the Government Reimbursement for Plant Costs hereunder, there shall not have been theretofore appropriated by the Congress and validly obligated by the Government to the performance of this contract funds, the appropriation and obligation of which will not lapse and which will not revert to the Treasury or be carried to the surplus fund prior to the close of the next succeeding fiscal year, in an amount sufficient to provide for the payment when due of the balance of the Government Reimbursement for Plant Costs then remaining unpaid, this contract shall terminate and the amount of such balance shall on said date become due and shall, promptly after said date and before the close of the fiscal year then current, be paid by the Government to the Contractor out of the appropriations or contract authorizations originally or thereafter specified in connection with this contract.

Partly
New
3. If any claim arising out of this contract is assigned pursuant to the provisions of Article VII hereof, payments to be made by the Government to such assignee on account of the Government Reimbursement for Plant Costs under this contract shall not be subject to reduction or set-off for any indebtedness of the Contractor to the United States arising independently of this Contract.

4. In the event of the termination of this contract pursuant to Section 1 of Article III hereof, prior to the completion of the acquisition and construction of the Emergency Plant Facilities, the Contractor shall, as promptly as possible, deliver to the Head of the Department a

a complete schedule of all contracts and commitments entered into by the Contractor for the acquisition and construction of the Emergency Plant Facilities. The Government shall promptly instruct the Contractor in writing as to the extent, if any, to which it desires to assume such contracts and commitments and upon receipt of such instructions the Contractor shall promptly assign all such contracts and commitments which the Government desires to assume and which may be so assignable to the Government and the Government shall, and does hereby, indemnify and save harmless the Contractor from any and all liability arising out of or in respect thereof. The Contractor shall thereupon cease all work on the acquisition and construction of the Emergency Plant Facilities and shall, where possible, terminate without cost to it all contracts and commitments not so assigned and where the Contractor is unable to terminate any such contract or commitment without cost, it shall to the extent possible follow the instructions of the Head of the Department with reference thereto. All costs incurred and all payments made by the Contractor prior to and in connection with such termination of this contract and with the termination of any contracts or commitments entered into by the Contractor for the purposes of this contract and with the performance in whole or in part of any such contracts or commitments which shall not be terminated or until the same are terminated shall be a part of the Government Reimbursement for Plant Costs and included in the Final Cost Certificate provided to be filed under Section 4 of Article I hereof in the event of termination prior to completion of the acquisition and construction. In the event of such termination of this contract, payment to the Contractor of the Government Reimbursement for Plant Costs shall be made promptly and in any event not later than 60 days following the date of filing of the Final Cost Certificate.

ARTICLE III - DISPOSITION OF EMERGENCY PLANT FACILITIES
ON TERMINATION OR COMPLETION OF CONTRACT

1. Notice of Termination. The Contracting Officer may at any time give written notice (hereinafter called the Termination Notice) to the Contractor terminating this contract; and upon receipt of the Termination Notice the Contractor shall, in the event that the acquisition and construction of the Emergency Plant Facilities shall not have been completed, proceed with the steps to be taken by it under Section 4 of Article II. If, during any 90-day period after the completion or the acquisition and construction of the Emergency Plant Facilities the same are not used to a substantial extent by the Contractor for furnishing the Government with supplies, or if, prior to such completion, the Government shall terminate in substantial part the existing contract for supplies between the Contractor and the Government, or if the Government shall fail, the contractor not being in default hereunder, to make to the contractor payment of any installment of the Government reimbursement for plant costs within ninety days after the same shall have become due, the Contractor may give a similar termination notice to the Contracting Officer after the expiration of such 90-day period or after such termination of contracts for supplies, as the case may be. If the contracting Officer shall disagree with the Contractor as to whether or not the Emergency Plant Facilities have not been so used to a substantial extent for the 90-day period or whether contracts for supplies have been terminated in substantial part, he shall so notify the Contractor, in

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writing or by telegraph, within five days from the receipt of the Termination Notice; and the Contractor may forthwith, by written or telegraphic notice, require the question to be submitted for determination by arbitrators, one appointed by the Contracting Officer and one by the Contractor within five days of the Contractor's arbitration notice, and an additional arbitrator appointed by the Senior Judge of the Circuit Court of Appeals of the circuit in which the Emergency Plant Facilities in question are located. If the additional arbitrator shall not be so appointed within five days after application by either party therefor, he shall be selected by the arbitrators appointed by the parties or, if one of the parties shall have failed to appoint its arbitrator within the time hereinbefore provided, by the sole arbitrator so appointed. The question shall be so determined by the three, or if either party shall have failed to appoint its arbitrator, the two arbitrators so appointed, the decision of any two arbitrators to be final and binding upon the parties for all purposes, unless no two arbitrators agree, in which event the decision of the additional arbitrator shall be final and binding. The cost of arbitration, except the cost of the arbitrator appointed by the Contracting Officer, shall be paid by the Contractor and shall not be included in the Government Reimbursement for Plant Costs.

2. Rights of the Contractor

(a) The Contractor shall have the right, exercisable by a written notice (hereinafter referred to as the Retention Notice), given within 90 days after giving of the Termination Notice, by either party,

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or within ninety (90) days after the termination of this contract under Section 2 of Article II hereof, to retain under this paragraph for its own use outright, free of any interest of the Government, and/or to negotiate under paragraph (b) hereof for such retention of any Separate Complete Plant and/or of any item or group of items constituting a Complete Addition to an Existing Plant or of the entire Emergency Plant Facilities. With respect to any such Separate Complete Plant and/or to any such item or group of items constituting a complete Addition to an Existing Plant, or with respect to the entire Emergency Plant Facilities which are designated for retention by the Contractor, the Contractor shall, subject to the provisions of paragraph (d) of this Section, if a less amount shall not have been agreed upon and approved as representing the fair value under paragraph (b) of this Section, pay to the Government an amount equal to the cost thereof as established by the Final Cost Certificate, and the Final Cost Certificate as amended, and by any Additional Final Cost Certificates, reduced to the extent appropriate for the application or payment of excess insurance proceeds, if any, under Section 1 of Article IV, (or, if the acquisition and construction of the Emergency Plant Facilities shall not have been completed, as established as of the date of the Retention Notice by the approved public accountant), less an amount representing depreciation, obsolescence and loss of value due to use for national defense purposes for each year or portion of a year elapsed from the date of acquisition or completion of construction thereof to the date of the Termination Notice at the rate

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or rates specified as applicable in Appendix A. Upon payment or tender to the Contracting Officer, at _____ of the amount so payable in respect of any such item designated for retention by the Contractor, or upon settlement of the balance, if any, due to or from the Government under paragraph (d) of this Section, any and all interest therein and right in respect thereof of the Government shall forthwith terminate, and the Contracting Officer shall execute and deliver to the Contractor a valid release of any and all such interest and right.

(b) In respect of any Complete Separate Plant and/or of any item or group of items constituting a Complete Addition to an Existing Plant, or of the entire Emergency Plant Facilities which the Contractor shall have designated in the Retention Notice for negotiation under this paragraph, the Contractor shall have the right to negotiate with the Contracting Officer with reference to the retention of the same free of any interest of the Government upon the payment to the Government of an amount less than the amount determined under paragraph (a) above representing the fair value thereof as of the date of the Retention Notice; and upon the establishment between the Contractor and the Contracting Officer of such fair value and approval of the same by the Head of the Department, the Contractor shall, upon payment or tender of the amount or upon settlement of the balance due to or from the Government under paragraph (d) of this Section have the right to retain for its own use outright free of any interest of the Government any Separate Complete Plant and/or any item or group of items constituting a Complete Addition to an

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Existing Plant or the entire Emergency Plant Facilities. In the event that, within a period of 90 days from the date of Retention Notice the Contractor and Contracting Officer are unable to agree upon the fair value of any such Separate Complete Plant or of any such item or group of items constituting a Complete Addition to an Existing Plant, or, of the entire Emergency Plant Facilities, or in the event that the fair value thereof so agreed upon shall not be approved by the Head of the Department, the Contractor shall, upon the expiration of said period or earlier at the election of the Contractor, either pay to the Government in respect of the retention of any such group of facilities, the applicable amount under Paragraph (a) of this section, or

- (1) as to any such Separate Complete Plant, transfer the same promptly to the Government free and clear of all mortgages or liens not theretofore consented to by the Head of the Department concerned; or
- (2) as to any such facilities constituting a Complete Addition to an Existing Plant transfer the same promptly to the Government free and clear of all mortgages or liens not theretofore consented to by the Head of the Department concerned, and, at the Contractor's election, require the removal of all or any part thereof by the Government from the premises altogether, which removal shall forthwith be effected by the Government in neat and workmanlike fashion and the Contractor's premises and facilities, including Emergency Plant Facilities retained by the Contractor, as affected by such removal shall be by the Government restored so as to leave the same in as good condition as immediately prior to the acquisition or construction of such facilities, (in as good condition as before such removal without defects or obstructions caused by such removal).

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(c) In respect of any of the Emergency Plant Facilities not designated in the Retention Notice for either retention by the Contractor or for negotiation, the Contractor shall promptly after the giving of the Retention Notice transfer the same to the Government free and clear of all mortgages and liens not theretofore consented to by the Head of the Department concerned. If no Retention Notice be given within the time allowed for such notice under Section 2 of this Article, the Contractor shall promptly upon the termination of the time allowed for such notice transfer the entire Emergency Plant Facilities to the Government free and clear of all mortgages and liens not theretofore consented to by the Head of the Department concerned.

(d) Any sums to be paid by the Contractor to the Government under paragraph (a) and/or paragraph (b) of this Section shall be reduced by the amount of any sums to be paid by the Government to the Contractor on account of Government Reimbursement for Plant Costs under Article II hereof and not theretofore paid by the Government, and, if the sum so to be paid by the Government to the Contractor and then remaining unpaid shall exceed the amount to be paid by the Contractor under both of said paragraphs, the Government shall promptly pay to the Contractor the amount of such excess; provided, however, that in the event that the Contractor shall retain under paragraphs (a) or (b) any facility the acquisition or construction of which is not complete at the date of the Retention Notice and in respect of which therefore no payment has been made by the Government, the Contractor shall retain

the same without payment and the amount of the Government Reimbursement for Plant Costs shall be reduced by the cost thereof, determined as hereinbefore provided in Section 1 of Article II hereof. In the event that the Contractor shall elect to retain none of the Emergency Plant Facilities under either paragraph (a) or paragraph (b) above, upon transfer thereof to the Government, there shall become due, and the Government shall promptly pay to the Contractor, the entire balance of the sum to be paid by the Government to the Contractor on account of the Government Reimbursement for Plant Costs not theretofore paid.

(e) The Contractor shall have the right, with respect to any facilities not retained by the Contractor under paragraphs (a) or (b) of this Section, to negotiate with the Contracting Officer with reference to the leasing of all or any part thereof for such period and upon such terms which may include provision for renewal and an option to purchase the same as the Contractor and the Contracting Officer may agree upon, subject to the approval of the Head of the Department.

3. Rights of the Government

(a) In respect of any item or group of items of the Emergency Plant Facilities constituting an Addition to an Existing Plant which are transferred to the Government under any provision of Section 2 of this Article and the removal of which is not required by the Contractor, the Contractor shall have the right to use the same, without cost, if and to the extent that such facilities have replaced other facilities of the Contractor and are necessary to enable it to conduct its normal operations.

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The Contractor shall at its expense, care for, maintain, and insure, to the extent approved or required by the Head of the Department, such facilities left in place by the Government which the Contractor is entitled under this Section to use without cost, so long as the Contractor so uses the same under this paragraph; and shall further care for and maintain to the extent above provided, all similar facilities the removal of which shall not have been required by the Contractor and which may be left in place by the Government as standby capacity for the account of the Government so long, subject to the provisions of paragraph (c) of this Section, as the Government shall duly and promptly pay the Contractor monthly, upon the submission of duly certified invoices therefor, any and all expense incurred and paid by the Contractor in the preceding calendar month for the maintenance, care, protection, and repair of such facilities, including any and all taxes assessed thereon or in respect thereof, and all costs of insurance carried for the protection thereof and any and all other expenses and cost of every sort incident thereto provided, however, that the Contractor may at any time on 90 days' written notice terminate the obligation to care for and maintain such facilities and require the removal of the same upon the same terms as under sub-paragraph (2) of paragraph (b) of Section 2 of this Article. Such facilities, the removal of which shall not have been required by the Contractor and which shall have been left in place by the Government, which the Contractor is not entitled to use without cost under this Section, or which shall not have been leased to the Contractor, may be

removed by the Government at any time regardless of such notice from the Contractor; and facilities left in place which the Contractor is so entitled to use without cost and which are in use for or required by commitments theretofore undertaken by the Contractor, may be removed by the Government regardless of such notice from the Contractor, at any subsequent time when such removal will not impede or interfere with the Contractor's performance of such commitments. Such removal shall be accomplished in a neat and workmanlike manner and the Contractor's premises and facilities, including Emergency Plant Facilities retained by the Contractor, as affected by such removal, shall be by the Government restored so as to leave the same in as good condition as immediately prior to the acquisition or construction of such facilities (in as good condition as before such removal without defects and obstructions caused by such removal).

(b) In the event that the Government shall fail, after 90 days' notice from the Contractor of such failure, to pay any of the sums to be paid or to perform any of the things to be performed by it under this Section with respect to any item or group of items constituting an Addition to an Existing Plant or to remove the same when required thereto in accordance with any provision of this Article, the Contractor shall have the right to remove the same from the premises entirely and to receive from the Government promptly after such removal the amount of the reasonable cost of such removal and of any sums to be paid by the Government in respect thereof under this Article and not theretofore paid.

(c) The Government agrees, so far as it lawfully may, with respect to any facilities transferred to it or removed by it pursuant to this Article III that it will at no time use the same or any of them for business or commercial purposes, provided that the Government may at any time use any such facilities for national defense or for any purpose incident to the conduct or execution of any act of Congress or any order of the President of the United States, and the Government further agrees that if the Government desires to sell or lease such facilities or any part thereof, it will not do so without giving the Contractor, to the extent permitted by law, a reasonable opportunity to purchase or lease the facilities proposed to be sold or leased on the same terms and at the same price or rental at which it is proposed to sell or lease them to any other party.

New (d) If any Complete Separate Plant located in whole or in part on premises which are the property of the Contractor and which have not been designated in Appendix A as a part of the Emergency Plant Facilities, are transferred to the Government under any provision of Section 2 of this Article, the Government, upon written notice given to the Contractor not later than 90 days following the transfer of such facilities to it, shall have the right to purchase from the Contractor the land on which such facilities are located at the predetermined price set forth in Appendix A.

ARTICLE IV - LOSS OR DESTRUCTION OF FACILITIES AND MAINTENANCE

1. In the event that all of the Emergency Plant Facilities or

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any item or group of items thereof shall, prior to the transfer by the Contractor to the Government, be destroyed or damaged by the operation of any risk required to be covered in respect of such facilities by insurance under Section 3 of Article I hereof, or of any risk in respect thereof actually covered by insurance carried by the Contractor, the Contractor shall immediately notify in writing the Contracting Officer and may on its own initiative, and the Government may by written notice given within 60 days require the Contractor to apply the proceeds of the insurance coverage in respect of such facilities to the restoration, reconditioning or replacement thereof. In the event that the proceeds of the insurance coverage shall be insufficient to provide for the restoration, reconditioning or replacement, initiated by the Contractor or required by the Government, the amount of the additional sums required therefor as certified by the Final Cost Certificate as amended or by an Additional Final Cost Certificate in form similar to that provided in Section 4 of Article I hereof, shall be added to the balance of Government Reimbursement for Plant Costs; provided that nothing contained in the foregoing sentence shall prejudice or affect the right of the Government to terminate this contract upon the terms provided in Article III by giving the Termination Notice therein provided. In the event that the proceeds of the insurance coverage shall exceed the amount required for the restoration, reconditioning or replacement, the amount of such excess or in the event that restoration, reconditioning or replacement is not initiated by either party, the amount of the proceeds of insurance, shall be retained by the

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Contractor and applied in reduction of the then balance of Government Reimbursement for Plant Costs, any excess of such proceeds over and above the amount of such balance to be promptly paid by the Contractor to the Government. Any excess so applied by the Contractor or paid by the Contractor to the Government shall be deemed to reduce pro tanto the cost of the facility for the purposes of paragraph (a) of Section 2 of Article III. In the event that the destruction or damage shall be caused by the operation of any risk not required to be covered and not covered by insurance carried by the Contractor, the Government shall within 60 days after receipt of notice of such destruction or damage either

- (a) require the Contractor to restore, recondition or replace all facilities necessary to continuous and efficient operation of all facilities in which event the amount of the cost thereof as certified by a Final Cost Certificate shall be added to the balance of Government Reimbursement for Plant Costs, or
- (b) terminate this contract subject to the terms provided in Article III by giving the termination notice therein provided.

2. The Contractor shall be responsible, prior to the transfer thereof to the Government, for the care and maintenance of such facilities; and all items of the Emergency Plant Facilities transferred by the Contractor to the Government under Article III hereof shall be in a good

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state of maintenance and repair except for destruction, or wear or damage normally incident to the production carried on by the Contractor and for such destruction or damage arising out of causes or risks not normally incident to such production which shall not be or have been provided for by restoration, reconditioning or replacement pursuant to paragraph (a) above, and except that the Contractor shall be under no obligation to maintain or repair items from time to time determined by the Contracting Officer to be obsolete or no longer used or useful in connection with the production by the Contractor of the supplies to be produced for the Government in or by the use of the Emergency Plant Facilities, provided that such items no longer used and useful, and also items requiring modification for what the Contractor deems to be improved productive efficiency may, at any time, in the discretion of the Contractor, be reworked, readjusted or adapted to the then requirements of the production of supplies for the Government, or may, with the approval of the Contracting Officer, be sold, the net proceeds of sale to be credited by the Contractor upon the balance of Government Reimbursement for Plant Costs then remaining unpaid.

New During the continuance of this contract at the end of each twelve-month period following the completion of the Emergency Plant Facilities the Contracting Officer shall within 90 days, if not so satisfied, notify the Contractor in writing that the care and maintenance of the Emergency Plant Facilities has failed to meet requirements of this section and the respects in which it has so failed. The Contractor shall

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New

forthwith comply with the directions of the Contracting Officer in this regard. Failure to give any such notice by the Contracting Officer shall be a conclusive admission that the care and maintenance of the Emergency Plant Facilities by the Contractor for the period involved has been proper.

ARTICLE V - RECORDS AND ACCOUNTS--INSPECTION THEREOF

1. The Contractor agrees to keep records and books of account showing the actual cost to it of all items of labor, materials, equipment, supplies, services and other expenditures of whatever nature either in connection with the acquisition or construction of the Emergency Plant Facilities under Article I the care and maintenance thereof under Article III or the restoration, reconditioning or replacement thereof under Article IV.

2. The Contracting Officer or his duly authorized representative shall at all times be afforded proper facilities for inspection of the Emergency Plant Facilities, both during and after construction, and shall at all reasonable times have access to the premises, work and materials, and to all books and records referred to in the foregoing paragraph 1 of this article.

ARTICLE VI - REPORTS TO BE FURNISHED BY THE CONTRACTOR IN FURTHERANCE OF NATIONAL DEFENSE

1. The Contractor shall, in so far as it is able, furnish to the Government, upon written request therefor, such reports, estimates and other information as the Coordinator of National Defense Purchases,

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or such other person as may be designated by the President, finds necessary and reasonable for the expediting of national defense. Requests for such reports, estimates and other information shall set forth the nature of the information sought and the form in which such information is to be furnished. If the Contractor is for any cause unable to furnish such information to the extent and in the manner requested, it shall promptly report to the Government in writing its inability to furnish such information, whereupon the Government, at its expense, may assist the Contractor to furnish such information to the extent and in the manner requested.

ARTICLE VII - ASSIGNMENT OF CONTRACTOR'S CLAIMS

1.⁴ Claims for monies due or to become due to the Contractor from the Government arising out of this contract may be assigned to any bank, trust company or other financing institution, including any Federal lending agency; and any such assignment may cover all or any part of any claim or claims arising or to arise out of this contract and may be made to any one or more such institutions or to any one party as agent or trustee for two or more such institutions participating in the financing of this contract.** Any claims so assigned may be subject to further assignment; and any bond, promissory note or other evidence of indebtedness secured by any such assignment may be rediscounted,

* This Section may only be inserted in contracts signed after the enactment of proposed statute amending 3477 and 3737 of the Revised Statutes permitting the assignment of claims against the Government.

**Pursuant to Section 3477 and Section 3737 of the Revised Statutes as amended, Section 1 of this Article may be varied so as to deny the assignment of any claim arising hereunder.

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hypothecated as collateral for a loan or credit, or sold with or without recourse. In the event of the assignment or reassignment of any claim for monies due or to become due under this contract the assignee thereof shall file written notice of the assignment together with a true copy of the instrument of assignment with (a) the General Accounting Office of the Government, (b) the Contracting Officer or the Head of the Department or Agency, (c) the surety or sureties upon the bond or bonds, if any, in connection with such contract, and (d) with the disbursing officer of the

Department at _____,
(Specify War, Navy, etc.) (Street address and Post Office)

who is hereby designated to make all payments under this contract. In no event shall copies of any plans, specifications or other similar documents marked "SECRET" and annexed or attached to this contract be furnished to any assignee of any claim arising under this contract or to any other person not otherwise entitled to receive the same.

2. Any assignment made in accordance with Section 1 of this article may provide that so long as there shall be sums due from the Government to the Contractor under this contract, the Contractor shall not, without the consent of the assignee, exercise any right given to the Contractor under the provisions of Section 2 of Article III hereof.

ARTICLE VIII - COVENANT AGAINST CONTINGENT FEES

The Contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee. Breach of this warranty shall

Paragraph changed - Section 2 added.

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give the Government the right to terminate the contract, or, in its discretion, to deduct from the contract price or consideration the amount of such commission, percentage, brokerage, or contingent fees. This warranty shall not apply to commissions payable by contractors upon contracts or sales secured or made through bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business.

ARTICLE IX - OFFICIALS NOT TO BENEFIT

No Member of or Delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE X - DISPUTES

Except as otherwise specifically provided in this contract, all disputes concerning questions of fact arising under this contract shall be decided by the contracting officer subject to written appeal by the contractor within 30 days to the head of the department concerned or his duly authorized representative, whose decision shall be final and conclusive upon the parties thereto. In the meantime the contractor shall diligently proceed with the work as directed.

ARTICLE XI - DEFINITIONS

(a) The term "Head of the Department" as used herein shall mean the head or any assistant head of the executive department or independent establishment involved, and the term "his duly authorized representative" shall mean any person authorized to act for him other than the contracting officer.

(b) The term "Contracting Officer" as used herein shall include his duly appointed successor or his authorized representative.

ARTICLE XII - TAX AMORTIZATION

Inasmuch as it is the intent of Sections 23 and 124 of the Internal Revenue Code, unless payments made on account of Government Reimbursements for Plant Costs are included in gross income, not to allow (1) the tax deduction for amortization over a 60-month period of the Emergency Plant Facilities or (2) the inclusion of such payments in invested capital for purposes of the excess-profits tax, the Contractor agrees that, if such payments, to the extent they constitute reimbursements for capital expenditures made in acquisition or construction of such Emergency Plant Facilities, are not includible in gross income, then, for Federal tax purposes, (1) the basis of such Emergency Plant Facilities shall be computed without taking into account capital expenditures for which the Contractor has been or will be so reimbursed and (2) the amount of such reimbursements shall not be treated as paid-in surplus or contributions to capital for purposes of the excess-profits tax. In the event

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New that the Contractor makes application to the Advisory Commission to the Council of National Defense and to the Department of War (the Navy) for a certificate with respect to terms contained in this contract or the necessity for any item or group of items of the Emergency Plant Facilities under Sections 23 and 124 of the Internal Revenue Code in accordance with rules governing such applications and the Contractor is thereafter refused the issuance of such certificate by either such Commission or the Department of War (the Navy), this contract shall terminate forthwith with the same effect as though a termination notice had been filed pursuant to Section 1 of Article III hereof.

ARTICLE XIII - ALTERATIONS

The following changes were made in this contract before it was signed by the parties hereto:

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IN WITNESS WHEREOF, the parties hereto have executed this contract as of the day and year first above written.

THE UNITED STATES OF AMERICA,

By _____

(Official title)

Two witnesses:

} Contractor

(Business Address)

Board are approved by the Secretary of the Interior, shall promulgate rental rates and minimum construction values for each of Blocks 33, 34, 35 and 36. In each of Blocks 33, 34, 35 and 36 shall have a monthly rental of \$3.00. Houses erected thereon shall have a minimum construction value of \$3,000.

Block 37, Lots 1 and 3, shall have a monthly rental rate of \$5.00. Each house erected thereon shall have a minimum construction value of \$3,000.

(f) In Blocks 41, 42, 43, 44A, 118-124 (inclusive), and 127-131 (inclusive) all lots are platted as having a width of less than 60 feet and a depth of less than 100 feet, and, as replatted, shall be 100 feet, and, as replatted, shall have a monthly rental rate of \$2.50. Each house erected on such lots shall have a minimum construction value of \$2,000.

(g) all hill residential sites commanding a view of Lake Mead (Block 2, Lots 15-18, inclusive and Block 4, Lots 12, 15, and 18) shall have monthly rental rates from \$10.00 to \$20.00, the rental rate for each such site to be fixed within this range by the City Manager. Each house erected on a site with a monthly rental rate of \$15.00 shall have a minimum construction value of \$5,000. Each house erected on a site with a monthly rental rate of more than \$15.00 shall have a minimum construction value of \$10,000.

6. In the event of any dispute as to the construction value of a house the decision of the City Manager shall be final.

7. Lots hereunder for "residential sites" shall be available only as sites for a one-family house, or a house of the duplex type for two families only.

8. These regulations were approved by the Under Secretary of the Interior pursuant to the Interior Department Appropriation Act, 1941, of June 18, 1940 on the 11th day of October 1940.

Lewis Ely,
City Manager.

Approved:

Oct. 11, 1940.

A. J. Whitte,

Under Secretary.

(F. R. Dec. 40-4411; Filed, October 18, 1940; 10:13 a. m.)

DEPARTMENT OF AGRICULTURE.

Rural Electrification Administration.

(Administrative Order No. 529)

ALLOCATION OF FUNDS FOR LOANS

October 5, 1940.

By virtue of the authority vested in me by the provisions of Section 4 of the Rural Electrification Act of 1936, as amended, I hereby allocate, from the sums authorized by said Act, funds for

loans for the projects and in the amounts as set forth in the following schedule:

Project designation:	Amount
Ohio 10881 Collection	\$80,000
Oregon 108181 Crest	107,000
Texas 107021 Hamilton	270,000
Washington 102523 Cowitz District Public	10,000
Wyoming 100938 Uinta	80,000
Wyoming 101481 Laramie	164,000

(REAL)

HARRY SLATTERY,
Administrator.

(F. R. Dec. 40-4404; Filed, October 17, 1940; 3:24 p. m.)

(Administrative Order No. 529)

ALLOCATION OF FUNDS FOR LOANS

October 7, 1940.

By virtue of the authority vested in me by the provisions of Section 4 of the Rural Electrification Act of 1936, as amended, I hereby allocate, from the sums authorized by said Act, funds for loans for the projects and in the amounts as set forth in the following schedule:

Project designation:	Amount
Minnesota 107921 Pipestone	\$150,000
Minnesota 105181 Aitkin	87,000
Minnesota 108421 Traverse	192,000
Pennsylvania 102521 Adams	309,000

(REAL)

HARRY SLATTERY,
Administrator.

(F. R. Dec. 40-4405; Filed, October 17, 1940; 3:24 p. m.)

COUNCIL OF NATIONAL DEFENSE.

EMERGENCY PLANT FACILITIES CONTRACT

For the information of all prospective bidders on national defense activities and for the information and guidance of others concerned, the following form of Emergency Plant Facilities Contract has been approved by the Advisory Commission to the Council of National Defense.

EMERGENCY PLANT FACILITIES CONTRACT

THIS CONTRACT entered into this _____ day of _____, 1940, by the UNITED STATES OF AMERICA, hereinafter called the Government, represented by the Contracting Officer executing this contract, and _____, a corporation organized and existing under the laws of the State of _____, a partnership consisting of _____ an individual trading as _____ of the City of _____ in the State of _____ hereinafter called the Contractor, WITNESSETH that:

WHEREAS, the Government and the Contractor are entering into Contract No. _____ hereinafter called the Contract for Supplies for the sale by the Contractor to the Government of certain supplies consisting of _____ and

WHEREAS, in order for the Contractor to be able to manufacture and deliver said supplies in accordance with the terms of the Contract for Supplies and within the time therein specified it is necessary for the Contractor to acquire or construct certain additional

facilities, which include items making up a Separate Complete Plant (as hereinafter indicated) and items designated collectively as one or more Complete Additions to an Existing Plant (as hereinafter indicated), all of such items being herein collectively referred to as Emergency Plant Facilities; and

WHEREAS, the Government and the Contractor propose in the negotiation of the price charged to the Government for the manufacture and delivery of said supplies to eliminate so far as is practicable, charges for amortization and depreciation of Emergency Plant Facilities; and

WHEREAS, the Contractor is willing to undertake the acquisition or construction of the Emergency Plant Facilities hereinafter described in consideration of the execution by the Government of the Contract for Supplies and of the further agreements by the Government contained in this contract; and

WHEREAS, the Government, in view of the present emergency and the necessity of making possible the manufacture and delivery by the Contractor of the said supplies in accordance with the terms of the Contract for Supplies and within the time therein specified, in order to expedite production and in accordance with provisions of law enacted to provide for national defense in connection with said emergency, is willing in consideration of the execution by the Contractor of the said Contract for Supplies and of the further agreement by the Contractor herein contained, to provide the Contractor with funds in reimbursement of expenditures to be made for the acquisition or construction by the Contractor of Emergency Plant Facilities to the extent herein set forth and on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained to be performed by the parties hereto respectively it is agreed as follows:

ARTICLE I—EMERGENCY PLANT FACILITIES TO BE ACQUIRED OR CONSTRUCTED

1. The Contractor shall, with due expedition by contract with others or otherwise, acquire or construct the Emergency Plant Facilities generally described below and set forth in further detail in Appendix A herein annexed, furnishing or causing to be furnished the labor, material, tools, machinery, equipment, facilities, supplies and services, and doing or causing to be done all other things necessary for the acquisition or construction thereof. The Emergency Plant Facilities are designated as constituting Separate Complete Plant and one or more complete Additions to an Existing Plant or Plants. All of said Emergency Plant Facilities shall be in general accordance with the drawings, specifications and instructions, if any, set forth in Appendix A. (Appendix A, in so far as practicable should contain a full description of each principal item or group of items of Emergency Plant Facilities; should allocate actual or estimated cost to each item or group of items; should designate which of the Emergency Plant Facilities constitute a Separate Complete Plant and which constitute one or more complete Additions to Existing Plant or Plants; should indicate if, and the extent to which, any item or group of items of the facilities replace other facilities of the Contractor and are necessary to enable it to conduct its normal operations, the price at which the Government may be entitled to purchase the Contractor's land upon which any Complete Separate Plant is located unless the land on which the facilities

When Government supervision of construction is contemplated, an appropriate clause may be inserted which will provide for the issuance by the Contracting Office of periodical certificates stating that the Contractor has satisfactorily complied with the provisions of Section 1 of this Article during the period covered by each certificate.

*Delete all lines which do not apply.

(4) When optional ingredient (4) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificially Flavored" (Flavoring Added), the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (1), (3), and (4) are used, the statements prescribed for such ingredients may be combined as for example, "With Added Alkali, Ground Vanilla Beans and Artificial Coconut Flavoring."

(5) Whenever the name "Chocolate Flavor", "Chocolate", "Bitter Chocolate", "Baking Chocolate", "Cooking Chocolate", "Phosphate Chocolate", or "Bitter Chocolate Coating" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name without intervening written, printed, or graphic matter.

(14000) *Sweet chocolate, sweet chocolate coating—identical label statement of optional ingredients.* (a) Sweet chocolate, sweet chocolate coating, is the solid or plastic food composed of an intimate mixture of chocolate liquor and sugar or nutritive solids, with or without added cocoa fat. (b) An optional alkali ingredient was used in preparing such chocolate liquor, such optional alkali ingredients is optional ingredient (1) of the sweet chocolate. Such mixture may also contain not less than _____ percent (to be fixed within the range of 5 percent to 12 percent), but less than _____ percent (to be fixed within the range of 12 percent to 16 percent), by weight of the milk constituent solids of one of the following optional alkali ingredients (2), (3), (4), (5), and (6):

(1) Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk; evaporated skim milk; sweetened condensed skim milk; or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 9.75, or any combination of two or more of these, but if butter or milk fat is used, either in this optional ingredient or in an optional ingredient (2), the ratio of total milk fat to total nutritive milk solids in such mixture is not more than 1 to 1.4.

(2) Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk; evaporated skim milk; sweetened condensed skim milk; or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 9.75, or any combination of two or more of these, but if butter or milk fat is used, either in this optional ingredient or in an optional ingredient (2), the ratio of total milk fat to total nutritive milk solids in such mixture is not more than 1 to 1.4.

(3) Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk; evaporated skim milk; sweetened condensed skim milk; or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 9.75, or any combination of two or more of these, but if butter or milk fat is used, either in this optional ingredient or in an optional ingredient (2), the ratio of total milk fat to total nutritive milk solids in such mixture is not more than 1 to 1.4.

(4) Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk; evaporated skim milk; sweetened condensed skim milk; or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 9.75, or any combination of two or more of these, but if butter or milk fat is used, either in this optional ingredient or in an optional ingredient (2), the ratio of total milk fat to total nutritive milk solids in such mixture is not more than 1 to 1.4.

(5) Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk; evaporated skim milk; sweetened condensed skim milk; or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 9.75, or any combination of two or more of these, but if butter or milk fat is used, either in this optional ingredient or in an optional ingredient (2), the ratio of total milk fat to total nutritive milk solids in such mixture is not more than 1 to 1.4.

third the weight of the milk constituent solids present in the largest proportion. Such mixture may also contain as an optional emulsifying ingredient—

(7) Lecithin, in a total quantity not more than 0.5 percent of the weight of the chocolate liquor used.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the chocolate liquor used:

(8) Salt.

(9) Ground spice, ground vanilla beans, honey, butter or milk fat, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(10) Vanillin, ethyl vanillin, coumarin, other artificial food flavorings, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

The quantity of chocolate liquor, calculated to a fat content of _____ percent (to be fixed within the range of 50 percent to 53 percent), in such mixture is not less than _____ percent (to be fixed within the range of 15 percent to 20 percent) of the weight of the finished sweet chocolate.

(b) (1) When optional ingredient (1) is used, the label shall bear the statement "Artificially Flavored" or "With Added Alkali"; but in lieu of the word "Alkali" in such statement the common name or names of the alkali may be used.

(2) When optional ingredient (2), (3), (4), or (5) is used, the label shall bear the statement "Lecithin Added" or "With Added Milk", "Skim Milk Added" or "With Added Skim Milk", "Buttermilk Added" or "With Added Buttermilk", "Malted Milk Added" or "With Added Malted Milk", as the case may be.

(3) When optional ingredient (6) is used, the label shall bear the statement "Artificially Flavored" or "With Added _____", the blank to be filled in with the names of the ingredients in the combination. Such names shall be the names whereby such ingredients are designated in paragraph (2) of this subsection and shall appear in the order of the predominance, if any, of the weights of the milk constituent solids of such ingredients in the combination.

(4) When optional ingredient (7) is used, the label shall bear the statement "Lecithin Added" or "With Added Lecithin".

(5) When optional ingredient (10) is used, the label shall bear the statement "Artificially Flavored", but in lieu of such statement the label may bear the statement "Artificially _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(6) When optional ingredient (3), (4), (5), or (6) and one or more of optional ingredients (1), (2), and (10) are

used, the statements prescribed for such ingredients may be combined as for example, "With Added Skim Milk, Baking Soda, Lecithin, and Artificial Vanilla Flavoring."

(7) Whenever the name "Sweet Chocolate" or "Sweet Chocolate Coating" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name without intervening written, printed, or graphic matter.

(14030) *Alkali chocolate, sweet milk chocolate, milk chocolate coating, milk chocolate coating—identical label statement of optional ingredients.* (a) Milk chocolate, sweet milk chocolate coating, is the solid or plastic food composed of an intimate mixture of chocolate liquor and sugar or nutritive solids, with or without added cocoa fat, and with not less than _____ percent (to be fixed within the range of 45 percent to 48 percent) by weight of the milk constituent solids of one or any combination of two or more of the following ingredients:

Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk; evaporated skim milk; sweetened condensed skim milk; or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 9.75, or any combination of two or more of these, but if butter or milk fat is used, either in this optional ingredient or in an optional ingredient (2), the ratio of total milk fat to total nutritive milk solids is not more than 1 to 1.2.

If an optional alkali ingredient was used in preparing such mixture liquor, such optional alkali ingredient is optional ingredient (1) of the milk chocolate. Such mixture may also contain as an optional emulsifying ingredient—

(2) Lecithin, in a total quantity of more than 0.5 percent of the weight of the finished milk chocolate.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the chocolate liquor used:

(3) Salt.

(4) Ground spice, ground vanilla beans, honey, butter or milk fat, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(5) Vanillin, ethyl vanillin, coumarin, other artificial food flavorings, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

The quantity of chocolate liquor, calculated to a fat content of _____ percent

in such mixture the range of 50 percent to 53 percent), in such mixture is not less than _____ percent (to be fixed within the range of 10 percent to 15 percent) of the weight of the finished milk chocolate.

(b) (1) When optional ingredient (1) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificially _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(2) When optional ingredient (2) is used, the label shall bear the statement "Lecithin Added" or "With Added Lecithin".

(3) When optional ingredient (3) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificially _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (1), (2), and (3) are used, the statements prescribed for such ingredients may be combined as for example, "With Added Baking Soda, Lecithin, and Artificial Vanilla Flavoring."

(5) Whenever the name "Milk Chocolate", "Sweet Milk Chocolate", "Milk Chocolate Coating", or "Sweet Milk Chocolate Coating" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name without intervening written, printed, or graphic matter.

(14040) *Skim milk chocolate, sweet milk chocolate, skim milk chocolate coating—identical label statement of optional ingredients.* (a) Skim milk chocolate, sweet milk chocolate coating, is the solid or plastic food composed of an intimate mixture of chocolate liquor and sugar or nutritive solids, with or without added cocoa fat, and with not less than _____ percent (to be fixed within the range of 12 percent to 16 percent) by weight of the milk constituent solids of one or any combination of two or more of the following ingredients:

Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk; evaporated skim milk; sweetened condensed skim milk; or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 9.75, or any combination of two or more of these, but if butter or milk fat is used, either in this optional ingredient or in an optional ingredient (2), the ratio of total milk fat to total nutritive milk solids in such mixture is not more than 1 to 1.2.

If an optional alkali ingredient was used in preparing such mixture liquor, such optional alkali ingredient is optional ingredient (1) of the skim milk chocolate. Such mixture may also contain as an optional emulsifying ingredient—

(2) Lecithin, in a total quantity not more than 0.5 percent of the weight of the finished skim milk chocolate.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the chocolate liquor used:

(3) Salt.

(4) Ground spice, ground vanilla beans, honey, butter or milk fat, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(5) Vanillin, ethyl vanillin, coumarin, other artificial food flavorings, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the chocolate liquor used:

(3) Salt.

(4) Ground spice, ground vanilla beans, honey, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(5) Vanillin, ethyl vanillin, coumarin, other artificial food flavorings, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

The quantity of chocolate liquor, calculated to a fat content of _____ percent (to be fixed within the range of 30 percent to 33 percent), in such mixture is not less than _____ percent (to be fixed within the range of 10 percent to 15 percent) of the weight of the finished skim milk chocolate.

(b) (1) When optional ingredient (1) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificially _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(2) When optional ingredient (2) is used, the label shall bear the statement "Lecithin Added" or "With Added Lecithin".

(3) When optional ingredient (3) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificially _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (1), (2), and (3) are used, the statements prescribed for such ingredients may be combined as for example, "With Added Baking Soda, Lecithin, and Artificial Vanilla Flavoring."

(5) Whenever the name "Skim Milk Chocolate", "Sweet Skim Milk Chocolate", "Skim Milk Chocolate Coating", or "Sweet Skim Milk Chocolate Coating" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name without intervening written, printed, or graphic matter.

(14050) *Buttermilk chocolate, buttermilk chocolate coating—identical label statement of optional ingredients.* (a) Buttermilk chocolate, buttermilk chocolate coating, is the solid or plastic food composed of an intimate mixture of chocolate liquor and sugar or nutritive solids, with or without added cocoa fat, and with not less than _____ percent (to be fixed within the range of 12 percent to 16 percent) by weight of the solids of concentrated buttermilk or dried buttermilk or both. If an optional alkali ingredient was used in preparing such mixture liquor, such optional alkali ingredient is optional ingredient (1) of the

buttermilk chocolate. Such mixture may also contain as an optional emulsifying ingredient—

(2) Lecithin, in a total quantity not more than 0.5 percent of the weight of the finished buttermilk chocolate.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the chocolate liquor used:

(3) Salt.

(4) Ground spice, ground vanilla beans, honey, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(5) Vanillin, ethyl vanillin, coumarin, other artificial food flavorings, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

The quantity of chocolate liquor, calculated to a fat content of _____ percent (to be fixed within the range of 10 percent to 15 percent), in such mixture is not less than _____ percent (to be fixed within the range of 10 percent to 15 percent) of the weight of the finished buttermilk chocolate.

(b) (1) When optional ingredient (1) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificially _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(2) When optional ingredient (2) is used, the label shall bear the statement "Lecithin Added" or "With Added Lecithin".

(3) When optional ingredient (3) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificially _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (1), (2), and (3) are used, the statements prescribed for such ingredients may be combined as for example, "With Added Baking Soda, Lecithin, and Artificial Vanilla Flavoring."

(5) Whenever the name "Buttermilk Chocolate", "Sweet Buttermilk Chocolate", "Buttermilk Chocolate Coating", or "Sweet Buttermilk Chocolate Coating" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name without intervening written, printed, or graphic matter.

(14060) *Mixed milk, skim milk, buttermilk, sweet milk, chocolate and chocolate coating—identical label statement of optional ingredients.* (a) The articles for which definitions and standards of identity are prescribed by this section are the solid or plastic food each of which is composed of an intimate mixture of chocolate liquor and sugar or de-

trone or both, with or without added cacao fat, and with not less than _____ percent (to be fixed within the range of 12 percent to 16 percent) by weight of the milk constituent solids of any combination of two or more of the following optional dairy ingredients (1), (2), (3), and (4):

(1) Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any combination of butter or milk fat and concentrated skim milk, evaporated skim milk, sweetened condensed skim milk, or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 2.275; or any combination of two or more of these; but if butter or milk fat is used, either in this optional ingredient or in or as optional ingredient (6), the ratio of total milk fat to total non-fat milk solids in such ingredients is not more than 1 to 1.2.

(2) Concentrated skim milk, evaporated skim milk, sweetened condensed skim milk, dried skim milk, or any combination of two or more of these.

(3) Concentrated buttermilk, dried buttermilk, or any combination of these.

(4) Malted milk.

The weights of the milk constituent solids of such ingredients in such combination are equal, or the weight of the milk constituent solids present in the smallest proportion is not less than one-third the weight of the milk constituent solids present in the largest proportion. If an optional alkali ingredient was used in preparing such chocolate liquor, such optional alkali ingredient is optional ingredient (5) of the article for which a definition and standard of identity is prescribed by this section. Such mixture may also contain as an optional emulsifying ingredient—

(5) Lecithin, in a total quantity not more than 0.5 percent of the weight of the finished article.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the chocolate liquor used:

(7) Salt.

(8) Ground spice, ground vanilla beans, honey, butter or milk fat, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(9) Vanillin, ethyl vanillin, coumarin, other artificial food flavoring, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

The quantity of chocolate liquor, calculated to a fat content of _____ percent (to be fixed within the range of 50 percent to 52 percent), in such mixture is not less than _____ percent (to be fixed within the range of 10 percent to 15 percent) of the weight of the finished article.

(b) The name of each article for which a definition and standard of identity is prescribed by this section is "_____" Chocolate" or "_____" Chocolate Coating", the blank to be filled in with the names of the ingredients in the combination of optional dairy ingredients in the order of the predominance, if any, of the weights of the milk constituent solids of such ingredients in the combination. For the purposes of this section, the names of optional dairy ingredients (1), (2), (3), and (4) are, respectively, "Milk" or "Sweet Milk", "Skim Milk" or "Sweet Skim Milk", "Buttermilk", and "Malted Milk".

(c) (1) When optional ingredient (5) is used, the label shall bear the statement "Alkali Added" or "With Added Alkali"; but in lieu of the word "Alkali" in such statements the common name or names of the alkali may be used.

(2) When optional ingredient (6) is used, the label shall bear the statement "Lecithin Added" or "With Added Lecithin".

(3) When optional ingredient (9) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificial _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (5), (6), and (9) are used, the statements prescribed for such ingredients may be combined, as for example, "With Added Baking Soda, Lecithin, and Artificial Vanillin Flavoring".

(5) Whenever the name of the article for which a definition and standard of identity is prescribed by this section appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name, without intervening written, printed, or graphic matter.

§ 14.970 Cocoa, medium-fat cocoa—identity; label statement of optional ingredients. (a) Cocoa, medium-fat cocoa, is the powdered food prepared by removing part of the fat from ground cacao nibs and pulverizing the residual material. It contains not less than _____ percent (to be fixed within the range of 8 percent to 12 percent), but less than _____ percent (to be fixed within the range of 22 percent to 25 percent), of cacao fat as determined by the method prescribed in "Official and Tentative Methods of Analysis of the Association of Official Agricultural Chemists", Fifth Edition, 1940, page 202, under "Fat Method I—Official". To darken the color and otherwise modify the properties, part or all of the cocoa, or of the cacao beans or cacao nibs or ground cacao nibs used in its preparation, may be processed by heat with the optional alkali ingredient—

(1) Bicarbonate, carbonate, or hydroxide of sodium or potassium, or carbonate or oxide of magnesium, or any combination of two or more of these; but the total quantity, for each 100 parts by weight of ground cacao nibs from which the cocoa is prepared, of any such substance or combination of substances used in such processing is not greater in neutralizing value than _____ parts (to be fixed within the range of 1 part to 2 parts) by weight of anhydrous potassium carbonate, as calculated from the respective combining weights of such alkali.

It may be seasoned with one or more of the following optional ingredients:

(2) Salt.

(3) Ground spice, ground vanilla beans, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(4) Vanillin, ethyl vanillin, coumarin, other artificial food flavoring, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

(b) (1) When optional ingredient (1) is used, the label shall bear the statement "Alkali Added" or "With Added Alkali"; but in lieu of the word "Alkali" in such statements the common name or names of the alkali may be used.

(2) When optional ingredient (3) is used, the label shall bear the statement "Seasoning Added" or "With Added Seasoning"; but in lieu of such statement the label may bear the statement "Seasoned With _____", the blank to be filled in with the common name or names of the seasoning used.

(3) When optional ingredient (4) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificial _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (1), (3), and (4) are used, the statements prescribed for such ingredients may be combined, as for example, "With Added Alkali, Cinnamon, and Artificial Vanillin Flavoring".

(5) Whenever the name "Cocoa" or "Medium-Fat Cocoa" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name, without intervening written, printed, or graphic matter.

§ 14.980 Breakfast cocoa, high-fat cocoa—identity; label statement of optional ingredients. (a) Breakfast cocoa, high-fat cocoa, is the powdered food prepared by removing part of the fat from ground cacao nibs and pulverizing the residual material. It contains not less

that _____ percent (to be fixed within the range of 22 percent to 25 percent) of the fat as determined by the method prescribed in "Official and Tentative Methods of Analysis of the Association of Official Agricultural Chemists", Fifth Edition, 1940, page 202, under "Fat Method I—Official". To darken the color and otherwise modify the properties, part or all of the breakfast cocoa, or of the cacao beans or cacao nibs or ground cacao nibs used in its preparation, may be processed by heat with the optional alkali ingredient—

(1) Bicarbonate, carbonate, or hydroxide of sodium or potassium, or carbonate or oxide of magnesium, or any combination of two or more of these; but the total quantity, for each 100 parts by weight of ground cacao nibs from which the breakfast cocoa is prepared, of any such substance or combination of substances used in such processing is not greater in neutralizing value than _____ parts (to be fixed within the range of 1 part to 3 parts) by weight of anhydrous potassium carbonate, as calculated from the respective combining weights of such alkalis.

It may be seasoned with one or more of the following optional ingredients:

- (2) Salt;
 (3) Ground spice, ground vanilla bean, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavor;
 (4) Vanillin, ethyl vanillin, coumarin, other artificial food flavoring, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

(b) (1) When optional ingredient (1) is used, the label shall bear the statement "Alkali Added" or "With Added Alkali"; but in lieu of the word "Alkali" in such statements the common name or names of the alkali may be used.

(2) When optional ingredient (3) is used, the label shall bear the statement "Seasoning Added" or "With Added Seasoning"; but in lieu of such statement the label may bear the statement "Seasoned With _____", the blank to be filled in with the common name or names of the seasoning used.

(3) When optional ingredient (4) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificial _____ Flavoring Added"; the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (1), (3), and (4) are used, the statements prescribed for such ingredients may be combined, as for example, "With Added Alkali, Cinnamon, and Artificial Vanillin Flavoring".

(6) Wherever the name "Breakfast Cocoa" or "High-Fat Cocoa" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name, without intervening written, printed, or graphic matter.

§ 14.090 Low-fat cocoa—Identity; label statement of optional ingredients.

(a) Low-fat cocoa is the powdered food prepared by removing part of the fat from ground cacao nibs and pulverizing the residual material. It contains not less than _____ percent (to be fixed within the range of 1 percent to 3 percent), but less than _____ percent (to be fixed within the range of 6 percent to 12 percent), of cacao fat as determined by the method prescribed in "Official and Tentative Methods of Analysis of the Association of Official Agricultural Chemists", Fifth Edition, 1940, page 202, under "Fat Method I—Official". To darken the color and otherwise modify the properties, part or all of the low-fat cocoa, or of the cacao beans or cacao nibs or ground cacao nibs used in its preparation, may be processed by heat with the optional alkali ingredient—

(1) Bicarbonate, carbonate, or hydroxide of sodium or potassium, or carbonate or oxide of magnesium, or any combination of two or more of these; but the total quantity, for each 100 parts by weight of ground cacao nibs from which the low-fat cocoa is prepared, of any such substance or combination of substances used in such processing is not greater in neutralizing value than _____ parts (to be fixed within the range of 1 part to 3 parts) by weight of anhydrous potassium carbonate, as calculated from the respective combining weights of such alkalis.

It may be seasoned with one or more of the following optional ingredients:

- (2) Salt;
 (3) Ground spice, ground vanilla bean, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring;
 (4) Vanillin, ethyl vanillin, coumarin, other artificial food flavoring, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

(b) (1) When optional ingredient (1) is used, the label shall bear the statement "Alkali Added" or "With Added Alkali"; but in lieu of the word "Alkali" in such statements the common name or names of the alkali may be used.

(2) When optional ingredient (3) is used, the label shall bear the statement "Seasoning Added" or "With Added Seasoning"; but in lieu of such statement

the label may bear the statement "Seasoned With _____", the blank to be filled in with the common name or names of the seasoning used.

(3) When optional ingredient (4) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificial _____ Flavoring Added"; the blank to be filled in with the common name or names of the artificial flavoring used.

(4) When two or all of optional ingredients (1), (3), and (4) are used, the statements prescribed for such ingredients may be combined, as for example, "With Added Alkali, Cinnamon, and Artificial Vanillin Flavoring".

(5) Wherever the name "Low-Fat Cocoa" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name, without intervening written, printed, or graphic matter.

§ 14.100 Sweet cocoa and fat (other than cocoa fat) coatings—Identity; label statement of optional ingredients.

(a) The articles for which definitions and standards of identity are prescribed by this section are the solid or plastic food each of which is composed of an intimate mixture of cacao, breakfast cocoa, low-fat cocoa, or any combination of two or all of these, sugar or dextrose or both, and one or any combination of two or more vegetable food oils, fats, and stearins other than cacao fat. Such oils and fats may be hydrogenated. If an optional alkali ingredient was used in preparing such cacao, breakfast cocoa, or low-fat cocoa, such optional alkali ingredient is optional ingredient (1) of the article for which a definition and standard of identity is prescribed by this section. Such mixture may also contain not less than _____ percent (to be fixed within the range of 6 percent to 7 percent) by weight of the milk constituent solids of one of the following optional dairy ingredients (2), (3), (4), (5), and (6):

(2) Concentrated milk; evaporated milk; sweetened condensed milk; dried whole milk; any mixture of butter or milk fat and concentrated skim milk, evaporated skim milk, sweetened condensed skim milk, or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 2.275 nor more than 1 to 1.2; or any combination of two or more of these.

(3) Concentrated skim milk, evaporated skim milk, sweetened condensed skim milk, dried skim milk, or any combination of two or more of these.

(4) Concentrated buttermilk, dried buttermilk, or any combination of these.

(5) Malted milk.

(6) Any combination of two or more of optional dairy ingredients (2), (3),

(4), and (5) in which the weights of the milk constituent solids of such ingredients are equal, or in which the weight of the milk constituent solids present in the smallest proportion is not less than one-third the weight of the milk constituent solids present in the largest proportion.

Such mixture may also contain the optional emulsifying ingredient—

(7) Lecithin, in a quantity not more than 0.5 percent of the weight of the finished article.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the cocoa, breakfast cocoa, or low-fat cocoa used:

(8) Salt.

(9) Ground spice, ground vanilla beans, honey, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(10) Vanillin, ethyl vanillin, coumarin, other artificial food flavoring, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

The quantity of cocoa, breakfast cocoa, low-fat cocoa, or combination thereof, calculated to a fat content of 10 percent, in such mixture is not less than _____ percent (to be fixed within the range of 6 percent to 12 percent) of the weight of the finished article.

(b) The name of each article for which a definition and standard of identity is prescribed by this section is "Sweet Cocoa and _____ Coating" or "Cocoa and _____ Coating", the blank to be filled in with the common or usual name or names of the vegetable food oils, fats, and stearins used. If such oil or fat is hydrogenated, its name includes the word "Hardened". If two or more of such oils, fats, and stearins are used, the names thereof are filled in the blank in the order of the predominance, if any, of the weights thereof used.

(c) (1) When optional ingredient (1) is used, the label shall bear the statement "Alkali Added" or "With Added Alkali"; but in lieu of the word "Alkali" in such statements the common name or names of the alkali may be used.

(2) When optional ingredient (2), (3), (4), or (5) is used, the label shall bear the statement "Milk Added" or "With Added Milk", "Skim Milk Added" or "With Added Skim Milk", "Buttermilk Added" or "With Added Buttermilk", "Malted Milk Added" or "With Added Malted Milk", as the case may be.

(3) When optional ingredient (4) is used, the label shall bear the statement "_____ Added" or "With Added _____", the blank to be filled in with the names of the ingredients in the combination. Such names shall be names whereby such ingredients are designated in paragraph (2) of this subsection and

shall appear in the order of the predominance, if any, of the weights of the milk constituent solids of such ingredients in the combination.

(4) When optional ingredient (7) is used, the label shall bear the statement "Lecithin Added" or "With Added Lecithin".

(5) When optional ingredient (10) is used, the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificial _____ Flavoring Added", the blank to be filled in with the common name or names of the artificial flavors used.

(6) When optional ingredient (2), (3), (4), (5), or (6) and one or more of optional ingredients (1), (7), and (10) are used, the statements prescribed for such ingredients may be combined, as for example, "With Added Skim Milk, Baking Soda, Lecithin, and Artificial Coumarin Flavoring."

(7) Wherever the name of the article for which a definition and standard of identity is prescribed by this section appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name, without any intervening written, printed, or graphic matter.

114.110 Sweet chocolate and fat (other than cocoa fat) coatings—Identity; label statement of optional ingredients. (a) The articles for which definitions and standards of identity are prescribed by this section are the solid or plastic food each of which is composed of an intimate mixture of chocolate liquor and sugar or dextrose or both, and one or any combination of two or more vegetable food oils, fats, and stearins other than cacao fat. Such oils and fats may be hydrogenated. If an optional alkali ingredient was used in preparing such chocolate liquor, such optional alkali ingredient is optional ingredient (1) of the article for which a definition and standard of identity is prescribed by this section. Such mixture may also contain not less than _____ percent (to be fixed within the range of 6 percent to 7 percent) by weight of the milk constituent solids of one of the following optional dairy ingredients (2), (3), (4), (5), and (6):

(2) Concentrated milk; evaporated milk, sweetened condensed milk; dried whole milk; any mixture of butter or milk fat and concentrated skim milk, evaporated skim milk, sweetened condensed skim milk, or dried skim milk, in which the ratio of milk fat to non-fat milk solids is not less than 1 to 2.275 nor more than 1 to 1.2; or any combination of two or more of these.

(3) Concentrated skim milk, evaporated skim milk, sweetened condensed skim milk, dried skim milk, or any combination of two or more of these.

(4) Concentrated buttermilk, dried buttermilk, or any combination of these.

(5) Malted milk.

(6) Any combination of two or more of optional ingredients (2), (3), (4), and (5) in which the weights of the milk constituent solids of such ingredients are equal, or in which the weight of the milk constituent solids present in the smallest proportion is not less than one-third the weight of the milk constituent solids present in the largest proportion.

Such mixture may also contain the optional emulsifying ingredient—

(7) Lecithin, in a quantity not more than 0.5 percent of the weight of the finished article.

Such mixture may be seasoned with one or more of the following optional ingredients, added as such or as ingredients in the chocolate liquor used:

(8) Salt.

(9) Ground spice, ground vanilla beans, honey, any food flavoring oil or oleoresin or extract, or any combination of two or more of these; except any such article containing any artificial flavoring.

(10) Vanillin, ethyl vanillin, coumarin, other artificial food flavoring, or any combination of two or more of these; except any such article which is an imitation of butter flavor or milk flavor or chocolate flavor.

The quantity of chocolate liquor, calculated to a fat content of _____ percent (to be fixed within the range of 50 percent to 55 percent), in such mixture is not less than _____ percent (to be fixed within the range of 15 percent to 20 percent) of the weight of the finished article.

(b) The name of each article for which a definition and standard of identity is prescribed by this section is "Sweet Chocolate and _____ Coating" or "Chocolate and _____ Coating", the blank to be filled in with the common or usual name or names of the vegetable food oils, fats, and stearins used. If such oil or fat is hydrogenated, its name includes the word "Hardened". If two or more of such oils, fats, and stearins are used, the names thereof are filled in the blank in the order of the predominance, if any, of the weights thereof used.

(c) (1) When optional ingredient (1) is used, the label shall bear the statement "Alkali Added" or "With Added Alkali"; but in lieu of the word "Alkali" in such statements the common name or names of the alkali may be used.

(2) When optional ingredient (2), (3), (4), or (5) is used, the label shall bear the statement "Milk Added" or "With Added Milk", "Skim Milk Added" or "With Added Skim Milk", "Buttermilk Added" or "With Added Buttermilk", "Malted Milk Added" or "With Added Malted Milk", as the case may be.

(3) When optional ingredient (6) is used, the label shall bear the statement "_____ Added" or "With Added _____", the blank to be filled in with

the names of the ingredients in the composition. Such names shall be names whereby such ingredients are designated in paragraph (2) of this subsection and shall appear in the order of the predominance, if any, of the weights of the milk constituent solids of such ingredients in the combination.

(4) When optional ingredient (7) is used the label shall bear the statement "Lactin Added" or "With Added Lactin".

(5) When optional ingredient (10) is used the label shall bear the statement "Artificially Flavored"; but in lieu of such statement the label may bear the statement "Artificial _____ Flavor Added", the blank to be filled in with the common name of names of the artificial flavors used.

(6) When optional ingredient (2), (3), (4), (5), (6) and one or more of optional ingredients (1), (7), and (10) are used, the statements prescribed for such ingredients may be combined, as for example, "With Added Skim Milk, Baking Soda Lactin, and Artificial Commarin Flavor".

(7) Whenever the name of the article for which a definition and standard of identity is prescribed by this section appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the statements herein prescribed showing the optional ingredients used shall immediately and conspicuously precede or follow such name, without any intervening written, printed, or graphic matter.

In connection with the foregoing provisions evidence will be received with respect to the use of optional ingredients other than those specified in the provisions.

WAYNE COY,
Acting Federal Security
Administrator.

October 11, 1940.

[R. D. No. 40-4414; Filed, October 16, 1940; 10:26 a. m.]

SECURITIES AND EXCHANGE COMMISSION.

(File No. 70-158)

IN THE MATTER OF LEONARD S. FLORESHEIM, Trustee, Inland Power & Light Corporation, Debtor, and MICHIGAN PUBLIC SERVICE COMPANY.

ORDER GRANTING APPLICATION AND PERMITTING DECLARATIONS TO BECOME EFFECTIVE.

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 18th day of October, A. D. 1940.

Leonard S. Floresheim, Trustee of Inland Power & Light Corporation, Debtor, appointed Trustee of said corporation by the District Court of the United States for the Northern District of Illinois, Eastern Division, in proceedings entitled "In the Matter of Commonwealth Light

& Power Corporation, a corporation, Debtor; Inland Power & Light Corporation, a corporation, Debtor, consolidated proceedings for the reorganization of certain corporations, No. 32029," having filed a declaration and amendments thereto pursuant to Section 12 (d) of the Public Utility Holding Company Act of 1935 and Rule U-12D-1 promulgated thereunder, and Michigan Public Service Company, a subsidiary of the trust estate, having filed an application and amendments thereto pursuant to Section 6 (b), and a declaration pursuant to Section 7, of the Act as to the following:

The sale by Leonard S. Floresheim, Trustee of Inland Power & Light Corporation, Debtor, to underwriters for distribution to the public for the consideration of \$1,045,134.24, of all of the outstanding shares of common stock of Michigan Public Service Company consisting of \$5,000 shares without par value, which shares are owned beneficially by said trustee;

The surrender by Leonard S. Floresheim, Trustee of Inland Power & Light Corporation, Debtor, to Michigan Public Service Company of \$620,134.24 in principal amount of 8½% Promissory Demand Notes of Michigan Public Service Company held by Leonard S. Floresheim, Trustee of Inland Power & Light Corporation, Debtor, among the free assets of the trust estate, to said company for cancellation as contribution to its capital;

The issuance and sale by Michigan Public Service Company to underwriters for distribution to the public of \$3,500,000 principal amount of First Mortgage Bonds due October 1, 1968 and \$750,000 principal amount of 4% Serial Debentures maturing in the amount of \$75,000 each year over a period of ten years, the proceeds to be applied to the redemption of \$3,943,000 principal amount of outstanding First Mortgage 5% Gold Bonds, Series A, due April 1, 1968 and to reimburse in part its treasury for additions and extensions to its plant and properties;

The issuance by Michigan Public Service Company of up to 7,321 shares of a new issue of preferred stock (6% Series of 1940) which series will not as is the case with the present 7% and 8% Series be redeemable December 31, 1960, for the purpose of offering such shares in exchange for 1,308 shares of 7% preferred and 6,013 shares of 6% preferred, being the totals respectively of such shares issued and outstanding, the basis of such exchange to be one share of new 4% preferred plus \$7 in cash for each share of said 7% series and one share of new 6% preferred for each share of said 8% series;

The amendment by Michigan Public Service Company of its articles of incorporation so as to cancel authorized unissued shares of preferred stock, 7% series, 8½% series (the shares of which are now outstanding) and 6% series; to create a new series of preferred stock, designated

6% series of 1940, of the par value of \$100 per share, and consisting of 25,000 authorized shares, which series, as mentioned above, will not contain a provision for mandatory redemption on December 31, 1956, as is the case with the present 6% and 7% series; and to provide that no holder of common stock of Michigan Public Service Company shall be entitled, as such, as a matter of right, to subscribe for or purchase any shares of the new preferred stock which may be issued in exchange for outstanding shares of Michigan's preferred stock, 7% or 8% series;

The releasing by Leonard S. Floresheim, Trustee of Inland Power & Light Corporation, Debtor, as holder of all of the outstanding shares of common stock, contemporaneously with the sale of such common stock, by a written agreement, from the preemptive right of subscription now appertaining to said outstanding shares of common stock of Michigan Public Service Company, any and all shares now or hereafter authorized, of common stock and of preferred stock of any series which may hereafter be issued and sold by said company for the purpose of providing funds for the purchase by it of the properties of one or more other public utility corporations, or for the retirement or discharge of any outstanding securities of any character of said company;

The payment by Michigan Public Service Company as part of the above program by means of the increased cash position resulting from such refinancing and the cancellation of the demand notes, of the cumulative preferred dividends now in arrears on the 7% and 6% preferred stock of Michigan Public Service Company and its \$6 Junior Preferred Stock in the aggregate amount of \$136,110.28;

A public hearing having been duly held in this matter after appropriate notice, the Commission having examined the record in this matter and having filed its findings and opinion herein;

It is ordered, That the declaration of Leonard S. Floresheim, Trustee of Inland Power & Light Corporation, Debtor, under section 12 (d) of the Act and Rule U-12D-1 promulgated thereunder, as to the sale of the common stock and the surrender of the promissory notes be and become effective forthwith.

It is further ordered, That the application of Michigan Public Service Company pursuant to section 8 (b) of the Act as to the issue and sale of its bonds and debentures and the issue of its new preferred stock for the purpose of exchange be and the same is hereby approved;

It is further ordered, That the declaration of Michigan Public Service Company pursuant to section 7 of the Act as to the amendment of its articles of incorporation as set forth above and the change of the preemptive right of subscription now appertaining to its outstanding shares of common stock by the written consent and release to be ex-

caused by the holders of all of the outstanding shares of common stock be and become effective forthwith; and

It is further ordered, That the above application and declarations are respectively granted and permitted to become effective, subject, however, to the terms and conditions prescribed in Rule U-9 promulgated under said Act and the following conditions:

(1) That to fill the three vacancies that will exist on the Board of Directors of Michigan Public Service Company for which no selections have as yet been made, as set forth in the statement of the underwriters in testimony presented in these proceedings, three members of the board of seven directors as now constituted shall be named to serve on the Board by a Judge of the District Court of the United States for the Northern District of Illinois, Eastern Division, in the proceedings entitled "In the Matter of Commonwealth Light & Power Corporation, a corporation, Debtor; Inland Power & Light Corporation, a corporation, Debtor, Consolidated Proceedings for the Reorganization of Certain Corporations, No. 32026," on or before October twenty-first, 1940.

(2) That when all expenses incurred in connection with the issue and sale of said bonds and debentures shall have been actually paid Leonard S. Florsheim, Trustee of Inland Power & Light Corporation, Debtor and the Michigan Public Service Company shall file with this Commission a detailed statement of such expenses showing the names of persons or entities to whom such payments may be made, the amount of such payments, the accounts charged and a detailed description of the services rendered in connection with the above transactions.

By the Commission.

(SRA) FRANCIS P. BRANSON,
Secretary.

[F. R. Doc. 40-4417; Filed, October 10, 1940;
11:34 a. m.]

IN THE MATTER OF JOHN O'BRIEN, DOING
BUSINESS AS JOHN O'BRIEN & COMPANY,
90 STATE STREET, ALBANY, NEW YORK

ORDER FOR PROCEEDINGS AND NOTICE OF
HEARING ON THE QUESTION OF REVOCATION
AND SUSPENSION OF REGISTRATION PUR-
SUANT TO SECTION 15 (b) OF THE SECURITIES
EXCHANGE ACT OF 1934

At a regular session of the Securities
and Exchange Commission held at its
office in the City of Washington, D. C., on
the 16th day of October 1940.

I

The Commission's public official files
disclose that:

John O'Brien, doing business as John
O'Brien & Company, a sole proprietor-
ship, is registered as an over-the-counter
broker and dealer pursuant to Section 15
of the Securities Exchange Act of 1934.

II

Members of its staff having reported to
the Commission information obtained as
a result of an investigation of said regis-
trant which tends to show that:

A

Said registrant was convicted on or
about January 15, 1940, of a felony arising
out of the conduct of the business of
a broker and dealer.

B

Said registrant was, on or about Sep-
tember 13, 1940, permanently enjoined
by order of the Supreme Court in and
for the City and County of Albany, New
York, from engaging in and continuing
certain conduct and practices in connection
with the purchase and sale of securi-
ties within and from the State of
New York.

III

The Commission having considered
such information, deems it necessary and
appropriate in the public interest and
for the protection of investors that pro-
ceedings be instituted to determine:

(a) Whether the statements set forth
in Subparagraphs A and B of Paragraph
II hereof are true;

(b) Whether it is in the public interest
to revoke or suspend the registration of
said registrant under Section 15 (b) of
the Securities Exchange Act of 1934.

It is ordered, That proceedings be held
to determine whether the registration of
John O'Brien, doing business as John
O'Brien & Company, a sole proprietor-
ship, should be revoked or suspended,
pursuant to the provisions of Section
15 (b) of the Securities Exchange Act of
1934.

It is further ordered, That a hearing
for the purpose of taking testimony be
held at 10:00 A. M. on November 19, 1940,
at the New York Regional Office of the
Securities and Exchange Commission, 120
Broadway, New York, New York, and that
said hearing be continued at such other
time and place as the Commission or
officer conducting said hearing may de-
termine; that for the purpose of said
hearing Adrian C. Humphreys be and he
is hereby designated as the officer of the
Commission and, pursuant to Section
21 (b) of the Securities Exchange Act
of 1934 said officer is hereby authorized to
administer oaths and affirmations, sub-
poena witnesses and compel their at-
tendance, take evidence, require the pro-
duction of books, papers, correspondence,
memoranda and any and all other re-
cords deemed relevant or material to the
matters in issue at said hearing, and to
perform all other duties in connection
therewith as authorized by law.

It is further ordered, That this order
and notice be served on said registrant
personally or by registered mail not less
than seven (7) days prior to the time of
hearing, or in the event of failure to

serve the registrant personally or by
registered mail that this order and notice
be published in the FEDERAL REGISTER in
the manner prescribed by the Federal
Register Act.

Upon the completion of the taking of
testimony in this matter, the officer con-
ducting said hearing is directed to con-
clude said hearing, make his report to the
Commission and transmit same with a
record of this hearing to the Com-
mission.

By the Commission.

(SRA) FRANCIS P. BRANSON,
Secretary.

[F. R. Doc. 40-4418; Filed, October 11, 1940;
11:35 a. m.]

[File Nos. 70-150, 70-151]

IN THE MATTER OF FLORIDA PUBLIC SERVICE
COMPANY, GEORGIA POWER AND LIGHT
COMPANY

ORDER GRANTING EXEMPTION

At a regular session of the Securities
and Exchange Commission held at its
office in the City of Washington, D. C., on
the 17th day of October, A. D. 1940.

Florida Public Service Company, an
operating public utility subsidiary in the
Associated Gas and Electric Company sys-
tem, having filed an application pur-
suant to section 9 (c) (3) of the Public
Utility Holding Company Act of 1935
seeking an exemption from the provi-
sions of section 9 (a) (1) of said Act for
the acquisition from dealers of customers'
installment paper in an aggregate prin-
cipal amount not to exceed \$175,000.

Georgia Power and Light Company, an
associate company of Florida Public
Service Company and accordingly an
operating public utility subsidiary in the
Associated Gas and Electric Company
system, having filed an application pur-
suant to section 9 (c) (3) of the Act seek-
ing an exemption from the provisions of
section 9 (a) (1) of said Act for the ac-
quisition from dealers of customers' in-
stallment paper in an aggregate principal
amount not to exceed \$50,000;

A consolidated hearing on said ap-
plications having been duly held after ap-
propriate notice; the record having been
examined; and the Commission having
made and filed its findings herein;

It is ordered, That the exemptions
from the provisions of section 9 (a) (1)
of the Public Utility Holding Company
Act of 1935 sought by said applications
as amended, be, and the same hereby
are granted, subject, however, to the fol-
lowing conditions:

1. That the acquisition for which ex-
emptions are hereby granted shall be
made in compliance with the terms and
conditions of, and for the purposes
represented by, said applications as
amended;

18 F.R. 3823

That the Commission reserve jurisdiction, after notice and opportunity for hearing, to revoke or modify this order insofar as it appears that further acquisitions of securities thereto would be inconsistent with any provisions of the Public Utility Holding Company Act of 1935, or any regulation thereunder, or any other conditions of this order, or if it shall appear that further exercise of the exemptions hereby granted will be detrimental to the public interest or the interests of investors or consumers. Pending final determination respecting the revocation or modification of this order, the Commission may summarily suspend the exemptions hereby granted.

By the Commission.

(SAL.) FRANCIS P. BRASSON,
Secretary.

(P. R. Doc. 46-3413, Filed, October 18, 1940;
11:34 a. m.)

(File No. 70-178)

IN THE MATTER OF PUBLIC SERVICE COM-
PANY OF OKLAHOMA AND SOUTHWESTERN
LIGHT & POWER COMPANY

WHICH BEARING FILING SUBJECT TO
RULE D-8

At a regular session of the Securities and Exchange Commission held at its office in the City of Washington, D. C., on the 18th day of October, A. D. 1940.

Notice is hereby given that a declaration and application have been filed with the Commission pursuant to the Public Utility Holding Company Act of 1935 by the above named parties; and

Notice is further given that any interested person may, not later than November 4, 1940, at 4:30 P. M., E. S. T., request the Commission in writing that a hearing be held on such matter, stating the reasons for such request and the nature of his interest, or may request that he be notified if the Commission should order a hearing thereon. At any time thereafter such declaration and application, as filed or as amended, may become effective or may be granted as provided in Rule D-8 of the Rules and Regulations promulgated pursuant to said Act. Any such request should be addressed: Secretary, Securities and Exchange Commission, Washington, D. C.;

All interested persons are referred to said declaration and application which are on file in the office of said Commission for a statement of the transactions herein proposed, which are summarized below:

Southwestern Light & Power Company (hereinafter referred to as "Southwestern") proposes to dissolve and to transfer and convey to its parent, Public Service Company of Oklahoma (hereinafter referred to as "Oklahoma"), a subsidiary of The Middle West Corporation, a registered holding company, in liquidation of all shares of the capital stock of Southwestern then owned by Oklahoma, all the utility assets and other assets of every kind and nature of Southwestern and Oklahoma proposes to acquire all such assets. For the purpose of effecting this principal transaction, Oklahoma proposes:

(a) to assume the due and punctual payment of the principal of and the interest on \$6,750,000 principal amount of First Mortgage Bonds, Series A, 3½%, due December 1, 1939, of Southwestern, in accordance with the provisions of Section 1 of Article XIV of the Indenture dated December 1, 1939, executed by Southwestern to City National Bank and Trust Company of Chicago and Arthur T. Leonard, as Trustees, under which Indenture said bonds are outstanding, provided, however, that in case the redemption and retirement of all said bonds of Southwestern should be provided for through a refunding operation consummated on or about the date of the acquisition by Oklahoma of the assets of Southwestern, then no such assumption with respect to said bonds of Southwestern shall be made by Oklahoma;

(b) to acquire from The Middle West Corporation 10,657 shares of \$6 Preferred Stock of Southwestern now owned by The Middle West Corporation and to issue and deliver in exchange therefor 10,657 shares of Five Per Cent Prior Lien Stock of Oklahoma of the par value of \$100 per share, provided, however, that in case the redemption and retirement of substantially all outstanding Seven Per Cent Prior Lien Stock and Six Per Cent Prior Lien Stock of Oklahoma should be provided for through a refunding operation consummated on or about the date of the acquisition by Oklahoma of the assets of Southwestern, then the 10,657 shares to be issued and delivered by Oklahoma to The Middle West Corporation shall be shares of the same class, series and dividend rate as are publicly offered by Oklahoma to accomplish the refunding of the shares of its Seven Per Cent Prior Lien Stock and Six Per Cent Prior Lien Stock now outstanding;

(c) to pay to the holders of all outstanding publicly held shares of the capital stock of Southwestern (exclusive of

shares of Southwestern now owned by Oklahoma or to be acquired by Oklahoma in exchange, as stated in the next preceding paragraph hereof), upon the surrender by such holders to Southwestern for cancellation and retirement by it of the shares of Southwestern owned by such holders, the following amounts:

1. For 25,896 shares of the \$6 Preferred Stock of Southwestern, \$100 per share and accrued and unpaid dividends thereon to the date of liquidation of Southwestern;

2. For 423 shares of Class A Common Stock of Southwestern, \$100 per share and accrued and unpaid dividends thereon to the date of liquidation of Southwestern; and

3. For 163 shares of the Common Stock of Southwestern, \$21 per share.

(d) to issue and deliver to the holders of the 25,896 publicly held shares of the \$6 Preferred Stock of Southwestern such number of shares of Five Per Cent Prior Lien Stock of Oklahoma of the par value of \$100 per share (not exceeding 25,896 shares) as may be subscribed for by the holders of the \$6 Preferred Stock of Southwestern at a price of \$100 per share and accrued dividends, each share of \$6 Preferred Stock of Southwestern entitling the holder thereof to subscribe for one share of Five Per Cent Prior Lien Stock of Oklahoma; provided, however, that in case the redemption and retirement of substantially all the outstanding Seven Per Cent Prior Lien Stock and Six Per Cent Prior Lien Stock of Oklahoma should be provided for through a refunding operation consummated on or about the date of the acquisition by Oklahoma of the assets of Southwestern, then the shares to be offered by Oklahoma for purchase by the holders of the publicly held shares of the \$6 Preferred Stock of Southwestern shall be shares of the same class, series and dividend rate as are publicly offered by Oklahoma to accomplish the refunding of the shares of its Seven Per Cent Prior Lien Stock and Six Per Cent Prior Lien Stock now outstanding.

Southwestern proposes to retire all outstanding shares of all classes of its capital stock, in accordance with the provisions of the foregoing, and to dissolve as promptly as may be after the transfer and conveyance to Oklahoma by Southwestern of all the assets of Southwestern in final liquidation of the latter.

By the Commission.

(SAL.) FRANCIS P. BRASSON,
Secretary.

(P. R. Doc. 46-3413, Filed, October 18, 1940;
11:34 a. m.)

FEDERAL REGISTER

THE NATIONAL ARCHIVES
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1934

VOLUME 5 NUMBER 305

Washington, Saturday, October 19, 1940

Rules, Regulations, Orders

TITLE 19—CUSTOMS DUTIES CHAPTER I—BUREAU OF CUSTOMS (T. D. 50248) AIRPORT OF ENTRY

BUFFALO LAUNCH CLUB SEAPLANE BASE, BUFFALO, NEW YORK, DESIGNATED AS AN AIRPORT OF ENTRY FOR A PERIOD OF ONE YEAR¹

OCTOBER 16, 1940.

The Buffalo Launch Club Seaplane Base, Buffalo, New York, is hereby designated as an airport of entry for civil aircraft and merchandise carried thereon arriving from places outside the United States, as defined in section 2 (b) of the Air Commerce Act of 1926 (U.S.C. title 49, sec. 179 (b)), for a period of one year from the date of this order. (Sec. 7 (b), 44 Stat. 572; 49 U.S.C. 177 (b).)

[SEAL] HERBERT E. GANTON,
Acting Secretary of the Treasury.

[P. R. Doc. 40-4407; Filed, October 17, 1940; 4:10 p. m.]

§ 225.06 *Transitional provision.* Notwithstanding any other provisions of these regulations, each registration period begun subsequent to October 17, 1940, and prior to November 1, 1940, shall end on whichever is the earliest of (a) the fourteenth day after such period began, (b) the last day for which the employee registers prior to or at the time he secures his first authorization, on or after November 1, 1940, to change his place of registration, or (c) the last day prior to the first day on or after November 1, 1940, for which he registers with an unemployment claims agent other than the one, or the alternate or successor of the one, with whom he last registered on or prior to October 31, 1940. There shall not be considered as a day of unemployment in any "half-month" any day subsequent to the end of a registration period begun subsequent to October 17, 1940, and prior to November 1, 1940. (B. O. 40-585, dated October 10, 1940)

By Authority of the Board.
[SEAL] JOHN C. DAVIDSON,
Secretary.

Dated October 17, 1940.

[P. R. Doc. 40-4408; Filed, October 18, 1940; 9:53 a. m.]

TITLE 20—EMPLOYEES' BENEFITS CHAPTER II—RAILROAD RETIREMENT BOARD

PART 225—REGISTRATION AND CLAIMS FOR BENEFITS REGULATIONS UNDER THE RAILROAD UNEMPLOYMENT INSURANCE ACT

Pursuant to the authority contained in section 12 of the Act of June 25, 1938 (52 Stat. 1094, 1107; 45 U.S.C. Sup. IV, 362) as amended by the Act of June 20, 1939 (53 Stat. 845; Public No. 141, 76th Congress, First Session), the Railroad Retirement Board amends Part 225 of the Regulations under the Railroad Unemployment Insurance Act by inserting therein, as § 225.06, the following:

¹ This document affects the tabulation in is OPA 413.
² P. R. 3111.

TITLE 30—MINERAL RESOURCES CHAPTER III—BITUMINOUS COAL DIVISION

PART 335—MINIMUM PRICE SCHEDULE DISTRICT NO. 15

MINIMUM PRICES F. O. B. MINE FOR COAL SHIPPED BY RAIL TO MARKET AREA NO. 304—EASTERN NEBRASKA

Correction

On page 3386 of the FEDERAL REGISTER for Wednesday, August 23, 1940, the first group of leader lines numbered 1 through 11 under the column headed "Prod. group No." should be moved up on line so that figure 1 is opposite figure 245, figure 2 is opposite figure 230, etc.

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FEDERAL REGISTER

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TITLE 36—PARKS AND FORESTS

CHAPTER I—NATIONAL PARK SERVICE

PART 2—NATIONAL PARK REGULATIONS ARTICLE 12 OF THE PARK REGULATIONS AMENDED

Article 12 of the Park Regulations promulgated to facilitate the administration of the park system of the District of Columbia and approved June 16, 1927, by the President of the United States, is hereby amended by the addition of the following new section:

§ 3.11. Traffic and motor vehicle regulations: horses; penalties.

(V) The speed limits prescribed by Section 22 (c) of the Traffic and Motor Vehicle Regulations for the District of Columbia shall not apply to vehicles operated on the Rock Creek and Potomac Parkway nor any highway in Rock Creek

Park and the East and West Potomac Parks. [Sec. 136]

HAROLD L. ICKES,
Secretary of the Interior.

THE WHITE HOUSE,
October 7, 1940.

Approved:

FRANKLIN D. ROOSEVELT

[F. R. Doc. 40-4412; Filed, October 18, 1940;
10:12 a. m.]

TITLE 47—TELECOMMUNICATION

CHAPTER I—FEDERAL COMMUNICATIONS COMMISSION

PART 4—RULES GOVERNING BROADCAST SERVICES OTHER THAN STANDARD BROADCAST

INTERNATIONAL BROADCAST STATIONS

The Commission on October 15, 1940, effective immediately, added paragraphs (f) (1), (2), and (3), to § 4.43, to read as follows:

§ 4.43. Service; commercial or sponsored programs.

(f) (1) Each licensee of an international broadcast station shall make verbatim mechanical records of all international programs transmitted.

(2) The mechanical records, and such manuscripts, transcripts, and translations of international broadcast programs as are made shall be kept by the licensee for a period of two years after the date of broadcast and shall be furnished the Commission or be available for inspection by representatives of the Commission upon request.

(3) If the broadcast is in a language other than English the licensee shall furnish to the Commission upon request such record and scripts together with complete translations in English. (Sec. 4 (i), 48 Stat. 1066; 47 U.S.C. 154 (i)—Sec. 303 (j), 48 Stat. 1082; 47 U.S.C. 303 (j)) (Sec. 42.03, F.C.C., May 23, 1939, 4 P.R. 2189)

By the Commission,

[REAL]

T. J. SLOWIE,
Secretary.

[F. R. Doc. 40-4419; Filed, October 18, 1940;
11:51 a. m.]

Notices

DEPARTMENT OF THE INTERIOR

Bituminous Coal Division.

[Docket No. A-87]

PETITION OF DISTRICT BOARD 12 FOR THE ESTABLISHMENT OF PRICE CLASSIFICATIONS AND MINIMUM PRICES FOR THE COALS OF CERTAIN MINES NOT HERETOFORE CLASSIFIED AND PRICED

NOTICE OF AND ORDER FOR HEARING AND GRANTING TEMPORARY RELIEF

An original petition, pursuant to section 4 II (d) of the Bituminous Coal Act

of 1937, having been duly filed with this Division by the above-named party:

It is ordered, That a hearing in the above-entitled matter under the applicable provisions of said Act and the rules of the Division be held on October 23, 1940, at 10 o'clock in the forenoon of that day, at a hearing room of the Bituminous Coal Division, 734 Fifteenth Street, N.W., Washington, D. C. On such day the Chief of the Records Section in Room 502 will advise as to the room in which such hearing will be held.

It is further ordered, That Charles E. Mitchell or any other officer or officers of the Division duly designated for that purpose shall preside at the hearing in such matter. The officers so designated to preside at such hearing are hereby authorized to conduct said hearing, administer oaths and affirmations, examine witnesses, compel their attendance, take evidence, require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, to continue said hearing from time to time, and to prepare and submit to the Director proposed findings of fact and conclusions and the recommendation of an appropriate order in the premises, and to perform all other duties in connection therewith authorized by law.

Notice of such hearing is hereby given to all parties herein and to persons or entities having an interest in these proceedings and eligible to become a party herein. Any person desiring to be admitted as a party to this proceeding may file a petition of intervention in accordance with the rules and regulations of the Bituminous Coal Division for proceedings instituted pursuant to section 4 II (d) of the Act, setting forth the facts on the basis of which the relief in the original petition is supported or opposed or on the basis of which other relief is sought. Such petitions of intervention shall be filed with the Bituminous Coal Division on or before October 25, 1940.

The matter concerned herewith is in regard to the establishment of effective minimum prices for the coals of certain mines, hereinafter referred to, located in District 12 for which coal price classifications and minimum prices have not heretofore been established.

All persons are hereby notified that the hearing in the above-entitled matter and any orders therein may concern, in addition to the matters specifically alleged in the petition, other matters necessarily incidental and related thereto, which may be raised by amendment of the original petition, petitions of intervenors, or otherwise, or which may be necessary corroborative to the relief, if any, granted on the basis of said original petition.

It is further ordered, That, a reasonable showing of the necessity therefor having been made, pending final disposition of the petition in the above-entitled matter, temporary relief be, and it hereby is, granted as follows: Commencing

herewith (the essay referred to in the
minutes hereto annexed, marked "Tem-
porary Schedule A" and made part
hereof, shall be subject to minimum
rent as provided in said Temporary
Schedule A.

Notice is hereby given that application to stay, terminate or modify the temporary relief herein granted may be

filed pursuant to the rules and regulations governing practice and procedure before the Bituminous Coal Division and proceedings instituted pursuant to section 4 II (d) of the Bituminous Coal Act of 1937.

Dated, October 12, 1940.

(REAL)

H. A. Gray.

Director.

TEMPORARY SCHEDULE A¹

Temporary Effective Minimum Prices for District No. 12 for Truck Shipments
(Prices in Cents Per Net Ton for Shipment Into All Market Areas)

Coal inventory index	Miles inc.	Ore inc.	County	Chest									
				Standard, lump		Est. 5 1/2" x 8 1/2" x 1 1/2"		Small, 1/2" x 1 1/2" x 1 1/2"		Misc. run		S. 1 1/2" x 1 1/2" x 1 1/2"	
				1	2	3	4	5	6	7	8	9	10
Am. Coal & Mining Company	529	21	Jaeger	350	310	100	290	390	280				
Am. Coal Co. (Raymond H. Baker)	470	21	Marion	345	325	120	315	340	290	340	240	240	100
Am. Coal Co. (John H. Barnett)	528	21	Appomattox	255	275	365	375	375	375	340	190	240	100
Am. Coal Co. (John H. Barnett)	531	19	Marion	350	360	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	532	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	533	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	534	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	535	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	536	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	537	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	538	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	539	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	540	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	541	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	542	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	543	19	Appomattox	255	275	365	375	375	375	340	190	240	100
Am. Coal Co. (John H. Barnett)	544	19	Marion	350	360	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	545	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	546	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	547	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	548	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	549	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	550	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	551	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	552	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	553	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	554	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	555	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	556	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	557	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	558	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	559	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	560	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	561	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	562	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	563	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	564	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	565	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	566	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	567	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	568	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	569	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	570	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	571	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	572	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	573	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	574	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	575	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	576	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	577	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	578	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	579	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	580	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	581	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	582	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	583	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	584	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	585	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	586	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	587	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	588	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	589	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	590	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	591	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	592	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	593	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	594	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	595	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	596	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	597	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	598	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	599	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	600	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	601	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	602	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	603	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	604	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	605	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	606	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	607	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	608	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	609	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	610	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	611	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	612	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	613	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	614	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	615	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	616	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	617	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	618	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	619	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	620	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	621	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	622	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	623	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	624	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	625	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	626	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	627	19	Marion	370	380	100	340	390	320	320	250	240	100
Am. Coal Co. (John H. Barnett)	628	19	Marion	370	380</								

[P. R. Doc. 40-4387, Filed, October 15, 1940, 4:01 p. m.]

(Docket Nos. A-92, A-39)

PETITION OF THE GUYANA EAGLE COAL COMPANY, A CODE MEMBER IN DISTRICT NO. 8, FOR A REDUCTION OF THE EFFECTIVE MINIMUM PRICES IN SIZE GROUPS 18 TO 24, INCLUSIVE; PETITION OF THE BURNFORD CHILTON COAL COMPANY, A CODE MEMBER IN DISTRICT NO. 8, FOR A REDUCTION OF THE EFFECTIVE MINIMUM

The material in this Temporary Schedule is to be read in the light of the classification, instructions, exceptions, and provisions contained in Price Schedule No. 1 for this District and supplemental

PRICES IN SIZE GROUPS 1 TO 4, INCLUSIVE, AND 10 TO 21, INCLUSIVE

MEMORANDUM OPINION AND ORDER

The original petition in Docket No. A-33 prays for the issuance of temporary and final orders changing the price classifications for petitioner's Guyana No. 1 Mine (Mine Index No. 226) in size groups 18 to 21, inclusive, from "T" to "H".

The original petition in Docket No. A-33 prays for the issuance of temporary and final orders changing the price classifications for petitioner's Buffalo No. 1 Mine (Mine Index No. 76) in size groups

1 to 4, inclusive, from "Q" to "R" and in
size groups 18 to 21, inclusive, from "E"
to "G".

The Bituminous Coal Producers Board for District No. 7 and the Island Creek Coal Company, a Code Member with mines in District No. 8, have intervened in opposition to the original petition.

On October 4, 1940, an informal conference concerning the matter of temporary relief in the above-entitled matter, was held by this Division, pursuant to § 301.106 (d) of the Rules and Regulations Governing Practice and Procedure Before the Bituminous Coal Division in Proceedings Instituted Pursuant to section 4 if (d) of the Bituminous Coal Act of 1937 (the "Rules"). The conference was held upon telegraphic notice, sent on October 1, 1940, to District Board 8, to the Statistical Bureau for that district, the Consumers' Council and the petitioners. The District Board was instructed to notify interested Code Members of the conference and the Statistical Bureau was instructed to post conspicuously the notice of the conference.

Represented at the conference were the original petitioners, District Board 8; District Board 7; and Island Creek Coal Company.

District Board 7 moved that the original petitions be dismissed on the ground that they failed to comply with § 301.102 (b) (1) (i) and § 301.102 (b) (1) (ii) of the Rules. The Island Creek Coal Company filed similar motions.

At the informal conference, the petitioner, Buffalo Chilton Coal Company, did not press its request for temporary relief relative to size groups 1 to 4, inclusive. Both petitioners, however, contended that they could not continue in business if the temporary relief requested relative to size groups 18 to 21, inclusive, were denied; that in the event temporary orders changing the price classifications, as requested, in size groups 18 to 21, inclusive, were entered, petitioners would not thereby enjoy any business other than that which they heretofore had and that their coal was generally inferior analytically to other coals having similar classifications. Subsequent to the in-

changes would not prejudice other Code Members in District 8 or otherwise.

While it does not clearly appear how many producers would be affected by the granting of the temporary relief requested by the original petitioners, there is reason to believe that a considerable number of producers would be adversely affected thereby. Moreover, the issues involved are highly controversial and the defects in the petitions have probably resulted in a failure to show fully the situations involved. The Director is therefore of the opinion that decision on the matter of temporary relief should be deferred until the facts are more fully developed. The matter of temporary and final relief will be set for an early formal hearing. The Director reserves jurisdiction to further consider the prayers for temporary relief on the basis of the record to be made therein.

The motions of District Board 7 and the Island Creek Coal Company to dismiss the original petitions herein should be denied. In the event that the petitioners should fail to serve and file amended petitions within seven (7) days from the date hereof, setting forth with particularity the information required by §§ 301.102 (b) (1) (i) and 301.102 (b) (1) (ii) of the Rules, District Board 7 or the Island Creek Coal Company may renew their motions to dismiss the original petitions herein.

Accordingly it is so ordered.

Dated, October 16, 1940.

[SEAL] H. A. GRAY,
Director.

[F. R. Doc. 20-4400. Filed, October 17, 1940.
3:48 P. M.]

[DOCKET NOS. 8-17, 8-32, A-71]

PETITION OF DISTRICT BOARD 16 FOR REDUCTION IN THE EFFECTIVE MINIMUM PRICES APPLICABLE TO THE MOORE STRIP MINE, FOR REDUCTION IN EFFECTIVE MINIMUM PRICES FOR SHIPMENTS OF COAL BY TRUCK TO AN INDUSTRIAL OR PUBLIC UTILITY PLANT WHICH HAS RAILROAD FACILITIES FOR RECEIVING COAL, FOR MODIFICATION OF PRICE INSTRUCTION AND EXCEPTION 5 IN THE EFFECTIVE MINIMUM PRICE SCHEDULES FOR DISTRICT 16, AND FOR MODIFICATION OF SECTION V, RULE 4, AND SECTION VI, RULE 3 OF THE MARKETING RULES AND REGULATIONS; PETITION OF DISTRICT BOARD 16 FOR THE ESTABLISHMENT OF PRICE CLASSIFICATIONS AND MINIMUM PRICES FOR THE COALS OF CERTAIN MINES NOT HERETOFORE CLASSIFIED AND PRICED; PETITION OF DISTRICT BOARD 16 FOR AMENDMENT OF SECTION XI, RULE 1, PARAGRAPH P OF THE MARKETING RULES AND REGULATIONS

NOTICE OF AND ORDER FOR HEARING AND ORDER GRANTING, IN PART, TEMPORARY RELIEF

Original petitions, pursuant to section 4 II (d) of the Bituminous Coal Act of

1937, having been duly filed with this Division by the above-named party;

It is ordered, That hearings in the above-entitled matters under the applicable provisions of said Act and the rules of the Division be held on November 12, 1940, at 10 o'clock in the forenoon of that day, at a hearing room of the Bituminous Coal Division, 734 Fifteenth Street NW, Washington, D. C. On such day the Chief of the Records Section in Room 502 will advise as to the room in which such hearing will be held.

It is further ordered, That W. A. Shipman or any other officer or officers of the Division duly designated for that purpose shall preside at the hearings in such matters. The officers so designated to preside at such hearings are hereby authorized to conduct said hearings, to administer oaths and affirmations, examine witnesses, compel their attendance, take evidence, require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiries, to continue said hearings from time to time, and to prepare and submit to the Director proposed findings of fact and conclusions and the recommendation of an appropriate order in the premises, and to perform all other duties in connection therewith authorized by law.

Notice of such hearings is hereby given to all parties herein and to persons or entities having an interest in these proceedings and eligible to become a party herein. Any person desiring to be admitted as a party to these proceedings may file a petition of intervention in accordance with the rules and regulations of the Bituminous Coal Division for proceedings instituted pursuant to section 4 II (d) of the Act, setting forth the facts on the basis of which the relief in the original petitions is supported or opposed or on the basis of which other relief is sought. Such petitions of intervention shall be filed with the Bituminous Coal Division on or before November 7, 1940.

The matters concerned herewith are in regard to: (1) The matter of reducing the effective minimum prices applicable to the Moore Strip Mine for rail shipment of coal, other than railroad fuel into Market Areas 40-75, 204-211, and 215, in Size Groups 2, 3, and 5. (2) The matter of reducing prices for shipments of coal by truck to an industrial or public utility plant which has railway facilities for receiving coal. (3) The matter of modifying Price Instruction and Exception 5 in the Effective Minimum Price Schedules for District 16. (4) The matter of modifying Section V, Rule 4, and Section VI, Rule 3, of the Marketing Rules and Regulations. (5) The matter of establishing minimum prices for the Washington Mine, the Sudduth Mine, and the O. K. #3 Mine, located in District No. 16. (6) The matter of amending Section XI, Rule 1, Paragraph P of

the Marketing Rules and Regulations to provide that in all sub-districts of District 16, 2½" x 8 slack may be substituted for 1½" x 0 slack without prior approval of the Director on sales made in plants located in Market Areas 217 and 218, which pulverize the coal for use in such plants.

All persons are hereby notified that the hearings in the above-entitled matters and any orders therein, may concern, in addition to the matters specifically alleged in the petition, other matters necessarily incidental and related thereto, which may be raised by amendment of the original petitions, petitions of intervenors or otherwise, or which may be necessary corollaries to the relief, if any, granted on the basis of said original petitions.

It is further ordered, That a reasonable showing of necessity therefor having been made, pending the final disposition of the petitions in the above-entitled proceedings, that temporary relief be and the same hereby is granted to the extent that the Effective Minimum Price Schedule for District No. 16 is amended, as follows:

(1) At page 1 of said Schedule add:

16. Prices on industrial coal, size groups 10-11 and 12 only, may be reduced 25 cents per ton below the applicable prices when delivered by truck direct from the mine to an industrial or to a public utility plant, which has railway facilities for receiving coal at the plant, and which receives coal in carload quantities; Provided, however, that such reduction shall not apply unless the Code member has received a written purchase order from the plant to which the coal is to be delivered; and in every such case a copy of the written purchase order shall be filed with the Statistical Bureau for District 16 promptly after the order is filed.

(2) At page 1 of said Schedule add:

16. In all sub-districts of District 16, 2½" x 8 slack (Size Group 10) may be substituted for 1½" x 0 slack (Size Group 11) on sales made to plants located in Market Areas 217 and 218, which pulverize the coal for use in such plants.

(3) At page 2 of said Schedule add:

The Clayton Coal Company, Washington Mine, Mine Index No. 21, West County, Subdistrict No. 6, prices page 6, Rail, page 8, truck.
Jackson, J. C. Sudduth Mine, Mine Index No. 111, Jackson County, sub-district No. 11, prices page 6, Rail, page 9, truck.

(4) At page 2 of said Schedule add:

Edguff, Ross (O. K. Coal Co.) O. K. #3 Mine, Mine Index No. 135, Boulder County, sub-district No. 7, prices page 6, Rail, page 8, truck.

(b) At page 8 of said Schedule add:

The Clayton Coal Company, Wash-
ington Mine, Weld County, is subject to
the same prices as shown for Subdistrict
No. 2.

Quartz, Jones (O. K. Coal Co.), O. K.
Mine, Boulder County, is subject to
the same prices as shown for Subdistrict
No. 2.

(c) At page 8 of said Schedule add:

Jackson, J. C. Budduth Mine, Jack-
son County, is subject to the same prices
as shown for the Marr Mine in Sub-
district No. 11.

Notice is hereby given, that the appli-
cation to stay, terminate, or modify the
temporary relief herein granted may be
filed pursuant to the Rules and Regula-
tions governing practice and procedure
before the Bituminous Coal Division and
proceedings instituted pursuant to Sec-
tion 411 (d) of the Bituminous Coal Act
of 1937.

Dated: October 17, 1940.

(SAL) H. A. GRAY,
Director.

[F. R. Doc. 40-4413; Filed, October 18, 1940;
10:12 a. m.]

Bureau of Reclamation,

[No. 52]

YUMA IRRIGATION PROJECT

PUBLIC NOTICE OF ANNUAL WATER RENTAL CHARGES

OCTOBER 3, 1940.

1. Announcement is hereby made that,
pending the cancellation of water rights
on lands now delinquent in the payment
of charges due the United States and the
transfer of said water rights to other
lands in private ownership that can be
served from the constructed canal sys-
tem, or minor extensions, on the Orland
project, California, water will be fur-
nished during the irrigation season of
1941 upon approved applications for tem-
porary water service for the irrigation
of such other lands, upon a water rental
basis, at the following rates and terms.

2. The minimum water rental charge
for the lands to be irrigated under the
provisions of this public notice shall be
one dollar and sixty cents (\$1.60) per
irrigable acre, which charge will permit
the delivery of not to exceed three acre
feet of water per acre. Additional water
will be furnished at the rate of forty
cents (\$0.40) per acre foot. The mini-
mum charge defined above will be due
and payable at the time that application
for temporary water service is filed and
no water will be delivered until the mini-
mum charge has been paid in full.
Charges for additional water at the rates
above specified must be paid in advance

of the delivery of additional water and
no advance payments shall be accepted
in sums of less than \$10.00 which would
permit the delivery of 25 acre feet at the
rate specified.

3. All charges for water rental service
are to be paid to the Bureau of Reclama-
tion, Orland, California.

A. J. WITZ,
Under Secretary.

[F. R. Doc. 40-4409; Filed, October 18, 1940;
10:12 a. m.]

[No. 52]

YUMA IRRIGATION PROJECT, ARIZONA VAL- LEY DIVISION

PUBLIC NOTICE OF WATER RIGHTS FOR PRI- VATE LAND ONLY

OCTOBER 3, 1940.

1. Land for which water will be fur-
nished. In pursuance of the act of June
17, 1902 (32 Stat. 398), and acts amendatory
thereof or supplementary thereto,
notice is hereby given that upon proper
water-right application being made
therefor, water will be furnished under
the Valley Division of the Yuma Irriga-
tion Project, Arizona, in the irrigation
season of 1940 and thereafter, for the
following described private lands:

Gila and Salt River Base and Meridian, Arizona

	Irrigable Acreage
T. 9 S., R. 25 W. Section 20, part of S $\frac{1}{2}$ NW $\frac{1}{4}$ SE $\frac{1}{4}$	3.75
T. 9 S., R. 24 W. Section 35, W $\frac{1}{2}$ SW $\frac{1}{4}$ SE $\frac{1}{4}$	20.00
T. 9 S., R. 25 W. Section 3, SE $\frac{1}{4}$ SW $\frac{1}{4}$	33.00
Section 10: SW $\frac{1}{4}$ NE $\frac{1}{4}$	38.00
NW $\frac{1}{4}$ SE $\frac{1}{4}$	40.00
Section 11: S $\frac{1}{2}$ NW $\frac{1}{4}$ NE $\frac{1}{4}$	20.00
South 6 acres NE $\frac{1}{4}$ SW $\frac{1}{4}$	6.00
SE $\frac{1}{4}$ SW $\frac{1}{4}$	34.00
South 6 acres NW $\frac{1}{4}$ SE $\frac{1}{4}$	6.00
SW $\frac{1}{4}$ SE $\frac{1}{4}$	40.00
Section 14: NE $\frac{1}{4}$ NW $\frac{1}{4}$	37.20
SW $\frac{1}{4}$ NW $\frac{1}{4}$	32.00
SE $\frac{1}{4}$ NW $\frac{1}{4}$	32.00
T. 10 S., R. 24 W. Section 13: NE $\frac{1}{4}$ SW $\frac{1}{4}$	13.00
NW $\frac{1}{4}$ SW $\frac{1}{4}$	12.00
Section 14: NE $\frac{1}{4}$ SE $\frac{1}{4}$	12.00
NW $\frac{1}{4}$ SE $\frac{1}{4}$	21.00
Section 31: NE $\frac{1}{4}$ NW $\frac{1}{4}$	37.00
Lot 1.....	39.00
Lot 2.....	22.00
SE $\frac{1}{4}$ NW $\frac{1}{4}$	31.00

Supplemental diagrams showing the
lands described were approved on the
date of this notice and are on file in the
office of the Superintendent at Yuma,
Arizona, and in the local land office at
Phoenix, Arizona.

2. Limit of area for which water right
may be secured. The maximum limit of
area for which water-right application
may be made for lands in private owner-
ship is 160 acres of irrigable land for each
owner.

3. Application for water rights. All
water-right applications must be made
to the Superintendent of the Bureau of
Reclamation, Yuma, Arizona, upon forms
provided for that purpose, and may be
made on or after the date of this notice.

4. Classes of charges for water rights.
The water-right charges are of two kinds,
to-wit: (a) A charge against each irri-
gable acre to cover the cost of construc-
tion of the irrigation system termed the
construction charge; and (b) An annual
charge against each irrigable acre to
cover the cost of operation and main-
tenance of the system, termed the opera-
tion and maintenance charge.

5. Construction charge. The con-
struction charge for the lands described
in paragraph 1 herein shall be One Hun-
dred twenty-three dollars and nine cents
(\$123.09) per irrigable acre, payable as
follows:

(a) For lands that were, prior to Au-
gust 13, 1914, subjected by contract or
otherwise to the provisions of the Reclama-
tion law, one hundred eighteen dollars
and nine cents (\$118.09) per irri-
gable acre shall be paid in ten equal an-
nual installments, the first of which shall
be paid at the time of filing water-right
application, and subsequent installments
shall be due and payable December 1 of
each year thereafter. *Provided, however,*
That if water-right application subject to
the provisions of the Reclamation Exten-
sion Act (38 Stat. 666), or an acceptance
of the provisions of said act, be filed
within six months from the date of this
notice, then and in that event said
charge of one hundred eighteen dollars
and nine cents (\$118.09) per irrigable
acre shall be payable in twenty instal-
ments, the first of which shall become
due and payable on December 1 following
the date of water-right application, and
subsequent installments on December 1 of
each year thereafter; to which event the
first four installments shall be each two
per centum thereof, the next two instal-
ments each four per centum thereof, and
the next fourteen installments each six
per centum thereof.

(b) For the remaining land an initial
payment of five per centum of one hun-
dred eighteen dollars and nine cents
(\$118.09) per irrigable acre shall be made
at the time of filing water-right appli-
cation, and the remainder of said charge
of one hundred eighteen dollars and nine
cents (\$118.09) per irrigable acre shall
be paid in fifteen annual installments,
the first five of which shall each be five
per centum of \$118.09 per irrigable acre,
and the remaining ten installments each
seven per centum thereof. The first of
said fifteen annual installments shall be-
come due and payable December 1 of the
fifth calendar year after the initial in-
stallment and subsequent installments shall
become due and payable on December 1
of each calendar year thereafter.

(c) For all lands covered by this notice,
five dollars (\$5.00) per irrigable acre shall

1. Act of June 17, 1902, 32 Stat. 398, and
amendatory acts supplemental.

be paid as provided in the act of June 5, 1924 (43 Stat. 416), in twelve equal annual installments, the first of which shall be due and payable at the time of filing water-right application, and subsequent installments on December 1 of each year thereafter.

6. *Increased construction charge in certain cases.* In all cases where water-right application for lands in private ownership shall not be made within one year from the date of this notice, the construction charge for such land shall be increased five per centum each year until such application is made and an initial installment is paid.

7. *Operation and maintenance charge.* For the irrigation season of 1940 and thereafter until further notice, the annual operation and maintenance charge shall be the same as for other like lands in the Valley Division under this project. Information on the amount of this charge will be furnished by the Superintendent, Bureau of Reclamation, Yuma, Arizona.

8. *Place and manner of payment of water charges.* All water charges must be paid in currency or by New York draft or money order. Payment of water charges made under the terms of the contract dated February 5, 1931 between the United States and the Yuma County Water Users' Association shall be remitted to Secretary, Yuma County Water Users' Association, Yuma, Arizona, and those not made under the provisions of such contract shall be payable to Agent-Chief, Bureau of Reclamation, Yuma, Arizona.

9. *Exclusion of lands by action of Colorado River.* Every water-right application shall contain the following provisions:

The applicant hereby releases the United States from any and all claims for loss or damages on account of (1) the exclusion of said lands or any part thereof, from the irrigable lands of said project, or (2) the failure to supply water for the irrigation of any part of the lands hereinbefore described when such exclusion or failure is due to (a) the destruction by flood, erosion, encroachment, or other action of the Colorado River, of the levees erected by the Bureau of Reclamation along the banks of said river, or (b) a change in the location of said levees when such change is considered necessary by the proper officials of the United States to prevent the destruction of said levees from the said causes. Land so excluded shall be relieved from payment of all construction and of operation and maintenance charges which otherwise would thereafter become due from the lands so excluded, but construction and operation and maintenance charges theretofore paid on lands so excluded shall be retained by the United States.

10. If an acceptance of the terms of the contract dated February 5, 1931, between the United States and the Yuma County Water Users' Association is filed

within sixty (60) days after filing of water-right application, then repayment of the construction charges shall be in accordance with the terms of such contract.

A. J. Wiers,
Under Secretary.

[F. R. Doc. 50-4810; Filed, October 19, 1940; 19:12 a. m.]

REGULATIONS TO GOVERN ISSUANCE OF RESIDENTIAL LEASES AND ESTABLISHING RENTAL RATES FOR RESERVED LANDS OF THE UNITED STATES IN BOULDER CITY, NEVADA

1. Lands within the exterior boundaries of Boulder City, Nevada, comprise public lands of the United States withdrawn for reclamation purposes pursuant to Section 3 of the Act of June 17, 1902 (32 Stat. 388). Of these lands, those hereinafter described in paragraph 7 of these regulations may be leased for residential purposes at the rates herein established and on the terms and conditions herein provided.

2. Leases shall be for periods of not to exceed fifty-three (53) years. Leases shall be executed in behalf of the United States by the City Manager of Boulder City; and they shall be in accordance with the terms and conditions and in the form approved by the Under Secretary of the Interior on April 10, 1940, as supplemented by his approval on August 10, 1940, and subject to the terms of these regulations, unless otherwise provided by the Secretary of the Interior.

3. No application for a residential lease hereunder shall be approved until the applicant therefor has satisfied the City Manager that (a) he is a citizen of the United States (b) he is a person of good moral character (c) he does not intend to use the area for which the lease is requested for speculative purposes (d) he is financially responsible so as to warrant the belief that, if granted a lease, he will be able to meet all the conditions and obligations of such a lease.

4. If requested by the City Manager, each applicant will furnish a letter, or letters, signed by the applicant, addressed to and authorizing banking and other institutions or persons to supply to the City Manager any information he may require regarding paragraph 3 above. Refusal of an applicant to furnish such authority, or his failure so to do within a period considered reasonable by the City Manager, shall be sufficient reason for rejecting his application.

5. Any existing residential lease which by its terms is to expire on or before June 30, 1941, may in the discretion of the City Manager be renewed or extended for a period of ten years from the date of expiration of, and at the rates established in, such lease; *Provided*, That no existing residential lease shall be renewed or extended if the lessee has failed, or refused, to make such reasonable improvements, alterations, or repairs in and on the build-

ing or buildings on the leased premises as have been requested in writing by the City Manager.

6. Rental rates hereafter established shall not be increased during the life of any lease executed following the date of promulgation and in pursuance of these regulations. The Secretary of the Interior, or his duly authorized representative, however, at the end of any five-year period from the date of promulgation of these regulations, may fix a new rental rate for any of the areas covered hereby.

7. The following lands described by reference to the map entitled "Boulder City, Nevada, Blocks, Lots and Divisions" dated May 1, 1932, #2448, as supplemented, on file in the office of the City Manager, are hereby designated as being available for lease hereunder and rental rates, and minimum construction value limitations therefor are hereby established:

(a) Block 21 and Block 22 contain lots occupied by business structures and some lots suitable for residential sites. The City Manager shall have the lots replatted into lots approximately 34 x 106 feet to facilitate the accurate designation of each as a residential lot. All lots in Block 21 and Block 22 designated by the City Manager as residential sites shall have a monthly rental rate of \$4.00. Each house constructed on residential sites in Block 21 and Block 22 shall have a minimum construction value of \$4,000.

(b) Block 23, Lot 14, shall have a monthly rental rate of \$5.50 and Block 23, Lot 15, shall have a monthly rental rate of \$6.00. Houses erected on either of these two lots shall have a minimum construction value of \$3,000.

(c) Block 24, Lots 13-18, inclusive, and Block 25, Lots 2-9, inclusive, shall have a monthly rental rate of \$5.00; Block 24, Lots 14, 15 and 16, shall have a monthly rental rate of \$4.50; Block 24, Lot 11 and Block 25, Lot 10 shall have a monthly rental rate of \$5.50. Houses erected on lots covered by this subsection shall have a minimum construction value of \$2,800.

(d) In each of Blocks 33, 34, and 35 for Lots 2-33, inclusive, and for Block 36A, Lots 6-27, inclusive, the monthly rental rate shall be \$4.00. Each house erected on such lots shall have a minimum construction value of \$3,000.

In each of Blocks 33, 34, and 35, Lot 1 and 34 shall have a monthly rental rate of \$5.00. Houses erected thereon shall have a minimum construction value of \$5,000.

Block 36A, Lot 1, shall have a monthly rental rate of \$5.00. Any house erected thereon shall have a minimum construction value of \$5,000. Block 36A, Lots 2, 3, 4, 27, 28, 29, and 30, shall be replatted to facilitate the accurate designation of each as a residential lot. The Boulder City Real Estate Board, subsequent to such replating, shall appraise said lots and the City Manager, after the recommendation of the said

C O P Y

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
NE 851.51/2861

STRICTLY CONFIDENTIAL

October 18, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and has the honor to quote below the text of a confidential despatch no. 49 of October 8, 1940 received from the American Diplomatic Agent and Consul General at Tangier.

"I have the honor to report that a specially chartered airplane flew from here to Lisbon on October 5, 1940. It contained three passengers, one of whom, I am told, was a representative of the Bank of France, and baggage containing some 800 kilos of gold, which would be the equivalent of 50,000,000. francs. The passengers are alleged to have brought this sum from the French Zone by train, the gold coming as undeclared baggage. They have now returned to Africa from Lisbon.

"According to my informant, this is believed to be the fifth shipment of gold from the French Zone to Lisbon. The ultimate destination of the gold is not known, but is believed to be the United States."

(Initialed) P.H.A.

dm

C O P Y

DEPARTMENT OF STATE

WASHINGTON

October 18, 1940

My dear Mr. Secretary:

I enclose for your consideration a copy of a note dated October 17, 1940 from the Rumanian Legation, as well as this Department's reply of today's date, in connection with the promulgation of Executive Order No. 8565 of October 10, 1940 by which the provisions of Executive Order No. 8389 of April 10, 1940, as amended, are extended to Rumania and Rumanian nationals.

Sincerely yours,

For the Secretary of State:

(Signed) A. A. Berle

Adolf A. Berle
Assistant Secretary

Enclosures:

1. From Rumanian Legation,
October 17, 1940.
2. To Rumanian Legation.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

dm

C O P Y

ROYAL LEGATION OF ROMANIA

Washington, D. C.

October 17, 1940.

No. 3631/P-3-II-3a

Sir:

With reference to Your Excellency's note of October 12, 1940, transmitting copies of Executive Order No. 8565 of October 10, 1940, I have the honor to inform you that I am instructed by my Government to protest in its behalf against the issuance of the above Executive Order, by which the provisions of Executive Order No. 8389 of April 10, 1940, as amended, are extended to Romania and Romanian nationals.

Considering that Executive Order No. 8565 does not contain any reasons for the measures ordered thereby, the Romanian Government is obliged to interpret it, in view of established precedents and of statements, apparently semi-official, which appeared in the American press on October 11, 1940, as a measure based on the assumption that Romania is an occupied country.

The Romanian Government is unable to admit such an assumption and declares most categorically that Romania is a free and independent country.

The sending of a German military mission accompanied by military units, for the purpose of instructing the Romanian army, had already been negotiated by the previous Romanian Government.

This action on the part of the then Government being found agreeable, the present Government continued these negotiations and is now carrying out the agreement reached. Therefore, and since numerous precedents are in existence, the Romanian Government can in no way concur with the view that the presence in Romania of this mission could be interpreted as a military occupation.

- 2 -

In behalf of my Government, therefore, I have the honor to ask for a reconsideration of the entire matter, leading to the rescinding of Executive Order No. 8565.

Pending the favorable decision of the United States Government on this request, I have the honor to inform you of the urgent character of certain obligations, which my Government has to fulfill out of funds deposited with the Chase National Bank by the National Bank of Romania, and for which I request, on behalf of my Government, that the Treasury be good enough to free immediately the following necessary funds:

(a) Two Million Seven Hundred Thirty Thousand Dollars for the payment of cotton imports from Iran, in fulfillment of an existing contract;

(b) Seven Million Dollars for the import of raw materials from Turkey, in accordance with an agreement signed by the Romanian and Turkish Governments in September 1940.

(c) Four Hundred Thirty-Eight Thousand Dollars for the import of raw materials from Greece, in accordance with contracts now being executed.

(d) Ninety-Five Thousand Dollars for salaries and expenses of Romanian Legations in different countries during the current month.

Accept, Sir, the renewed assurances of my highest consideration.

BRUTUS COSTE,
Romanian Charge d'Affaires a.i.

The Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

dm

C O P Y

October 18, 1940

Sir:

I acknowledge the receipt of your note of October 17, 1940 concerning the promulgation of Executive Order No. 8565 of October 10, 1940 by which the provisions of Executive Order No. 8389 of April 10, 1940, as amended, are extended to Rumania and Rumanian nationals.

In as much as this matter comes within the competence of the Treasury Department, I have today sent to the Secretary of the Treasury for his consideration a copy of your aforementioned note of October 17, 1940.

Accept, Sir, the renewed assurances of my high consideration.

For the Secretary of State:

A. A. Berle, Jr.

Mr. Brutus Coste,

Charge d'Affaires ad interim of Rumania.

CC: IAR:HTH
A-349334

OCT 18 1940

My dear Mr. Secretary:

Reference is made to your letter of October 17, 1940, submitting two questions involving the application of the new amortization provisions of section 302 of the Second Revenue Act of 1940 with respect to subcontractors.

The first question is whether a subcontractor who recovers in whole or in part the cost of its emergency facilities through the price of its product to the prime contractor (and does not recover such cost through any contract directly with the United States) is entitled to certification for five-year amortization of such facilities in accordance with section 124 (f) of the Internal Revenue Code, as added by section 302 of the Second Revenue Act of 1940. It is the opinion of this Department that such a subcontractor (if a corporation) is entitled to such certification to the extent that the construction, reconstruction, erection, installation, or acquisition of such facilities is necessary in the interest of national defense during the emergency period.

The second question is whether clause (2) of section 124 (1) of the Internal Revenue Code, as added by section 302 of the Second Revenue Act of 1940, will apply in any manner to such a subcontractor. It is the opinion of this Department that, if the subcontractor recovers (in the manner described in your letter) an amount greater than normal exhaustion, wear and tear, and if it was recognized by the prime contract that the subcontractor had been or would be paid such amount and the price paid by the United States under the prime contract included such amount, then the reimbursement made to the subcontractor by this indirect method comes within such clause (2). However, if in such case a certification is made that the prime contract adequately protects the United States with reference to the future use and disposition of the emergency facilities, the requirements of such section 124 (1) are satisfied. Similarly, a certification that, under the prime contract, reimbursement for all or part of the cost of any emergency facility is not provided for within the meaning of clause (1) or clause (2) of such section 124 (1)

- 2 -

will be conclusive of the fact that the subcontractor has not been and will not be so reimbursed. This procedure fully protects the subcontractor.

Very truly yours,

/s/ D. W. BELL

Acting Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

HTR/enc 10-18-40

DEPARTMENT OF THE NAVY
Office of the Secretary
Washington

October 17, 1940

Q M/134-1(401017)

My dear Mr. Secretary:

In connection with the airplane procurement program of the Bureau of Aeronautics, this Department stands in great need of immediate clarification of the status of the taxpayer under subsections (f) and (i) of section 202 of the Second Revenue Act of 1940, in cases where such taxpayer is a subcontractor to a taxpayer having a supplies contract with the United States.

Specifically, it is necessary that the Navy Department ascertain, as soon as possible, (1) whether such subcontractor who recovers in whole or in part the cost of his emergency facilities through the price of his product to the prime contractor (and does not recover such cost through any contract directly with the United States) is entitled to certification for five-year amortization of such facilities, in accordance with subsection (f); and (2) whether paragraph (2) of subsection (i) will apply in any manner to such a subcontractor.

If the answer to (1) is in the negative and to (2) in the affirmative, the majority of subcontractors will undoubtedly attempt to obtain their emergency plant facilities by contract with the government rather than by negotiation with prime contractors, thereby delaying, to a serious extent, the procurement program of the Bureau of Aeronautics.

Sincerely yours,

/s/ FRANK KNOX

Secretary of the Navy.

Hon. Henry Morgenthau,
Secretary of the Treasury.

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

QM/LIA-1(401017)

October 17, 1940.

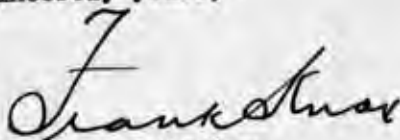
My dear Mr. Secretary:

In connection with the airplane procurement program of the Bureau of Aeronautics, this Department stands in great need of immediate clarification of the status of the taxpayer under subsections (f) and (1) of section 302 of the Second Revenue Act of 1940, in cases where such taxpayer is a subcontractor to a taxpayer having a supplies contract with the United States.

Specifically, it is necessary that the Navy Department ascertain, as soon as possible, (1) whether such subcontractor who recovers in whole or in part the cost of his emergency facilities through the price of his product to the prime contractor (and does not recover such cost through any contract directly with the United States) is entitled to certification for five-year amortization of such facilities, in accordance with subsection (f); and (2) whether paragraph (2) of subsection (1) will apply in any manner to such a subcontractor.

If the answer to (1) is in the negative and to (2) in the affirmative, the majority of subcontractors will undoubtedly attempt to obtain their emergency plant facilities by contract with the government rather than by negotiation with prime contractors, thereby delaying, to a serious extent, the procurement program of the Bureau of Aeronautics.

Sincerely yours,



Secretary of the Navy.

Hon. Henry Morgenthau,
Secretary of the Treasury.

PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Bucharest, Rumania

DATE: October 18, 1940, 6 p.m.

NO.: 349

The following is strictly confidential.

Reference is made to telegram of October 15, 1 p.m.,
No. 605 from the Legation.

The Department refers to your mention of a possible independent decision by the Treasury Department of the United States: for your information, in the discussions regarding the need for freezing Rumanian funds there was full participation by the Department of State, and the action taken on October 10 was recommended by the Department of State.

This morning the Chargé d'Affaires of the Rumanian Legation, M. Brutus Coste, called at the Department of State. The Chargé was told inter alia that considerations of national interest necessarily controlled the decision of the interested American authorities in this matter.

HULL
(AAB)

840.51 Frozen Credits/

EA:FL:MSG
EU:RDC:EJD

EA:LWW

DEPARTMENT OF STATE
WASHINGTON

October 18, 1940.

In reply refer to
EA 840.51 Frozen Credits/727

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram no. 614 dated October 17, 1940, 7 p.m., from the American Legation at Bucharest relating to the use of Rumanian funds frozen in the United States.

Enclosure:

From Legation, Bucharest,
October 17, 1940.

AS

GRAY

Bucharest

Dated October 17, 1940

Rec'd 9:06 a.m., 18th

Secretary of State,
Washington.

614, October 17, 7 p.m.

Last evening Jordan, Inspector General of the National Bank of Rumania, executed at the Legation an affidavit stating that the National Bank had applied through the Chase Bank for a license for \$1,410,000 for the import of 3,100 tons of Turkish cotton. He also presented a letter from the National Bank requesting the Legation to telegraph the resume of this affidavit in view of the urgent nature of the transaction. He was informed that the Legation had asked the Department for instructions concerning the possibility of telegraphic transmission of license applications through the Legation and that the latter could not undertake such telegraphic transmission without authorization. Jordan left the affidavit at the Legation pending the receipt of the Department's instructions.

GUNTHER

KLP

C O P Y

bj

PARAPHRASE OF TELEGRAM

No. 246, October 18, 1940,
6 p.m., from Santiago.

It is reported that the payments agreement between Great Britain and Chile has now been prepared in its final form and that within the next few days it will be signed. The agreement is understood to provide for balancing of clearing payments balanced at the Chilean export draft rate for dollars, computing the pound at the fixed rate of 4.025 United States dollars. The export draft rate is now 25 pesos to the dollar, which would result in a clearing rate of 101 pesos to the pound. Since dollar exchange for an increasing number of Chilean imports from the United States must now be purchased at the BP rate of 31 pesos to the dollar, the British-Chilean arrangement mentioned, if applied to all payments for imports from Great Britain, would place many of our products at a serious disadvantage.

I believe that the agreement will clearly constitute a discrimination against United States products as long as the Chilean Government maintains two rates for dollar exchange for imports, but I discussed the matter informally yesterday afternoon with the Chilean Under Secretary for Commerce, and he assured me that the clearing agreement

would

TO THE SECRETARY
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-2-

would not result in our trade being placed in an inferior position as compared with Great Britain.

I have been informed confidentially by the representative in Santiago of the Bank of England that his Bank is not insisting upon a single rate for payment for imports from Great Britain and the two rates affecting imports from the United States could presumably be included in the British-Chilean clearing agreement. The purpose of the agreement is in general to maintain British-Chilean trade on an active basis.

It is suggested that the Department may wish to obtain assurances before the British-Chilean agreement is signed.

BOWERS

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

940 OCT 55 AM 8 22

RECEIVED
DEPARTMENT

RA: Woodward: CBT

By Airmail October 18, 1940

Subject: PROPOSALS FOR THE FORMATION OF A DEVELOPMENT CORPORATION TO PROMOTE ARGENTINE EXPORTS TO THE UNITED STATES.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to the Embassy's cable No. 493, 8 P.M., of October 17, 1940, and further to inform the Department of the substance of a proposal made by the Minister of Finance, Dr. Pinedo, concerning the formation of the development corporation to promote the sale of Argentine products to the United States during a conference which he held with the importers of American automotive vehicles in connection with a quota for automotive imports for 1941.

The tentative proposals of the Minister of Finance for the allocation of imports from the United States during 1941 will be based on the assumption that the amount of dollar exchange created by Argentine exports to the United States and other countries, in which dollar exchange may accrue, is estimated at \$60,000,000, and if such a proposed corporation would be formed, imports would be classified into three groups: (a) primary necessities; (b) imports controlled by the corporation; and (c) secondary necessities.

No. 1. Available exchange to be apportioned among above three groups on a pre-determined basis, as for example, \$40,000,000 for (a), \$10,000,000 for (b), and \$10,000,000 for (c). (These figures are merely for the purpose of illustration, as no information is available as to what this division will be as yet).

2. Imports item(a) under quota

" " (b) controlled by corporation

" " (c) to secure exchange in public "remate".

By Airmail October 18, 1940

Subject: PROPOSALS FOR THE FORMATION OF A DEVELOPMENT CORPORATION TO PROMOTE ARGENTINE EXPORTS TO THE UNITED STATES.

The Honorable

The Secretary of State.

Washington.

Sir:

I have the honor to refer to the Embassy's cable No. 493, 8 P.M., of October 17, 1940, and further to inform the Department of the substance of a proposal made by the Minister of Finance, Dr. Pinedo, concerning the formation of the development corporation to promote the sale of Argentine products to the United States during a conference which he held with the importers of American automotive vehicles in connection with a quota for automotive imports for 1941.

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2. Imports item(a) under quota

" " (b) controlled by corporation

" " (c) to secure exchange in public "remate".

Purchase of exchange in "remate" carries automatic import permit.

3. Corporation to be formed to develop Argentine exports to dollar countries.

(a) Stockholders to be:

1. Automobile importers.
2. Importers of agricultural implements.
3. Possibly other groups whose products are under quota.

(b) Central Bank to allot to the corporation exchange created by certain products calculated to produce the amount of dollar exchange allotted to their group (in this case group b).

(c) Corporation will receive all exchange created by those products allotted whether it be more or less than the quantity calculated. Rate for this exchange to be fixed by Central Bank. In practice say Central Bank fixes 4.00 pesos as the rate the corporation will pay to the exporter of those products. The corporation then apportions this exchange among its stockholders in accordance with a pre-determined quota at a slightly higher than the rate at which they purchase it. This difference to defray expenses of the corporation.

(d) Central Bank will also provide the corporation with a list of all products going to make up the budget of calculated exchange available. Corporation may name any product not on that list as a new product and will be allotted any exchange created by the export of such a product.

(e) Exchange created by the export of any new product shall be allotted to the Corporation to do with as they see fit. They may divide it in accordance with the regular pre-determined quota or may auction it among their members.

4. In the event some importer of the products represented by the corporation does not want to participate in the corporation, he shall then only receive as his quota his percentage of the exchange created by the products allotted to the corporation, but will have no right to any exchange created by the export of a new product.

- 3 -

5. Corporation to be exclusively formed by American importers, but the Central Bank will name one director if requested to do so.

6. Exchange created by the products allocated to the corporation will be covered by decree.

7. The corporation is to be non-profit after paying 4 percent on capital.

8. Importers other than automobile and agricultural implements may be taken into the corporation, but care should be exercised that they be in the same quota category, as otherwise there might be great difficulty in allotting exchange.

Notes: Reasons for corporation.

1. The Government believes that the corporation can accomplish better results in developing exports than the Argentine Government, and will have a greater flexibility.

2. The corporation would be expected to have the support of existing United States organizations which the Argentine Government cannot command.

3. The corporation has, at least, an opportunity of increasing the quota of imports without interference with other quotas.

It is to be understood that the foregoing proposals have not received the approval of the local importers of automotive vehicles or other American firms that would be expected to participate in such a corporation, nor has official declaration been made concerning the formation of such a development corporation. However, if the formation of such corporation should meet with the approbation of a sufficient number of interested parties, it is believed that the Argentine Government would take cognizance of its status in an official decree.

The Department will be kept advised of any further developments in connection with this project.

RESPECTFULLY YOURS,

For the Charge D'Affaires a.i.

Thomas L. Hughes,
Commercial Attache

A true copy of the
signed original.

Qn. File 631 TLH:mjb

COPY

ch

Rio de Janeiro, Brazil, October 18, 1940.

No. 3783

Subject: \$10,000,000 Credit of the Bank of Brazil with
the Federal Reserve Bank of New York.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,

Washington, D.C.

Sir:

I have the honor to refer to the Embassy's telegram No. 538 of October 18, 4:00 p.m., quoting the text of a telegram from the Bank of Brazil to the Federal Reserve Bank of New York concerning the credit of \$10,000,000 opened by the Federal Reserve Bank of New York for the Bank of Brazil.

The decision to put into operation the agreement between the Bank of Brazil and the Federal Reserve Bank
of New York

- 2 -

of New York was the result of the action of the Government in remitting important sums to the United States for the purchase of equipment for the destroyers to be constructed in Brazil and for other purposes. As the current exchange position of the Bank of Brazil is not sufficient to cover these remittances without interfering with the present exchange regime, the Minister of Finance authorized the Bank of Brazil to request the Federal Reserve Bank of New York to open a credit of \$10,000,000.

The Director of Exchange of the Bank of Brazil has furnished the Embassy with a copy of his statement to the Minister of Finance concerning the gold position of the Brazilian Government and the Bank of Brazil, copies attached. This memorandum should be treated as strictly confidential.

Respectfully yours,

William C. Burdett,
Charge d'Affaires ad interim.

Enclosure (1)

1. Copy of memorandum No. 286.

File No. 851.6

WJD'mc

A true copy of the
signed original
MC

Enclosure No. 1 to Despatch No. 3783
of October 18, 1940, from American
Embassy, Rio de Janeiro, Brasil.

BANCO DO BRASIL
Office of
The Director of Exchange.

Rio de Janeiro, October 11, 1940.
Memorandum No. 286

Mr. Minister.

METALLIC RESERVES.

We have available, at present, the following:

Sept. 30, 1940:

	<u>Grams</u>
In BRAZIL - Property of the Brazilian Government (in Bank of Brazil)	30,314,632.029
In the UNITED STATES (Property of the Brazilian Government)	12,500,651.753
In the FEDERAL RESERVE BANK (Property of the Bank of Brazil but subject to control of the Brazilian Government)	8,864,554.645
TOTAL	<u>51,679,838.427</u>

Total -

	<u>Grams</u>	<u>Dollars</u>
- Of the Brazilian Government	42,815,283.782	\$48,299,407.85
- Of the Bank of Brazil...	8,864,554.645	\$10,000,000.00 (cost)
	<u>51,679,838.427</u>	<u>\$58,299,407.85</u>

(price of sale - excluding expenses - US\$58,008,654.80)

ORIGIN OF THE GOLD

	<u>Grams</u>
Purchases in Brazil	39,335,418.147
Do., do., from French Guiana	97,904.167
Transferred from Great Britain to the United States	682,013.635
Purchases in the U.S.A. with the proceeds of diamond exports	<u>2,699,947.833</u>
TOTAL	<u>42,815,283.782</u>

(The Bank of Brazil gold was acquired in the U.S.A.)

We still

- 2 -

We still have in the United States US\$1,375,818.23 resulting from diamond exports, destined to purchase gold for the Treasury. This amount is debited to the Treasury and, therefore, not included in the exchange position of the Bank.

R e s u m e .

<u>GOLD IN THE UNITED STATES</u>	<u>Grams</u>
Bank of Brazil gold	8,864,554.645
Brazilian Government gold, resulting from diamond exports	2,699,947.833
Treasury gold, our remittances as part of the excess of our reserve (which reserve is in Brazil) and ex-vi of article 2, letter c. of decree-law 1,058, of January 19, 1939 (Five-year Plan), must be sold for expenses of this plan	9,800,703.920
TOTAL	21,365,206.398

- - - -

Although part of this gold belongs to the Bank of Brazil, representing its profits in recent exchange transactions;

Although the other part is, as it exceeds our legal reserves, destined to be sold for the expenses of the Five-year Plan (Art.2, letter c. of Decree-Law 1,058 of January 19, 1939) and although many of these expenses, above the value of the gold have been already made, or paid;

Although the third part results from Brazilian exports (diamonds);

WE DO NOT WISH OR NEED TO SELL THIS GOLD.

This situation is especially significant if we take into consideration the loss of markets which we have suffered.

- 3 -

suffered, the decrease in prices of our exports, and the increase in prices of our imports, in general also merchandise for war use.

In our memorandum No. 269 of August 5, 1940, we called the attention of the Government to the fact which would, naturally, affect our exchange position.

We now wish to refer to the two measures which will tend to attenuate the situation, maintain the good credit enjoyed by us and permit us to go through the crisis:

1.- A rotating credit of US\$30,000,000, now under consideration, the realization of which depends upon Your Excellency's approval upon the arrival of Mr. Pierson in the United States, as Your Excellency has already been advised.

2.- The use of the Souza Costa-Morgenthau agreement, to buy dollars from the Federal Reserve Bank.

As Your Excellency can see, we are discussing measures to be taken in the future and only in case of international conditions being aggravated, which conditions, although generalized, have not for the time being been so hard on us.

- - - - -

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to my memorandum of October 16 in regard to the proposal of the Hungarian Minister for a credit. Under Secretary Bell recounted to me the discussion of this question which took place at a luncheon at the Hungarian Legation on Thursday, October 17. At Mr. Bell's request, Mr. Havas, Financial Advisor to the Hungarian Legation, called on me yesterday noon and left a memorandum giving certain explanations as to the purpose of the credit. While Mr. Havas was here, I asked, in accordance with a suggestion which Mr. Bell had made to me, what would be the dates of the period for which the credit was desired. Mr. Havas stated that between \$100,000 and \$200,000 would be required during the remainder of the calendar year 1940. In this connection he told me quite unhappily of the action taken by the New York Trust Company on October 16, 1940, to institute attachment proceedings against certain Hungarian accounts in New York, following the failure of the Hungarians to meet obligations maturing October 15 on account of their standstill arrangement. In this connection Havas said that he had talked with Mr. Jefferson Coolidge of the First National Bank of Boston, which is one of the important holders of Hungarian standstill accounts, and that Coolidge had agreed that this was no time to exact too much from Hungary, and that interest rather than amortization should be sought. Since there was, therefore, this default on October 15, it may be calculated that the credit desired from us would be for a twelve month period ending with October 15 of 1941. I have distributed separately Mr. Havas' memorandum.

At 10:30 a.m. October 18, Mr. Knoke talked with me by telephone and mentioned that the Federal Reserve Bank of New York had received from Chairman Gibson of the American Committee for the Hungarian Standstill Agreement a letter criticizing the Hungarian attitude toward American creditors. At my request, Mr. Knoke has provided me with a copy of this letter, and of its enclosure. I am appending to this memorandum a copy of the letter and a photostatic copy of the document which accompanied it. (In conversation with Mr. Livesey of the State Department this morning, Mr. Livesey reported the receipt of the above-mentioned letter from Mr. Gibson, and volunteered to provide us with a copy, but I told him that we had already received the correspondence from the Federal.)

While Mr. Havas was with me yesterday he let me know that he was proceeding to see Secretary Jones with respect to the possibility of obtaining a credit from the Export-Import Bank. From Mr. Knoke I learned this morning that Mr. Havas is seeking an appointment to discuss a credit with President Harrison of the Federal Reserve Bank at New York on Monday. I told Knoke that we had taken no decision in the Treasury. Mr. Bell and I will discuss the matter further on Monday with Dr. White, and then report our recommendations to Secretary Morgenthau.

It should be mentioned in this memorandum that during the current week our Funds Control has learned from New York that two important sums were transferred from accounts with New York banks by the Central Corporation of Banking Companies of Budapest to the First National Bank of Boston. It was decided that the Federal Reserve Bank in New York should be asked to learn from the New York representative of the First National Bank of Boston what the significance of these two transfers was. It is our impression that the amounts in question, namely one transfer of \$3,300,000 and one of \$400,000, are much in excess of any interest sums that could be due. Furthermore, from Havas I have gained the impression that no payments on amortization of Hungarian debts are being made in this country now. There has been definite evidence of a withdrawal of Hungarian accounts from New York, and the Federal Reserve Bank has instructions to convert into Swiss francs at the Swiss National Bank in Zurich any dollars which may be paid into the Federal on account of collections in favor of the National Bank of Hungary.

It is of interest to note from Cablegram No. 251 sent from the American Legation at Budapest on October 12 that Germany continues to influence Hungarian exchange policy.

JMP

MANUFACTURERS TRUST COMPANY

55 Broad Street

New York

October 15, 1940.

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

Dear Sir:

As you know, the various American banks have since June 1932 been parties to an agreement with their Hungarian banking, commercial and industrial debtors with respect to the extension, amortization, interest payments and other matters concerning the short-term indebtedness of those debtors outstanding May 1, 1932. Since August 1932 this arrangement has been joined in by the American and British banking institutions on the one side and their Hungarian debtors on the other, and in 1936 banking institutions in France, Holland and Switzerland also joined with the British and American creditors. The latest of these agreements dated July 16, 1937, expired by its terms July 15, 1940, but under date of July 12, 1940, an agreement was entered into by the French, British, Swiss and American creditors on the one hand and their Hungarian debtors on the other, extending the Agreement to October 15, 1940.

In the first half of October 1940 a meeting was held in Zurich between the representatives of the Hungarian debtors and representatives of the Swiss Committee, the latter in this instance acting on behalf of themselves, the American Committee and the British Committee. At this meeting Hungarian proposals were made to the effect that no payments whatever, either of interest or of amortization, should be made upon the Hungarian short-term indebtedness for a period of at least one year, subject to certain minor exceptions and contingencies. These terms the Swiss Committee found wholly unacceptable, and in this view the American Committee concurred.

We are now in receipt of a cable from the Swiss Committee stating that no further improvement in these terms can be obtained from the Hungarian Delegation, and under these circumstances the "Hungarian Standstill Agreement" to which the American creditors are a party terminates at the close of October 15, 1940.

We enclose herewith a copy of this Committee's circular letter dated October 14, 1940, setting forth certain cables received and despatched in connection with the above-mentioned negotiations.

Upon the termination of the Agreement all of the Hungarian indebtedness covered thereby immediately matures.

This Committee feels that the Hungarian Delegation in making such proposals and in refusing to improve them are acting unreasonably and unfairly to the detriment of their American creditors and that your Department should be advised of this situation.

Very truly yours,

THE AMERICAN COMMITTEE FOR THE
HUNGARIAN STANDSTILL AGREEMENT

(signed) H. D. Gibson

Harvey D. Gibson, Chairman

HUNGARIAN STANDSTILL AGREEMENT OF 1937

October 14, 1940.

DEAR SIRS:

We quote below for your information the text of the following cable exchange between the Swiss Bankers Committee in Zurich and this Committee:

(a) Cable dated October 9, 1940, from the Swiss Bankers Committee:

HUNGARIAN DELEGATION WISHES US TO TRANSMIT TO YOU FOLLOWING COMMUNICATION colon IN TODAY'S MEETING WITH SWISS STANDSTILL COMMITTEE I HAVE EXPOSED SITUATION AS FOLLOWS THREE YEARS AGREEMENTS OF 1937 WERE MADE AT PEAK OF HUNGARY'S FOREIGN TRADE AND FOREIGN EXCHANGE SITUATION AND BASED ON ASSUMPTION THAT ADDITIONAL EXPORTS WILL CONTINUE AT LEAST ON SAME LEVEL AND YIELD SUFFICIENT EXCHANGE FOR DEBT PAYMENTS stop DESPITE FAILURE OF REALISATION OF THESE HOPES HUNGARY FULLY MET HER OBLIGATIONS DURING THREE YEARS AND THE NATIONAL BANK HAD TO SACRIFICE SUBSTANTIAL AMOUNTS OUT OF OWN FOREIGN EXCHANGE HOLDINGS DESTINED TO MEET CURRENT REQUIREMENTS OF COUNTRY AND ACQUIRED OUT OF NORMAL EXPORTS stop SINCE SPRING 1938 EXPORTS AGAINST CONVERTIBLE EXCHANGE HAVE SHOWN STEADY DECLINE AND SINCE BEGINNING THIS YEAR TOTAL EXPORTS FELL FAR BEYOND EXPECTATIONS EXPORTS AGAINST CONVERTIBLE EXCHANGE AND PARTICULARLY ADDITIONAL EXPORTS HAVING BECOME IMPOSSIBLE stop DURING NEXT TWELVE MONTHS NO HOPE OF IMPROVEMENTS THE LESS AS THIS YEAR'S HARVEST AND MEAT PRODUCTION ALMOST DISASTROUS stop ADDITIONAL EXPORTS APPEAR IMPOSSIBLE FOR THREE REASONS first VIRTUAL IMPOSSIBILITY OF TRADING WITH OVERSEAS COUNTRIES IN CONSEQUENCE OF MUTUAL BLOCKADE second LACK OF PRODUCTIVE CAPACITY IN INDUSTRY AND HEAVY INCREASE OF HOME CONSUMPTION IN CONSEQUENCE OF BIG CAPITAL OUTLAY PROGRAMME AND OF REATTACHMENT SINCE 1938 OF FOUR MILLION INHABITANTS stop THIRD IMPOSSIBILITY OF RAW MATERIAL PURCHASES stop FOREIGN EXCHANGE POSITION DEVELOPED PARALLEL TO FOREIGN TRADE AND HOLDINGS NOW CONSIDERABLY SMALLER THAN IN 1937 WITH INHERENT TENDENCY OF FURTHER DETERIORATION stop HOLDINGS MUCH SMALLER THAN VALUE OF ANNUAL RAW MATERIAL SUPPLY stop IN THESE CIRCUMSTANCES CANNOT UNDERTAKE RESPONSIBILITY FOR CONTINUING DEBT SERVICE AND MUST SUGGEST ONE YEAR'S COMPLETE SUSPENSION OF TRANSFERS WITH FOLLOWING EXCEPTIONS colon FIRST RELIEF LOAN OWED BY HUNGARY TO UNITED STATES stop REASONS colon ORIGIN OF LOAN AND SMALL AMOUNT OF ANNUAL PAYMENT SECOND NATIONAL BANKS DEBT TO BANK FOR INTERNATIONAL SETTLEMENTS AND CENTRAL BANKS stop REASON colon LOAN WAS GRANTED IN 1931 TO REPAY PRIVATE BANKING AND COMMERCIAL DEBTS stop LOAN WAS REDUCED THIS SUMMER BY VOLUNTARY REPAYMENT MADE OUT OF EXCHANGES ACQUIRED BY SPECIAL SACRIFICES OF NATIONAL BANK AND GOVERNMENT stop REST CONSOLIDATED FOR EIGHT AND A HALF YEARS stop BY THIS TRANSACTION NATIONAL BANK REGAINED FREEDOM OF ACTION HAMPERED BEFORE BY OWN UNSETTLED DEBT stop THIRD PAYMENTS TO COUNTRIES WITH FOREIGN EXCHANGE RESTRICTIONS HAVING ALREADY PAYMENT AGREEMENTS WITH HUNGARY FOR SETTLEMENT BY CLEARING OF FINAN-

CIAL DEBTS stop BEING DESIROUS TO OPEN POSSIBILITY OF PAYMENTS EVEN DURING MORATORIUM PROPOSE TO OPEN FOLLOWING TWO POSSIBILITIES FOURTH AS AND WHERE HUNGARY WILL BE ABLE ACTUALLY TO TRADE WITH CREDITOR COUNTRIES AND OBTAIN WITHOUT PREJUDICE TO MUTUAL TRADING INTEREST ACTUAL SURPLUS OF EXPORTS WE WOULD BE PREPARED TO APPLY APPROPRIATE PART OF OUR SURPLUS BY AGREEMENT TO PAYMENT OF INTEREST TO THAT COUNTRY FIFTH WE WOULD ALSO BE PREPARED TO CONTINUE INTEREST SERVICE AS UNDER EXISTING AGREEMENTS TO COUNTRIES WHICH WOULD BE PREPARED TO LEND AT LOW INTEREST FOR FIVE YEARS ANNUAL AMOUNT OF INTEREST SERVICE stop LATTER PROPOSAL EQUIVALENT TO FUNDING OPERATION WITH BENEFIT OF NOT AFFECTING DIRECT RELATION BETWEEN CREDITOR AND DEBTOR stop DURING MORATORIUM PENGOE EQUIVALENT OF INTEREST WOULD BE PAYABLE BY DEBTORS TO CASH OFFICE OF FOREIGN CREDITS WHICH WILL EMPLOY AMOUNTS SO RECEIVED IF NOT TRANSFERRED THROUGH EITHER OF ABOVE MENTIONED POSSIBILITIES IN BUYING ONE YEARS TREASURY BILLS MATURING AT END OF MORATORIUM stop HOPE YOU WILL APPRECIATE OUR EXTREMELY DIFFICULT SITUATION CREATED BY EVENTS OUTSIDE OUR REACH—END OF HUNGARIAN STATEMENTS stop SWISS DELEGATION REPLIED THAT THIS IS ABSOLUTELY NO BASIS FOR DISCUSSION AND THAT WE SHALL CONTINUE CONFERENCE ONLY IF AND WHEN REASONABLE PROPOSAL IS PUT FORWARD BY HUNGARIANS stop WE NOW AWAIT THEIR FURTHER STEPS stop PLEASE CABLE YOUR REACTION

(b) Cable dated October 11, 1940 from this Committee to the Swiss National

Bank:

"REFERRING YOUR CABLE OCTOBER NINTH TRANSMITTING HUNGARIAN STATEMENT PLEASE INFORM SWISS COMMITTEE AMERICAN COMMITTEE FEELS PROPOSITION ENTIRELY UNACCEPTABLE"

(c) Cable dated October 11, 1940 from the Swiss Bankers Committee:

DESPITE ALL OUR INSISTENCE NO IMPROVEMENT OF CONDITIONS CABLED WEDNESDAY AND REFUSED BY US WAS OBTAINABLE FROM HUNGARIANS STOP STANDSTILL THEREFORE TERMINATING DEFINITELY OCTOBER 15 STOP CONSIDER OUR MANDATE EXPIRED

As appears from the above cable exchange, the Hungarian Standstill Agreement of 1937, as extended, will be ended after October 15, 1940.

This Committee will endeavor to advise you promptly in the event that negotiations with the Hungarian Committee are reopened.

Very truly yours,

COMMITTEE:

L. I. ESTRIN,

C. E. HUNTER,

R. F. LOREL,

S. STERN,

HARVEY D. GIBSON, *Chairman.*

FROM THE DESK OF
LEON HENDERSON, COMMISSIONER
SECURITIES AND EXCHANGE COMMISSION

10-19-40

252

Sec. Morgenthau

This may
interest you.

Leon

CONFIDENTIAL

Price Stabilization Division

Leon Henderson, Commissioner

THE BRITISH PROGRAM FOR ARMAMENT PLANT EXPANSION,
1935-1939

* * * * *

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THE BRITISH PROGRAM FOR ARMAMENT PLANT EXPANSION, 1935-1939

I. Summary.

1. The British Government devised several special inducements to private expansion of armament plant capacity and engaged increasingly in direct financing of new government-owned plants for private operation by private industry.

The Government's administrative organization for supplying the Services was reorganized and somewhat improved during the rearmament period. The responsibilities of the various procurement agencies included the developing of adequate expanded plant capacity. However, this administrative structure was devoid of sufficient power to coordinate the procurement and plant expansion activities of the Government and possessed no coercive powers with respect to industry. Furthermore, neither the Government nor the directing personnel of the successive agencies displayed an understanding of the size of the plant capacity essential for a satisfactory armament program or the necessity for speed in obtaining it. Not until the eve of war was machinery for adequate coordination of procurement efforts obtained. It was July, 1939 before power to enforce full industrial mobilization for the war effort was provided.

Until 1939, the financial inducements offered by the British Government for the enlargement of armament plant capacity under private control were reserved, for the most part, to the aircraft industry and its subcontracting industries. Beginning in early 1939, some inducements were offered to firms manufacturing munitions, tanks, etc., as well.

As the rearmament program grew in scope, the Government shifted, increasingly, from these attempts to induce private industry to expand armament capacity, to the direct financing of new government-owned armament plants operated by private industry. In addition, the Government expanded the Royal Ordnance Factories throughout the period of rearmament, but chiefly in 1938-1939.

General measures for obtaining new privately-financed armament capacity were:

- (a) Persuasion of private industry to expand plant useful to the armament program.
- (b) Favorable rates of profit in Government armament contracts.

- (c) Special depreciation rates for computation of corporate income tax and government contract costs.

Additional inducements for obtaining privately financed aircraft capacity were:

- (a) A "capital clause" providing that expanding aircraft firms might submit claims, if future orders were insufficient to utilize their expanded capacity, for the depreciated cost of the excess capacity.
- (b) Promises of priorities in post-emergency aircraft orders.

Measures for expanding armament capacity involving government financing were:

- (a) Direct government financing of new armament plants, government-owned but privately operated.
- (b) Construction of new Royal Ordnance Factories.

2. Britain had only limited success in achieving added armament capacity.

Broadly speaking, the British efforts to provide adequate plant expansion failed. The Government was shooting at a fast-moving target; it made no effort to "lead" the target by building greater capacity than each successive armament plan appeared to necessitate. In the case of armament industries proper, capacity growth followed the expanding defense program, causing shortages at almost all stages. In the case of some of the basic materials and equipment needed for expansion and operation of the armament industries, the failure was even greater. At the outbreak of war, Britain was short not only of plant for the production of arms for a full war effort, but also of the machine tool capacity and heavy industrial plant by which the capacity for armament production could be quickly increased.

Reflecting the concentration of effort, the most marked expansion of capacity was in the aircraft industry; even there, however, the increased capacity was insufficient for the rapidly expanding air program and quite inadequate to the needs revealed by war. Expansion of capacity for munitions manufacture began too late. Iron and steel capacity was expanded considerably but not enough. The most crippling deficiency of capacity was in the machine tool industry.

II. Basic Reasons for Inadequate Plant Expansion

After nearly seven years of continuously deteriorating political relations in Europe, the outbreak of World War II, and indeed the passage of the first six months of the war effort, found Great Britain in a lamentable state of industrial unpreparedness for war. Indeed, the fact that the beginning of the Battle of Britain in May, 1940, found vital British defense industries, although operating at high capacity, still lagging behind minimum armament production requirements, attests to the very limited success of any program of plant expansion during the rearmament years.

Although all the reasons for the sluggish expansion of plant capacity are not yet apparent, responsible persons in Britain are agreed that the failure to include a few essential elements in the industrial mobilization effort of 1936 to 1939 is primarily responsible. There were at least three outstanding shortcomings of official policy.

1. The Government did not provide an administrative structure by means of which British industry could be coordinated for a maximum armament effort.

The Service Ministries were permitted to fulfill their procurement needs independently of each other until the summer of 1939. Confused by unrealistic leadership, the government for the most part left the solution of the vital problem of plant expansion to industry itself; British industry, hypnotized by the slogan "peace in our times", was reluctant to undertake a suitable program on its own volition. Of all its shortcomings this failure to develop adequate administrative direction of industrial expansion is perhaps the most important, since the success of even the most brilliantly conceived plan for plant expansion is necessarily dependent upon the administrative mechanism by which it is to be implemented. The Ministry of Supply, with its coercive power exercised through the Trade Control Board System, was a step in the right direction, but its establishment was postponed much too long.

2. The Government did not make any estimate of potential military needs, related to civilian needs and to available capacity.

One would have expected that the government would have undertaken at the earliest possible moment a complete estimate of the separate military and civil requirements of the British economy, assuming maximum military effort, and a detailed estimate by individual industries and producing units of the capacity of British industry to meet these requirements. Several governmental agencies were conscious of the need for this fundamental knowledge and various half-hearted attempts were made during the rearmament period

to acquire it. In mid-1938 the Supply Board asked vital industries, including the machine tool industry, to supply them with an estimate of their excess capacity — that above capacity to meet "normal" requirements. Not until after the outbreak of war, however, did the government, through the Ministry of Supply, require each industrial unit to supply an estimate of its total capacity together with the amount of its military and civil production during the previous year.

3. Finally, the Government failed to develop an adequate plan designed to bring industrial capacity up to requirements.

(a) The actual volume of plant expansion was both too small and too late. By the time an industry was embarked upon one program for plant expansion, the government's requirements had increased and the insufficiency of the half-finished plan was apparent. Moreover, such plant expansion programs as were launched were directed only towards special sectors, e.g. aircraft; they neglected the general industrial capacities upon which the special plans were dependant. Hence, industrial bottlenecks occurred and recurred. Had a plan for plant expansion which was large enough and inclusive enough been offered at an early date, the efforts of British industry to expand capacity could have been smooth and uninterrupted.

(b) The technical requirements of the Army and Air Force were continually altered. For example, not until the end of 1938 did the Air Ministry perceive the necessity of getting a limited number of types of planes in continuous production and realize that to make production wait upon the search for the perfect design was a fatal mistake.

(c) The unwillingness of the government to disturb normal trade was its greatest mistake. Given the high level of economic activity in Britain at the beginning of the armament effort, an energetic program of plant expansion would soon have required the transfer to defense production of strategic war materials and capital goods and skilled labor. This would have meant, in the British case, a reduction of production for civilian consumption. This unpleasant necessity the Chamberlain government would not face. It preferred instead to hope that British industry would and could expand its capacity sufficiently to supply the fairly modest armaments ordered and normal civilian requirements as well.

(d) British industry could only have continued to take care of civil requirements at their previous level plus the expanded armaments by a tremendous expansion of new

plant. This would have required an adequate financial plan by which the government compensated British industry for plant expansion and protected it against loss on the new capital expenditure. If the government was determined to leave the expansion of plant capacity on a voluntary basis, its failure to make privately-financed plant expansion unquestionably attractive appears almost incredible. Government guarantees against capital losses due to redundancy were never offered to any but the aircraft industry. Other industries were expected to invest their money in expanded plants and take their chances that Mr. Chamberlain's appeasement program might somehow fail.

It appears probably from the aircraft experience, however, that even had financial guarantees been airtight and applied to all strategic industries, prompt expansion on the scale necessary would not have taken place. Governmental financing was necessary. It came too late.

III. British Government Procurement Structure.

Procurement for the fighting forces in Great Britain was traditionally undertaken by the military ministries themselves, the War Office, the Admiralty, and the Air Ministry. These ministries acted independently of each other, although tradition required that if one of the ministries was a particularly large consumer of a given supply it might undertake the procurement of that commodity for the other two ministries. Thus the War Office traditionally purchased woolen goods for itself, the Admiralty and the Air Ministry. There was very little coordination between the three ministries in respect to ordnance, the War Office and the Admiralty maintaining their own ordnance plants, and the Air Ministry making its procurement from private industry.

In 1934 a Supply Board composed of all the permanent heads of military departments was established to coordinate the procurement efforts of the three ministries. Because the membership of the Supply Board was almost identical with the membership of the Council of Imperial Defense, an organization created during World War I, the Supply Board became the procurement instrument for the Council of Imperial Defense. The Supply Board was charged, early in 1935, with the responsibility of coordinating the purchases of machine tools.

In 1936 Sir Thomas Inskip was appointed Coordinator of National Defense (Ex-officio Chairman of the Supply Board) and charged with the responsibility of streamlining the procurement function of the fighting services and increasing the production of armaments. The Coordinator of National Defense was Ex-officio Chairman of the Council of Imperial Defense. The Council of Imperial Defense was composed of all cabinet ministers directly or indirectly concerned with military affairs. Although neither the Coordinator of National Defense nor the Council of Imperial Defense had coercive power over industry, the combined strength of an unified Imperial Defense Council might have been effective even in an advisory capacity.

All critics are agreed that the Inskip attempt was a failure and that the reasons for the failure are reasonably clear; (a) the personality of Inskip himself, which a certain English statesman described as resembling that of a giant panda, amusing and ineffectual; (b) the failure to supply the post of Coordinator of National Defense with adequate power and adequate staff. It is possible that a strong personality in this position might have induced the Cabinet to agree to a realistic program of plant expansion, but inasmuch as the post of Coordinator as such carried only advisory powers and could exert itself only through the Council of Imperial Defense, a weak personality was completely ineffectual.

In May 1938, coincident with the appointment of Sir Kingsley Wood as Minister, a Supply Committee was established in the Air Ministry to resolve the procurement problems which beset it. This Committee was composed of permanent officials of the Air Ministry and representatives of the aircraft industry and appears to have been successful in achieving a considerable improvement in the character of cooperation between the Ministry and the industry.

Sir Thomas Inskip was succeeded, as Coordinator of National Defense, in the early part of 1939 by Lord Chatfield, First Lord of the Admiralty. Because the post of Coordinator of National Defense to which he was appointed was superseded by the Ministry of Supply within six months of his incumbency, it is almost impossible to appraise the results of his efforts.

During the summer of 1939, some five new ministries were established to facilitate the prosecution of the war which by this time seemed inevitable. The Ministry of Supply (new) and the Ministry of Labor (old) were charged with the bulk of responsibility for industrial mobilization.

The Ministry of Supply, created on July 13, 1939, was given the following powers:

- (a) Control over the munitions and equipment departments of the War Office, over the supply of certain products which the War Office had previously furnished on an agency basis to other Government departments, complete mobilization of the engineering industry, and complete supervision of all contractors;
- (b) Control over the import, export, stocks and distribution of all essential raw materials and certain semi-finished goods and the allocation of these supplies between industrial users;
- (c) Authority to reduce the production of non-essential materials.

To exercise these functions the Ministry of Supply set up fourteen "Control Boards," each one of which has a sub-committee in each of the thirteen "Areas" of wartime England. The Control Boards correspond to important industrial groups such as iron and steel, non-ferrous metal, timber, etc. The Control Boards have three functions:

- (a) The establishment of maximum prices;
- (b) Making sole purchases from abroad;

(c) The allocation of strategic material between industrial users.

Possessed of the above comprehensive powers, the Ministry of Supply was faced with no important administrative limitation in undertaking a realistic program of plant expansion.

The Ministry of Labor, pursuant to the "Control of Employment Act of September 1939" is empowered to control the competitive scramble for labor coincident with wartime effort. It rations labor between industries and refuses permission to certain firms to employ given categories of labor. The Ministry of Labor was also charged with the responsibility of conserving and training the labor reservoir in conjunction with a joint committee of employers and trade unionists.

In summary therefore it is apparent that up until the creation of the Ministry of Supply and the expansion of the powers of the Ministry of Labor, the procurement function of the fighting services was so uncoordinated that the essential steps necessary for a realistic program of plant expansion could not be taken. If the Ministry of Supply had been created in 1936 it is very likely that a realistic program of plant expansion might have been initiated and carried through with some considerable degree of success.

- 4 -

IV. Financial Inducements and Other Means of Obtaining Additional Plant for Armaments.

The measures taken by the British Government to obtain increased armament capacity included special inducements to private plant expansion, the direct financing of new government-owned plants for private operation, and the construction of additional facilities for the Royal Ordnance Factories. These measures are described below in some detail.

1. The size and terms of Government orders.

Prices on all government orders were reputedly fixed so as to yield a "controlled" and "reasonable" profit on old or new plant. (The depreciation rates were raised on certain contracts as described in 3, below). In connection with these controlled profits, in the aircraft industry at least, the introduction of the "capital clause" was accompanied by Government privilege to inspect contractors' books.

Very little data is available on this matter. According to an announcement by the Under-Secretary of State for Air in December, 1937, there had been only four exceptional cases in which the rate of profit on air force orders had exceeded 10% of the value of the contract. The opinion is generally held that profits on government work were entirely adequate.

The prospect or promise of large Government orders at favorable prices and profit margins was sufficient to evoke considerable private expansion of facilities, especially for articles which had a civil as well as military use, or where the facilities could easily be converted to making products for civil consumption. There is little reliable information susceptible of generalization as to the methods by which private plant extension for armaments was financed. Such extensions were financed out of surplus company resources, and by borrowing from banks, finance companies and through the capital market.

Undoubtedly plant expansion was financed whenever possible by the surplus resources of the expanding concerns -- behavior which has recently been quite typical of British industry. A number of the stronger concerns in iron and steel, engineering, chemicals and other "war" industries had very large liquid resources at the top of the boom of 1936-1937, but only a detailed study of company balance sheets could show the extent to which they were used during the years 1936-1939 to augment capacity for armaments.

There is insufficient breakdown in the classification of bank advances to permit measurement of the credit obtained by armament industries from the banks. On the whole, the banks merely provided

working capital for firms engaged on armaments as they did for other firms. Bank resources were certainly adequate for this task. Undoubtedly, there was some shift in advances from other firms to those engaged on armament work, but this simply reflected the shift in the activities of the companies concerned. There was no attempt by the Government to induce or force the banks to favor armament concerns, or to depart from the time-honored British banking practice of eschewing loans used to finance fixed capital.

Published classifications of British new capital issues do not show a breakdown which would provide data on armament industries. Data for "engineering" and "coal, iron and steel" are the closest approximations. These particular industries were heavy borrowers through the capital market in 1936 and 1937. In general, however, it can be said that the capital issues boom of 1936 and early 1937, in these industries as in others, was engendered by domestic "civil" recovery and by the very favorable reception that was accorded new borrowing and equity flotations at that time. In any case, much of the proceeds of these issues -- as is true of all capital issues in Britain -- were not for the purpose of building new plant, but rather for repaying previous borrowing, changing a private into a public company, or buying the assets of already existing concerns.

Moreover, new capital issues for heavy industries and engineering declined markedly in 1938 and 1939 because of the domestic slump in late 1937 and throughout most of 1938, the much less favorable market for new capital issues during these years, and the fact that the Government was itself financing considerable plant expansion at that time. One can certainly conclude that the major portion of "defense" capital extensions in 1938 and 1939 were not financed through the capital market.

Fortunately, in the case of the major defense industry, aircraft, something more is known. There the surplus resources of even the larger and stronger companies were not very large. As business expanded in 1935 and 1936 they used these up and resorted to the banks. The banks carried them at first, in view of the protection afforded by the "capital clause" in aircraft contracts, which is described below. But it was not long before the banks felt their commitments were becoming too large and that the capital clause did not adequately protect them. They declined to make further advances. In early 1938 the Government had to step into the breach with direct financing of a great part of the new plant expansion.

Since during 1938 and 1939, the Government began financing other kinds of armament expansion, it appears reasonable to conclude that it proved difficult in other fields as well to

2. Persuasion.

An unknown amount of official persuasion was used to spur new capital outlay for industries providing basic materials (e.g. iron and steel, fabricated aluminum, and machine tools) for armament uses. Such persuasion was usually directed towards the appropriate trade associations, although occasionally appeal was made to large individual firms. The Government was loath to disturb the prevailing balance of power in organized industries, and in general bowed to the views of the strongly organized trade associations.

3. Special Depreciation Rates for Computation of Corporate Income Tax and Computation of Cost on Government Contracts.

For computing cost for government orders and for income tax purposes during the rearmament period, concerns were permitted to depreciate their property at rates higher than for normal income tax purposes. These rates varied with the type of property. This privilege was granted to aircraft firms and to at least some contractors for other armament needs.

For purposes of excess profits tax, a special dispensation was made with respect to depreciation. The Inland Revenue Commissioners were empowered to make additional deductions from taxable income not exceeding 10% of net cost, for facilities financed after January 1, 1937, if they determined that the facilities were likely to become obsolescent or redundant as a result of conditions caused by rearmament and war. Final adjustment of amortization rates for this purpose is to be made at some future date to be fixed by Parliament.

4. Promises of priority in orders after the emergency to expanding aircraft firms.

Especially during the early rearmament period, some of the larger aircraft firms were given additional inducements to expand their plant by assurances that they would be given priority in the granting of government contracts for aircraft after the emergency was past. The effectiveness of this encouragement naturally diminished as modern wartime requirements for aircraft became apparent.

5. The "Capital Clause."

This clause, which was inserted only in contracts for aircraft, provided that, if a firm could show that the plant as expanded to meet government contracts had been in excess of that required to fill orders from any source over a two-year period, it could submit a claim for the difference between the depreciated cost and the then market value of the plant. The time when such a claim could be submitted varied between contracts, but was generally set

provided that, if a firm could show that the plant as expanded to meet government contracts had been in excess of that required to fill orders from any source over a two-year period, it could submit a claim for the difference between the depreciated cost and the then market value of the plant. The time when such a claim could be submitted varied between contracts, but was generally set at some date after the emergency had passed. The depreciated cost was to be calculated at regular income tax depreciation rates or at any higher rates which had been permitted in the contract.

This theoretically sound and equitable clause would have been quite adequate had the aircraft program remained of such scope that it could have been fairly easily handled by private firms. However, as the requirements for military aircraft grew beyond all previously contemplated proportions, this form of inducement became inadequate. Although most of the aircraft firms felt it sufficiently protective, their creditors became increasingly sceptical of the value of this "claim" and, as their aircraft loans grew larger, were more and more reluctant to grant additional credits.

6. Direct Government Financing of New Privately Operated Plant.

Direct financing of new privately operated plants began with the "shadow" aircraft plants constructed under the original "shadow plan" in 1936. Such direct financing was extended to aircraft plant expansion generally in March, 1938, and by early 1939 had become typical of all armament plant expansion. With the exception of certain direct financing of sub-contractors, the ownership of all new plants built with government funds and operated privately remained in the hands of the Government. In the earlier cases of government financed plant, at least, there were provisions for the optional purchase by the operating contractors of the expanded facilities at the end of the emergency, their fair market value to be determined at that time. For the more recent -- and more important, quantitatively-direct government financing of new plant, no provision for the liquidation of the government's property has been made. The government financing of privately-operated plant followed one of the two plans outlined below.

(a) "Modified commercial basis."

The modified commercial plan provided that the government would advance only the fixed capital necessary for constructing new plant; the contractor supplied the working capital for operating the plant on government orders and paid for maintenance. The contractor's risk was thus reduced to negligible proportions. The contractor was paid a price sufficient to yield a "reasonable" profit on his costs of operation, but this price naturally did not include any charge for fixed capital.

(b) "Agency basis."

On the agency basis all outlay, -- for construction and maintenance of plant, and for materials, labor and other elements of working capital -- was made by the contractor acting as agent of the Government. The contractor merely received a fee for construction and for management of the Government's new plant facilities. The outlays both for construction and for operation were subject to Government audit but otherwise were at the discretion of the contracting agent who merely agreed to certain standards of prudence and economy. This basis was more frequently used than the "modified commercial" basis.

The contractor received a separate fee for construction of the plant. For example, the first aircraft "shadow" factory agreements provided construction fees of from 3.2% to 5% of construction cost. In the case of these aircraft contracts, the construction fees were subsequently sharply reduced; for example, immediately prior to the outbreak of war the construction fees on new aircraft plants and extension financed by the Government were only about 1% of construction cost. Nothing is available concerning construction fees in other industries.

The contractor also received a management fee for operating the plant. Under the original aircraft shadow factory agreements, air frame factories received a fee of from 3.75 to 4 percent on the cost of each frame. In addition, they received a "bonus" ranging from 12 $\frac{1}{2}$ to 17 $\frac{1}{2}$ percent of the amount by which actual costs fell below a basic "target" cost agreed upon as reasonable. Under this same program, shadow engine assembly plants received a fee of between 5 and 6.2% of the cost of each engine plus a similar bonus for costs below "target" costs. As in the case of construction fees, management fees were sharply reduced as the rearmament program progressed. By the outbreak of war they had been reduced to a level of about 2 to 2 $\frac{1}{2}$ percent. Some of the original shadow factory contracts, it is now generally agreed, were extremely favorable to the contractors, evidently so favorable that details were kept closely guarded for about two years. In the meantime, and thereafter, protracted negotiations took place as to agency terms for further production by these factories and for plants subsequently built. For example, the management fee for a certain type of aero-engine which at first had been 200 £ was reduced to 80 £ and finally to 40 £. During these controversies, production usually went ahead on the basis of letters of intention.

(c) Financing sub-contractors.

In the aircraft industry, especially, production by sub-contracting was inaugurated on a large scale in mid-1938. In some cases the Government provided the funds for new plant directly to the sub-contractor on the regular agency basis described above. In others it reimbursed the parent contractor for outlay advanced by the latter to their subcontractors for plant expansion. (In still other cases the parent contractor itself provided this financing from its own funds.)

7. Construction of New Royal Ordnance Factories.

Much of the additional capacity for guns and ammunition required by the expanded service Arms was provided by new and extended Royal Ordnance Factories, financed, constructed and operated by the Government.

V. Actual Plant Expansion in Certain Strategic Industries.

1. Summary of results obtained under the British armament program.

(The new plant capacity created in industries of strategic importance to British rearmament is summarized here. More detailed description of the efforts and results in each of these industries is included in the sections which follow.)

Aircraft.

Plant expansion was most marked in aircraft. The monthly rate of production of military aircraft increased sixfold, from 100 planes per month to 600 planes per month, from 1935 to May, 1939. Government procurement of aircraft and spare parts, according to the official publication "Air Estimates," increased from about £ 7 million in fiscal 1935-36 to over £ 50 million in 1938-1939, and to well over £ 100 million in 1939-1940.

Much of the expanded capacity which permitted procurement at this greatly increased rate was financed and constructed by private industry. In the years 1936 to 1938, inclusive, 56 new privately-owned aircraft factories were opened and 33 extended. Neither the amount spent on this expansion nor its capacity to produce aircraft is known, but it must have been a sizable portion of total capacity expansion. It is known that the capital of the private British aircraft industry rose from about £ 20 million in 1934 to about £ 50 million in March, 1938.

The government itself added to aircraft capacity an amount which is indicated by the following figures. The original shadow factory scheme consisted of 8 new plants constructed during 1936 and 1937. By mid-1939, 8 new shadow aircraft factories, and a large but undetermined number of extensions, had been built by the government to be operated by private enterprise. The original shadow factories cost £ 6.8 million and, according to "Air Estimates," total Air Ministry expenditures for governmentally-owned aircraft plants and extensions, including the 8 original shadow aircraft factories, totaled £ 26.1 million during the fiscal years 1936-1937 to 1939-1940 inclusive.

Although this increased capacity, adding privately and governmentally-financed plant together, was very large, it was insufficient to attain the aircraft output which British war plans called for and was even more deficient in comparison with the needs which the course of the war revealed.

Munitions.

From the beginning of serious rearmament in 1936 to January, 1940, 27 new Royal Ordnance Factories, owned and operated by the government, were constructed. During the three years 1936-1937 to 1938-1939 inclusive, the Army spent a total of about £ 4½ million on new plants and extensions for the production of guns and ammunition to be operated on an agency basis by contractors. Navy Estimates for government-financed factories and extensions were £ 1.86 million for the fiscal years 1937-1938 to 1939-1940 inclusive. Fifteen of these government-owned, privately-operated munitions plants were built or being built by mid-1939 and many more, plus numerous government-financed extensions, had been laid out by January, 1940. Privately-financed munitions plants supplemented this increased governmental plant capacity to a minor extent. During 1937 and 1938, 17 new privately-owned munitions plants were opened and 4 extended.

Machine Tools.

No guarantees to induce plant expansion were given to the machine tool industry during the rearmament period, and except for slightly expanded machine tool-making facilities in Royal Ordnance Factories, the government financed no expansion itself. Not until the spring of 1939 did it even use persuasion to induce expansion in this industry. As a consequence of this laissez faire policy, plus extreme reluctance on the part of the industry to expand their facilities, there was virtually no increase in machine tool capacity until 1939. There was then considerable expansion and, with greater intensity of use of pre-existing facilities, machine tool production is said to have tripled during 1939. However, the limited capacity of the British machine tool industry has remained during the war, as it was before, perhaps the most crippling bottleneck in the British war economy.

Iron and Steel.

Although there was no formal governmental program either to encourage expansion of British iron and steel capacity or to build government plants, the actual increase of capacity in these industries during the years of rearmament was considerable. Steel capacity was expanded from its 1936 level of about 12 million tons per year to about 14,700,000 tons per year by June, 1939, an increase of slightly more than 25%. Pig iron capacity by September 1938, was somewhat more than 10 million tons a year, about 20% greater than its level of 1936. Despite this growth, supplies of steel, especially of special types, were recurring bottlenecks to the armament industries during the entire period of rearmament and war.

Shipbuilding, Aluminum and other industries.

Capacity to fabricate aluminum, a serious bottleneck during 1937,

was made sufficient by private expansion encouraged by government aircraft material orders and by official persuasion. Shipbuilding capacity was adequate from the beginning, and only a program of repair and modernization of naval shipbuilding facilities was required. Although increases of capacity in the general engineering industry were sizeable during 1936 to 1939, they were inadequate to expanded needs. The adequacy of the moderate expansion of the chemical industries for war needs cannot be assessed.

2. The Aircraft Industry.

Plans for Airforce Expansion

The British plans for expansion of the Royal Air Force were a series of many revisions of the program laid down in May, 1935 to expand the then level of about 850 first-line planes to 1500, with appropriately increased reserves, by March, 1937. The first of these revisions, that of 1936, raised the projected March 1937 level to 1750 first-line planes, and called for 2150 (excluding 350 Fleet Air Arm Planes) by March, 1939. Beginning in 1937 the plans were given letters, and the letters "A" to "O" were run through before the war broke out. There is no need to trace their evolution in detail. "Plan L" of May, 1938 extended the date of maturity to March, 1940, and called for 2860 first-line Royal Airforce planes (plus 500 Fleet Air Arm planes), and greatly increased reserve strength by that date. In November 1938, after Munich, the Government announced their intention of increasing the first-line strength projected in Plan L by 30% and of increasing reserve strength in even greater proportion.

The extent to which plans were fulfilled is impossible to measure accurately, but on the whole it was disappointing. In general, plans came to be more nearly met as time went on, the biggest disappointments being in 1936, 1937 and the first part of 1938; owing to official secrecy which grew as war approached and was practically complete thereafter, one can say little more than this.

The growth in the number of "first-line" military planes, excluding planes belonging to the Fleet Air Arm, is shown in the table below. These figures do not indicate accurately the growth in the total capacity for producing or the output of military motors and planes during these years, nor the total strength of the Royal Air Force. The proportion of total airforce strength "in reserve" became steadily greater as the air program progressed. The relation of current aircraft output to growth in first-line planes depends not only upon the amounts going into reserve, but also upon the rate at which old planes are taken out of first-line and put in reserve or scrapped. During the earlier years of expansion the average first-line life

of a plane was about four years; later, according to official statements, this period was much reduced. Hence, figures for growth of first-line planes seriously underestimate growth of both aircraft output and total air force strength. However, regardless of these factors, the rate of growth of "First-line" military planes shown in the table below was continually below plans and is not impressive, especially in view of what are now known to be wartime requirements.

British "First-Line" Military Planes^{1/}
(Excluding Fleet Air Arm)

<u>Date</u>	<u>Number</u>
April 1, 1932	815
" " 1933	815
" " 1934	855
" " 1935	850
" " 1936	1080
" " 1937	1568
Dec. 1, 1937 ^{2/}	1814
March, 1939 ^{3/}	2022

^{1/} Official figures as reported in Engineering, February 3, 1939, p. 132.

^{2/} Official figures suppressed thereafter.

^{3/} Estimate by Engineering, February 3, 1939, p. 136.

Expenditures on Aircraft Supplies

The tremendous expansion of aircraft output which the expanding plans required can best be gauged by the expansion of expenditures on aircraft supplies during the rearmament years which are set forth in the following table.

British Air Estimates^{1/}
(£ million)

<u>Fiscal Year</u>	<u>"Aircraft and Spares"</u>	<u>Total "War-Like^{2/} Stores"</u>
1934-35	5.9	8.7
1935-36	6.9	13.2
1936-37	19.6	30.3
1937-38	29.7	48.1
1938-39	51.8	78.2
1939-40	93.6 ^{3/}	164.4 ^{4/}

By 1938-39 expenditures on aircraft and spares, and upon warlike stores as a whole, had been multiplied by about 9 times their 1934-35 figures. The increases planned for 1939-40, before the outbreak of war, jumped these multiples nearer to twenty. Even from 1936-37 to 1938-39 Estimates for "aircraft and spares" increased by 264% and those for "total warlike stores" by 387%.

1/ Air Ministry's Annual Estimates, Vote 3, "Technical and Warlike Stores," sub-classification, "Aircraft and Spares". Since detailed figures such as these for actual expenditures of the Air Ministry are always two years or so in arrears, Estimates (including Supplementary Estimates) are used throughout. They are sufficiently accurate for the earlier years for which alone actual expenditure can be obtained.

2/ Includes, besides aircraft, instruments, ammunitions, some research expense, etc.

3/ Estimates for April, 1939 Budget only.

4/ Includes £ 40 millions of unallocated Supplementary Estimates.

Privately Financed Aircraft Plant Expansion

The British began in 1935 with the hope that privately-financed expansion, induced by increased military orders, would take care of the additional plant requirements which the air program necessitated. Private capital outlay was encouraged by the financial provisions as to redundancy, shorter depreciation periods, and promises of post-emergency priorities as to orders described in Section IV above. In fact, the larger aircraft firms did expand capacity, and new firms were launched. Whereas the total investment of the private aircraft industry has been estimated at about £ 20 millions in 1934-35, it rose to about £ 50 millions by the end of 1938. In 1938 almost all aircraft concerns expanded their privately-owned works considerably and further additions were made in 1939. Although it is impossible to measure this private expansion accurately, the following data from the Board of Trade's annual Survey of Industrial Development, which reports all privately-owned factories opened and extended which give additional employment to more than twenty-five persons, indicates the magnitude of this activity.

British Aircraft Factory Development

	Opened	Extended	Closed
1934	1	-	21/
1935	7	4	11/
1936	15	12	11/
1937	18	8	62/
1938	23	13	3
Total 1935-38	56	33	10

Government-Financed Expansion

By late 1935, however, it was clear that private expansion, even so protected, would be neither large nor rapid enough to meet expanding needs. The first move toward government-financed facilities was the "shadow factory" scheme, which got under way in early 1936.

(a) Original "Shadow" Factories

This scheme was a compromise of several interests. The government wished to accelerate production by tapping

1/ Transfers to another area.

2/ Four were transfers to other areas.

the "mass production" methods and general industrial experience of the motor industry. The motor industry wanted no interference with their growing automotive business. The aircraft producers did not relish the prospect that the motor industry might become a competitor. Although the government would have preferred that the motor industry go into aircraft directly, either by using a part of their existing facilities or by building extensions, it was persuaded to put up the money for the "shadow factories". Eight of these factories or extensions were constructed beginning in mid-1936 -- four for producing engine components, two for airframes, and two for engine assembly. Their total cost, however, was only \$6.8 millions. All but the engine assembly plants were built by, and located "in the shadow of" motor firms. The engine assembly plants were extensions to aircraft firms' works.

The contracting firm in each case acted as agent for the government in constructing the plants for a construction fee, and managed production on behalf of the government for a management fee.^{1/} All outlays were made by the contractor, who was reimbursed by the government. The government retained title to the plant and equipment. The aircraft firms turned over their designs to the motor firms and gave them technical assistance when necessary.

It was originally planned that the shadow plants would be used only during the current expansion of the air force, and would be maintained thereafter as "stand-by" facilities, in Government ownership, should they be subsequently needed. Actually, of course, they have been in production since they were completed.

As indicative of the time necessary to bring such plants into use, the engine factories began production in July, 1937. One of the two airframe factories began in January, 1938, the other shortly thereafter. The group as a whole did not reach full production until mid-1938, more than two years after construction had begun.

(b) Government-financed plants for the aircraft industry

By early 1938 the combination of expanding air force plans and lagging production made it necessary to broaden governmental participation in aircraft capacity expansion beyond the confines of the original shadow scheme. Some disappointment with the operation of these by motor firms,

^{1/} For a discussion of this: see above, Section IV, 6, pp. 12-14.

plus a desire not to interfere with the normal activity of that industry, convinced the government that further expansion should consist of extensions to the capacity of the "professional" aircraft concerns. But the aircraft firms had already expanded considerably (from an investment of about £ 20 millions in 1934 to about £ 50 millions at the end of 1938), and their own resources as well as their bank credit were strained. So large was the air program and so clearly "emergency" its nature that, even with capital guarantees, the money for further extensions could not be obtained from private sources.

Hence the government began financing new "shadow" factories, on much the same basis as the original ones, but attached now to aircraft firms and managed by them alone. It is known that in mid-1939 there were, including the original eight, sixteen "shadow" aircraft plants either built or building, and eleven of these were in operation in February, 1939.

(c) Financing Subcontractors of Aircraft Producers

In the middle of 1938 the Air Ministry reversed its previous view, which had been based upon a "dictum" laid down by a high government official several years before, that subcontracting in the provision of aircraft was ineffective. It began very actively to encourage subcontracting in order to tap all available machine tools and shop capacity. It circularized all industrial concerns in the United Kingdom, asking for information as to any surpluses of capacity above their current requirements. Ten thousand firms replied. The aircraft firms were then told where idle capacity existed. They were required to subcontract at least 35% of their work. In fact, in some cases the proportion of work subcontracted reached as high as 75%. In case an aircraft firm was unable to find suppliers, or the subcontractors required finance, the Government stepped in to finance the subcontractors, either directly on the agency basis or indirectly by reimbursing the parent firm for funds advanced to subcontractors. Motor, general engineering and even shipbuilding firms were thus brought into aircraft production. By the end of 1938 there were about 3500 subcontracting firms so engaged, many with government-financed expanded facilities.

(d) The Extent of Government-Financed Aircraft Capacity as a Whole

The total value of the capacity which government provided to supplement private expansion for aircraft is indicated by the Air Estimates set forth year by year in the

table below. These estimates cover the outlay upon the original shadow factories, the ones built subsequently, and government-financed facilities used by subcontractors.

British Air Estimates -- "Works and Lands for
Factories and Extensions to Contractors' Works"1/

<u>Fiscal Year</u>	<u>£ Millions</u>
1936-37	0.5
1937-38	4.0
1938-39	5.3
1939-40	16.3 <u>2/</u>

Since, however, they measure only the anticipated payments by the Air Ministry for financing capacity during each year, they underestimate the amount of government-financed aircraft capacity actually put under way in the later years as the program grew. They seriously underestimate the capacity so provided in 1938-39, since the payments for much of this would fall in 1939-40. They are not even indicative of the amounts projected for 1939-40, much less the amount actually undertaken during the year.

Since the original shadow factory scheme cost only £ 6.8 millions, and since total planned government outlays for this purpose totalled £ 26.1 for the four years 1936-37 to 1939-40, it is plain, however, that the original shadow scheme was but the beginning of government aid, which grew much larger later. There were 16 new shadow aircraft factories by mid-1939, and of the 374 plant extension built on government account up to January, 1940 it is known that the large majority were for aircraft or parts thereof.

(e) Special Difficulties in Securing Expanded Facilities
and Output

The basic impediment to the expansion of British aircraft procurement was, of course, the failure to plan in advance for the successive increases of output and therefore of capacity which proved to be needed. This fact made difficulties recur which might have been ironed out once for all at a fairly early date. But some account of

1/ Includes bedded-down power-driven machinery for these factories. Supplementary Estimates are included through 1938-39.

2/ Does not include Supplementary Estimates, the amounts of which devoted to this purpose are unavailable.

the important difficulties as they occurred may throw light upon the additional reasons that the results of the British aircraft program were disappointing.

The first bottlenecks were felt in 1937 before the program was well under way. They were (1) a shortage of aluminum fabricating capacity and (2) shortages of very special types of machine presses for molding the wing and body parts of the plane. As pointed out in the sections on machine tools and aluminum capacity, below, these shortages were ironed out before long, but they would have caused serious delay had not design problems and limited aircraft capacity delayed the need for them.

Despite the extensions of capacity started in 1935 and 1936, production was below expectations both in 1936 and 1937. New capacity did not become effective on any large scale in those years. The shadow factories contributed nothing in 1936 and very little in 1937. In addition the industry experienced scarcities of managers, skilled workmen and machine tools. A leading representative of British aircraft stated that the major bottleneck on the "labor" side was lack of managers and supervisory personnel trained in aircraft technique. These scarcities were greatly aggravated by the competition for these resources from the expanding motors and general engineering industries. Some overtime was worked (though two shifts were not generally used before February, 1939 at the earliest); apprenticeship was expanded; and some government-trained personnel were made available; but on the whole the industry was held back by lack of both facilities and personnel. The effective use of what was available was at first reduced by frequent disputes between the Air Ministry and the concerns, and by the propensity of the former to give small individual orders and to plan for the introduction of new types before their designs were ready, mistakes which produced periodic stoppages and inefficient use of large plants.

During 1937 the situation improved somewhat. Some shadow factories began producing. Disputes between the Air Ministry and the contractors became less frequent. Several firms reached an agreement by which they ceased "poaching" upon each others trained personnel. In early 1938, the periodical Engineering stated, "... the organisation of the industry has been adjusted to rearmament requirements and the rate at which military machines are being delivered is considered satisfactory . . ." 1/

1/ January 21, 1938.

But this confidence was misplaced. Capacity was still short, and in addition, air force plans were still expanding. The plant, machine tool and personnel shortages were more acute than ever. There was no notable improvement in output until the latter half of 1938, after Sir Kingsley Wood had replaced Lord Swinton as Air Minister in May. Then the subcontracting scheme was got under way, the administrative machinery for the allocation of contracts was greatly improved, and the original shadow factories reached full production. Between May and October, 1938, according to a statement by the Air Minister, there was a 50% increase in production, and by the end of the year the rate of production was double that at the end of 1937.

The monthly output of military planes at different dates during the rearmament period is shown below. It took two years to double production from the 1935 level, whereas a much larger production was doubled during 1938, most of it in the last six months.

Output of British Military Planes^{1/}

	<u>Units per Mo.</u>
Before 1935	50
Average 1935	100
End 1937	200
End 1938	400
May, 1939	600 ^{2/}
(Aug. 1940	1800) ^{3/}

The subcontracting system was of great assistance in aircraft production during 1938 and thereafter. Its efficacy was reduced, however, by these factors: (a) the individual aircraft firms did not always allocate their subcontract work rationally as to location and capacity of the subcontractor; (b) there was no coordination of subcontracting for the industry as a whole; and (c) in the main only "surplus" capacity was reached, since there were no priorities given to the aircraft firms.

^{1/} Engineering, Febr. 3, 1939, p. 132.

^{2/} Estimated by Engineering on basis of statements by Air Minister.

^{3/} Reported by P. M. September 16, 1940, p. 7.

Scarcity of capacity, tools, skilled labor and managers remained great in early 1939. The output of the private and governmental plants which had been put into construction in 1938, and some part of the output of those which had been begun in 1937, was not yet available. By this time Britain was on the eve of war, with a shortage of both aircraft and capacity to produce it which has been sorely felt since. From 1935 to mid-1939 the Government and the industry were shooting at a target that moved faster than its projectiles. They failed to "load" the target by constructing facilities that were adequate to a larger job than was at the time contemplated.

One very important reason why plant expansion for aircraft was piecemeal and tardy, and output from plant at hand delayed, was the reluctance of both government and industry fully to harness the motor industry to the program or, failing that, to control its competition for needed resources. The motor industry had been expanding rapidly since the depths of the depression. Output of private cars and commercial vehicles combined rose from an annual level of about 230,000 in the years 1929-1932 to 462,000 in 1936 and further to 508,000 in 1937. In the three years 1936-38, 44 new motor car and cycle factories were opened and 22 extended. The shadow factory scheme was in essence a measure by which the motor industry could be "let alone", yet contribute something to the air program. Although the motor industry did increasingly aid in aircraft production, no effort was made even in 1938 to reduce the capacity used for non-military purposes. In 1937, 19 new motor (and cycle) factories were opened and 8 extended; the corresponding figures were 13 and 4 as late as 1938. This absorbed labor, machine tools, and other capital goods which would have been available for aircraft had either some motor works been directly turned into aircraft plants, or the industry's output been restricted in order to reduce competition with expanding aircraft plants. The steel, non-ferrous metals, tools and skilled labor available were insufficient for both expanding aircraft and motors.

The output of motor vehicles fell from 508,000 in 1937 to 445,000 in 1938 and motor companies adopted the tool and labor-saving measure of making gradual changes in type and engineering rather than sharp changes accompanying new models. Both events seem to be attributable to general economic conditions rather than to deliberate policy to aid rearmament. The recession, plus rising costs and prices, cut down the demand for automobiles. Scarcities of labor and of strategic capital goods and materials made it necessary to cut down the range of innovation. The competition felt by the motor industry from the expansion of the aircraft industry was but the other side of that which was making difficult the expansion of aircraft plant and production.

3. Munitions

It has long been British practice to supply most peace-time munitions requirements from Royal Ordnance Factories, constructed, owned and operated by the Government. From the beginning of serious rearmament in 1936 to January, 1940, 27 new Royal Ordnance factories were constructed. Their capacity or their cost cannot be ascertained, but it must have been considerable.

In addition to these ordnance factories, the Army spent fairly sizeable sums on new plants to be run on an agency basis by contractors--"shadow" munitions plants, to follow Air Ministry terminology. The Army Estimates show expenditures for these and their equipment at £ 75,000 in 1936-37, £ 2,170,000 in 1937-38, and £ 1,900,000 in 1938-39, a total of about £ 4½ millions up to April 1, 1939. It is known, moreover, that there were roughly 15 such munitions plants built or building in mid-1939, and many more, plus numerous government-financed extensions, by January, 1940.

The Navy's program of capacity expansion was smaller than that of the Army. According to Navy Estimates, expenditures for "Additional Factories and Extensions to Contractors' Works" were not made before 1937-38. For that year they were £ 980,000, for 1938-39, £ 460,000, and for 1939-40, £ 420,000, a total of only £ 1.86 millions in the three years. The use to which these facilities were put has not been ascertained.

4. Machine Tools

Since Britain's machine tool industry had not expanded appreciably from the early 1920's to 1935, an expansion of capacity in this sector was badly needed for any large scale rearmament effort. Yet, during the years 1935, 1936, 1937 and 1938 the industry refused, in spite of the obvious deterioration of the international situation, to expand plant and equipment and to train labor, and by failing to do so, sustained considerable criticism in the Parliament and throughout the country. The Government gave no financial guarantees to this industry, and until 1939 neither pressed hard for expansion nor financed any appreciable new capacity itself. To relieve the shortage foreign machine tools were admitted duty free from time to time, an expedient evidently preferred by the industry to risking capital expansion without guarantee.

The lack of expansion of machine tool capacity is proven by the very negligible number of new factories and extensions in this line during the period 1936-38. Not only was the development small during each year, but these years of rearmament effort showed no increase over the years 1934 and 1935.

Machine Tool Factories^{2/}

	<u>Opened</u>	<u>Extended</u>	<u>Closed</u>
1934	3	5	0
35	5	0	1
36	3	2	2
37	4	3	1
38	3	1	0

During the earlier years of rearmament, it was mainly the aircraft industry which felt the shortage of machine tools. In 1937, there was a serious shortage of large presses to shape the bodies, wings and other parts of airframes. Had not design and other problems delayed aircraft production in 1936 and 1937, this would have been a serious bottleneck. During 1938 this special type of machine tool was acquired in sufficient quantity. A serious shortage then developed, as the air and other programs expanded geometrically, in general types of machine tools and of machine shop capacity. To meet these needs the Government in the middle of 1938 began actively to encourage subcontracting in aircraft in order to tap all available machine tools and shop capacity.

Although the subcontracting system was of great assistance in securing machine tools for aircraft production during 1938 and 1939, it did nothing directly to increase machine tool making capacity. It merely made use of existing machine tool and shop surpluses which might otherwise have remained idle. To some extent it undoubtedly diverted machine tools from civil to armament use, but "business as usual" remained the fundamental principle.

By the beginning of 1939 it was strikingly apparent that more drastic steps had to be taken. The government then added to its program of financing aircraft subcontractors a program to expand machine tool capacity in general. It built additional capacity in its ordnance factories and induced the British machine tool producers association to expand both output and capacity. As a result of these steps machine tool production increased rapidly during 1939, even tripling, according to one informed estimate. Even with the help of greatly expanded imports, however, machine tools have remained a bottleneck during the war period, for by 1939, and especially once the war had started, machine tool needs were vastly expanded by the requirements of a large army.

British experience throws some light on the question, now important in the U. S., of the extent to which the pressure of machine tool shortages in aircraft production can be relieved

^{2/} Board of Trade, Survey of Industrial Development.

by using machine tools in the automobile industry, either by their transfer to aircraft plants or by the conversion of automobile plants to aircraft production. When the British first considered this expedient, they estimated that 35% of automotive machine tools could be put to aircraft use. Experience proved that even this estimate was too high. British authorities believe, moreover, that in view of the greater specialization of American automotive methods, the proportion which could be converted in this country would be considerably lower than in Britain.

5. Iron and Steel

Britain was short of capacity for the fabrication of iron and steel at the outset of her rearmament program. There had been long years of delay in plant modernization. Rationalization schemes had in many cases reduced total capacity. The powerful British Iron and Steel Federation had rather successfully fought the entry of new competitors and new processes. Until late in the rearmament program, and even into the war itself, the British government did little to induce expansion in these industries, and the Federation's policy as to sanctioning expanded capacity remained extremely conservative.^{1/}

The most striking case of stifling of new development is the now famous "Richard Thomas Affair", in which the Iron and Steel Federation first placed obstacles in the path of the financing of Britain's first modern strip mill and later, upon a pessimistic estimate of the concern's financial prospects made by the firm's bankers, ousted its manager, Sir William Firth, and itself assumed virtual control through a Control Committee. The bankers' appraisal proved subsequently to be false. The evidence on this affair is murky and conflicting, but it appears that the Iron and Steel Federation, fearing the competition of this large, independent, and technically efficient producer, deliberately sought to sabotage the project. Even during parts of the war period the Richard Thomas plant was reported to be operating at much below capacity. Very recently (see Economist, August 10, 1940, p. 183) Mr. Herbert Morrison, Minister of Supply, has exonerated the Control Committee of charges that they were deliberately restraining the plant's activity. (The Economist is not convinced, pointing out that Mr. Morrison's advisors and informants in this matter are, in the main, the leaders of the Steel Federation.)

^{1/} See the Economist, April 27, 1940, p. 776-7; June 29, 1940, pp. 1114-15; July 13, 1940, pp. 39-40.

Nevertheless the rearmament years induced considerable--though insufficient--new capital outlay. The year 1936 was one of relatively full use of facilities in iron and steel. Hence one can get a rough measure of the expansion in normal capacity by comparing later production rates with 1936. Using that year as a base, the Board of Trade index of pig iron production rose to an average of 110 for 1937 and to 115 in July 1939. Steel production increased to 110 and to 117 for the same periods. Somewhat greater increases in capacity are indicated by estimates made by the Economist. That journal estimated that the capacity of the iron and steel industries was increased during 1937 by about one million tons each. Whereas in 1936 steel production (at near capacity) was only 11.7 million tons, the Economist estimated steel capacity as of June 1939 at about 14.7 million tons per year, an increase of slightly more than 25%. Pig iron capacity was estimated by the Economist as of September 1938 at somewhat over 10 million tons a year, 20% greater than its near-capacity production of about 8 million tons in 1936.

The number of insured workers rose much more moderately, from 269,000 in July 1936 to 286,000 in July 1937 and July 1938, and to 293,000 in July 1939, an increase of only nine per cent over the three year period as a whole. But the percentage unemployed fell from almost 17% to about 8% during the same period.

New plant development in the iron and steel industries during the rearmament years is shown in the following table.

Iron and Steel Plants^{1/}

	<u>Opened</u>	<u>Extended</u>	<u>Closed</u>
1934	22	10	25
1935	28	16	23
1936	38	24	20
1937	44	31	16
1938	34	22	34

Although these figures appear impressive, --in the absence of information as to the size and capacity of the new and extended plant, they no more than substantiate the conclusion that capital construction was active. The large number of plants closed even during the pressure of rearmament is indicative of the freedom of action which the industry was permitted.

^{1/} Board of Trade, Survey of Industrial Development.

In any case the expansion of capacity did not keep pace with expanded needs. Shortage of steel, especially of certain special types, was a recurring "bottleneck" to the engineering and armament industries during the entire re-armament period. Relaxation of import quotas and duties after 1936 alleviated the current shortages but did nothing to free Britain from her dangerous dependence upon imported steels.

6. Aluminum Fabrication

Although combined domestic and foreign supplies of raw aluminum were adequate to defense needs, by 1937 it became apparent that the capacity for its fabrication and conversion into alloys was grossly inadequate to meet the needs of expanding aircraft production. During that year three companies (Northern Aluminum, High Duty Alloy and Boothe & Co.), spurred by governmental persuasion, tripled the industry's capacity, raising it from about 3,000 to 10,000 tons per annum. This met the need for the time being, but the low level of this British capacity is striking when compared with that of Germany, which, it has been estimated, was in the neighborhood of 180,000 tons per year at about this same time.

Since the initial expansion of British capacity in 1937, partially as a result of further government persuasion, but without government financing or guarantee, total capacity is said to have been further multiplied by fifteen times or more. Except in 1937, supplies of finished aluminum and alloys do not appear to have been serious bottlenecks.

7. Shipbuilding Capacity

The government-owned naval yards, greatly expanded during the World War, were never dismantled, and Britain's capacity to build merchant ships had also been well in excess of requirements since the early post-War years. Hence there was no great need for expanding shipbuilding capacity. The Navy did undertake a large program of repair and modernization of their own building facilities but the dimensions of that program are concealed by the nature of the Navy Estimates. That shipbuilding did not press upon capacity during the re-armament years is indicated by the fact that insured workers did not greatly increase, that unemployment in this industry remained high, and that idle shipbuilding berths continued to be a very sizeable proportion of total capacity. The relevant data follow:

	Ships Building at end of period (1,000 tons) Index (1936=100)		No. of Insured Workers 1/ (1,000) Index (1936=100)		Per cent of Insured Workers Unemployed 2/	Per cent of Berths Idle (September)
1935	743	77	157	97		57
36	964	100	162	100	32.	45
37	1125	117	173	107	23.	35
38	780	81	175	108	20.	3/
39	3/	3/	176	109	17.	2/

1/ July

2/ Based on average of four months, one in each quarter year.

3/ Unobtainable.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 19, 1940.

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with the Secretary's instruction, passed to me through Mr.

McKay, I received at twelve noon yesterday Mr. Patrick Hill, Third Secretary of the British Embassy, who is a specialist on questions pertaining to oil, and who called as substitute for Mr. Marris, who, in turn, has succeeded Sir Andrew Agnew. Mr. Hill left with me a memorandum on petroleum which I handed to Mr. McKay for the Secretary. He promised to give us any supplemental information which his Embassy might receive.



G-2/2657-220

RESTRICTED

No. 224

SITUATION REPORTM.I.D., W.D.
October 19, 1940.
12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

There was a marked diminution in bombing over England, probably ascribable to poor flying weather. The London area, Liverpool and Birmingham were attacked.

The R.A.F., in what was described as bad weather, bombed shipyards at Kiel and Hamburg, rail communications in the Dortmund area and a few isolated objectives.

II. Mediterranean and African Theaters of War.

No ground operations reported. The Italian Air Force was active in western Egypt, raiding Mersa Matruh, Siwa and El Daba. The R.A.F. made sporadic attacks in East Africa.

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TENTATIVE LESSONS BULLETIN
No. 59
G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, October 19, 1940.

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

USE OF SMOKE BY BRITISH ARMORED UNITSSOURCE

This bulletin is based upon the opinion of three British officers as expressed early in October, 1940. Two of the officers have had special training in chemical warfare, while the third has had long experience in the armored forces of the British Army. All three officers participated in the campaign in Flanders.

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1. DETAILS OF SMOKE-PRODUCING
WEAPONS FOR TANKS
2. TACTICS IN USE OF SMOKE BY
ARMORED UNITS
3. TRAINING
4. FUTURE DEVELOPMENT OF SMOKE
WEAPONS FOR TANKS

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CONFIDENTIAL1. DETAILS OF SMOKE-PRODUCING WEAPONS FOR TANKS

a. The Smoke Candle Projector has a breech-loading base similar to that of the Bishop trainer used by the Field Artillery, although on a much larger scale. The propelling charge is 16-gauge ballistite blank shotgun shell, while the projectile is a standard smoke candle. The weapon gives a range of 100 to 150 yards. It is placed outside the tank and, before it can be fired, one member of the crew must reach out of the opening and load it.

b. The Two-Inch Mortar is a breech-loading smooth bore weapon designed for loading inside the tank and for firing at a high elevation. It employs phosphorus-filled shell and is used as a smoke projector. In many respects the weapon is a duplicate of the two-inch MacBride mortar which was developed by the Chemical Warfare Service for the same use on tanks that is now recommended by the British. The MacBride, however, was carried outside the tank and loaded mechanically at the muzzle by a crew member from inside. One of the British officers expressed a preference for the two-inch mortar over the smoke projector because of its greater range.

c. The 3.8-Inch Smoke Mortar is especially designed to carry the largest practicable smoke filling. It is a breech-loading weapon, and it is fired from inside the tank. The normal proportion of shells is about 90% smoke and 10% high explosive.

2. TACTICS IN USE OF SMOKE BY ARMORED UNITS

The experience of the British Army indicates that smoke should not be placed on an objective to be attacked by tanks and armored units. A faint haze of smoke in the area of the objective makes it impossible for tank crews to see antitank weapons, and the only target offered them is the flash of an antitank gun. The tank, however, looms up as a black bulk in a thin smoke and affords an excellent target for antitank weapons. A heavy smoke, either on the target or between the tank and the target, always tends to produce confusion and lack of coordination in the attack.

Since it has been found by test that a tank attack must go forward by bounds, the tactics of the British armored units depend upon the terrain. In open terrain, accompanying artillery places a smoke barrage on a definite line and keeps it on that line for a period of ten to fifteen minutes, allowing the tank units to advance to within a comparatively short distance of the smoke barrage. The barrage is then lifted on a front line, and the tanks advance the next step. This technique of fire is used only in open country where the advance must be made without benefit of cover.

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On rolling terrain, smoke is sometimes placed on successive hill lines to afford general cover from the front, and observation points are smoked. All of this work is accomplished by accompanying artillery. The weapon used for this purpose in the British Army is the 25-pounder field gun. It has a caliber of 3.45 inches and a comparatively large shell capacity. The smoke shell used has either a time or a percussion fuse with a base ejector which throws a number of smoke-burning candles from the base of the shell. Far more effective results have been secured from this smoke shell than from the ordinary conventional type with the bursting charge in the nose and the smoke material surrounding the bursting charge.

In an advance, the tanks themselves are prepared to use smoke locally. Each tank is provided with a weapon for projecting smoke to points near at hand. This smoke should be placed between the tank and the antitank gun when it is impossible to locate the latter and to reply by directly aimed fire. Much importance is attached to the idea that direct fire over an unobstructed landscape is essential for armored force success where weapons can be located. Smoke is to be resorted to only where antitank weapons cannot be definitely located, where fire is coming from a flank, or where tanks or other armored units are surprised by enemy fire and need a few minutes to "think it over" before they decide upon what action to take.

It appears that the principal British tank and armored units depend upon the smoke candle projector, the two-inch mortar, and the 3.8-inch smoke mortar for meeting unexpected flank fire from antitank weapons and that the distribution of weapons for this purpose is such that the use of smoke is rigidly controlled. One of the officers pointed out emphatically that, while smoke was a useful weapon, it had to be controlled and that in no case should subordinate commanders be allowed to use smoke too freely. Furthermore, weapons for the use of smoke had to be specifically designed for that purpose.

In a tank squadron, all 3.8-inch mortars, normally four, are in the headquarters troop, and the squadron commander's tank is always equipped with one. The idea is that if antitank weapons open fire from the flank during an attack, the squadron commander will explore the area and fire a few smoke shells from his tank, thus indicating the area to be smoked. The other tanks from the headquarters troop then fall out of line and thicken the smoke by additional fire until the attack has passed or some other arrangement has been made.

Smoke for tactical use in an attack is normally furnished either by supporting artillery or by tanks themselves. Tanks place

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their smoke upon unseen antitank weapons or use it as a means of protecting themselves when all other weapons fail.

3. TRAINING

The British place a great deal of stress on training between their Artillery and their armored units so that each one normally carries out its proper share of the operation. All commanders are carefully schooled and all personnel trained in firing smoke as an aid to tactical success, but the theory that smoke must be rigidly controlled is never lost sight of.

4. FUTURE DEVELOPMENT OF SMOKE WEAPONS FOR TANKS

One of the officers was of the opinion that it might be well to develop a special smoke shell with low velocity characteristics and high filling efficiency for use with tanks carrying guns of 75-mm or larger. Each of these tanks would be provided with a reasonable number of shells. This would obviate the need for a special weapon, such as the 3.8-inch mortar, on certain tanks in the unit, and it would be more economical. The officer also felt that every effort should be made to standardize the two-inch breech loading mortar as a smoke weapon, and that such a mortar should be installed in each tank.

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Paraphrase of Code Radiogram Received at the
War Department at 23:15, October 19, 1940

London, Filed 13:00, October 19, 1940.

1. The Bomber Command conducted no daylight operations during Friday, October 18th. It was planned to dispatch 133 bombers that night, 29 against Channel ports, 10 against oil targets, 78 against naval targets, 5 against lines of communication, and 12 against miscellaneous targets. It is not known whether or not weather prevented carrying out these missions. The Coastal Command operated 17 daylight missions, carried out 26 sorties and provided 17 escorts for convoys, all without any losses. All night missions of this Command were cancelled.

2. Daylight activity of the German Air Force for the 18th was on a considerably reduced scale, consisting of approximately 40 single planes on raids and reconnaissance flights flying over various areas. That night a total of about 160 raids left enemy bases, with Birmingham, Liverpool and Southeastern England the principal targets.

3. Six airfields attacked by the enemy suffered little damage of operational value, but one plane was destroyed and one damaged. Two fields were reported unserviceable for night use and a third cannot be used either night or day. The principal industrial damage occurred in Birmingham where several large establishments, including a paper factory, a post office, a railroad, a gas works, etc., were damaged by fire or explosives. No industrial damage was reported in London. A high explosive bomb landed on a "pub" in London, killing two, injuring six, and burying 40 persons who probably are dead. A total of 12 were killed and 8 injured when a fire station was struck

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by a bomb. Four persons were killed when a government establishment was bombed.

4. Other than one German plane damaged, there were no daylight plane losses on either side.

5. There is no information available of shipping losses.

6. From appearance and performance it is believed that the Germans are using a new type of bomb. Eight high explosive bombs are apparently strung on a wire which is attached to a parachute of non-inflatable material. When the trailing wire makes contact with any object the lower bomb is detonated. The force of the explosion of this bomb drives the parachute up into the air. This action is then repeated until all bombs have exploded.

7. Intelligence reports received at the British War Office leave little doubt but that Germany is prepared to reinforce Italy with assistance of every kind, to include aviation, military units, and war munitions. German police, economic and military missions, as well as technicians and specialists in war industries, are now in Italy. It is repeatedly reported that the German Gestapo is now permeating Italy with its representatives who are attached to administrative and police centers.

LAE.

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

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Paraphrase of Code Cablegram Received at the
War Department at 9:24 A. M., October 19, 1940

Bern, Filed 19:57, October 18, 1940.

Information has been received from several normally
trustworthy sources that:

1. Large units have not been changed in Switzerland
and forces now under arms, exclusive of men on leave, are set
at 120,000;
2. British airplane production is estimated at 850
per month and German output at 1100 monthly;
3. Important movements, including dive bombers, are
being made into Italy and some Italian pursuit ships have moved
to Belgium;
4. The Italians have demanded that the Germans stop
up attack upon Britain and give aid in Libya;
5. Small boats and aviation have reinforced German
forces in Norway.

LEOGE.

Distribution:

Military Aide to the President
Secretary of War
State Department
✓ Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

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BRITISH EMBASSY,
WASHINGTON, D. C.

October 19th, 1940

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

David Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated
October 17th, 1940.

Naval.

Early on October 16th a British submarine attacked a 7000 ton merchant vessel escorted by 7 trawlers off Cherbourg. She fired three torpedoes all of which hit.

A naval mine-sweeper was sunk by explosion off Harwich in the early hours of October 17th.

H.M.S. "Liverpool" torpedoed by enemy aircraft in the Mediterranean on October 14th has arrived safely in port. Casualties were 3 officers and 10 ratings killed and 40 wounded.

Air reconnaissance of Kiel on October 15th showed two battle-cruisers in floating dock one pocket battleship in dry dock and two cruisers, 15 submarines and other smaller craft and merchant vessels in the harbour.

2. R. A. F. During the night of October 15th/16th attacks on invasion ports were successful, results being observed at all places except Le Havre and many fires were started in the target areas; at Brest a large calibre bomb hit power

station/

- 2 -

station and caused a fire and several explosions.

Results of attacks on the railway marshalling yards were in most cases unobserved. 88 Heavy bombers reached Kiel and Hamburg where ship-building yards were bombed and although heavy ships were not located, bursts were seen near their reported position.

A particularly satisfactory attack was made on a synthetic oil plant at Geleenkirchen which resulted in large explosions; another oil plant at Magdeburg was hit. Five aircraft bombed the power station at Dusseldorf. Fire-raising attacks were made in Magdeburg area; and some mine-laying was also carried out.

During the night of October 16th/17th, 90 aircraft were despatched to ship-building yards at Kiel and Bremen, synthetic oil plant at Leuna, ports of Bordeaux, Brest and Lorient. Weather conditions were very bad and 5 heavy bombers are reported missing.

In addition 12 heavy bombers have crashed and of their crews 8 are reported killed and 7 uncertain. The remainder are believed safe.

German Air Force.

Night of October 15th/16th (further reports) Enemy bombing attacks were heaviest so far experienced and it is estimated that 480 long-range bombers were operating over the country.

in/

- 3 -

In the London area, although casualties were severe - the preliminary reports put them at 213 killed and 915 wounded - the public morale is said to have been good.

Bombing was wide-spread although there was no damage of military importance. Reports mentioned a new type of bomb which ignites like an incendiary and then explodes.

Several fires were caused but all except two were extinguished or under control by the evening of October 16th. One timber yard and a tobacco factory were apparently still burning.

One London railway terminus is temporarily closed. Serious inconvenience to public utility services has been caused by the bursting of a sewer and consequent flooding of an underground railway station and by the interruption of water-supply in one district. With the additional aid of 2000 men of the auxiliary military pioneer Corps it is hoped to resume a third of the supply in 24 hours.

In the provinces, Birmingham was attacked for nearly 7 hours and about 100 high explosive and several hundred incendiary bombs were dropped. Damage was caused to some small factories and to two "key" factories, but full details are not yet available. Casualties are reported as 15 killed and 110 wounded.

- 4 -

During daylight enemy activity was slight and the only aircraft casualty was 1 enemy seaplane shot down in Hull. During an attack on a Shropshire aerodrome in the morning, 10 medium bombers were destroyed on the ground and there was also damage to some of the aerodrome buildings.

Enemy balloons with a small explosive charge operated by clock-work for scattering leaflets have been reported from various districts of Eastern England and Midlands.

During the night of October 16th/17th enemy activity was on a heavy scale until midnight. The main attack was directed against London and suburbs, but a small number of machines visited Wales and the Midlands. Preliminary reports indicate that damage and casualties were caused over a wide area although they were much less serious than on the previous night. In the London area 1 large fire was reported in a chemical works and small fires in 3 other factories. Birmingham was again raided and the railway station was hit but the main damage was to house property and on a very much smaller scale than the previous night. Other bombing was reported from Mersey-Side, East Anglia, Yorkshire, South Wales, Plymouth area and Kent.

4.

Summary of Air Casualties.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Seaplane	1	0	1

- 3 -

	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Unidentified	2	-	-
Totals	2	-	1

British:

One fighter (pilot safe). Five bombers missing.

5. Shipping Casualties. The "Port Oisborn" reported in my immediately preceding telegram is now known to have been torpedoed and sunk on October 11th.

One British ship (5,800 tons) straggler from an inward bound convoy was torpedoed and sunk in the north western approaches on October 15th.

It is now learned that ex-French ship "Commissaire Ramel" (10,000 tons) requisitioned by the United Kingdom Government and on passage from Australia to South Africa reported on September 17th that she was being shelled midway across the Indian Ocean. This ship is now presumed lost and it is probable that the majority of the crew are prisoners of war.

Convoys. Fifty-five ships have arrived safely in convoy in United Kingdom ports cargoes include 3 of oil, 9 of steel and 2 of chrome.

6. Middle East. On October 15th/16th Alexandria was attacked by 2 waves of enemy aircraft, the first dropped no bombs and the second dropped their bombs in the sea.

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RECEIVED
THE SECRETARY OF STATE

SA A 44 45 100 016

OFFICE OF THE
TECHNICAL ASSISTANT
TO THE SECRETARY

GRAY

Wellington

Dated October 19, 1940

Rec'd 1:50 a.m.

Secretary of State

Washington

October 19, 10 a.m.

My September 30, noon.

Minister of Finance has published notice in the GAZETTE. Compulsory provisions relating to war loan will be applied and subscriptions must be made not later than November 5th. Minister has informed me American companies and citizens will have to be treated on individual merits in each case, if they appeal from the requirement on the ground of undue hardships and that their blanket exemption cannot be granted.

PINKERTON

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COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1940

TO Secretary
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Jay Crane telephoned me from New York at 2:55 p.m., October 18. He reminded me that he had sent to the Secretary a memorandum on the Netherlands East Indian oil question. He said that since this memorandum was prepared there had been no developments as far as the Standard knows. He will inform us promptly if anything further comes to his attention.

Mr. Crane let me know that since the Secretary's conversation with Sir Andrew Agnew, there has been no further mention of the suggestion that the Standard be paid partly or wholly in sterling for oil exports to Great Britain. Consequently the Standard continues to be paid 100 percent in dollars for shipments to London.

Crane referred to the article in the New York Times of yesterday from which he gained the impression that Mr. Jones was going to be quite liberal in his loan policy with Latin America and in pressing for settlement of outstanding obligations to American creditors as a prerequisite to new credits from the Export Import Bank. Crane had been worried lest such a policy might be followed with respect to the rumored loan of \$50,000,000 by the Export Import Bank to Mexico. I told Crane that I had seen Mr. Jones' statement, but knew nothing more on the subject. I had, however, some days ago been informed by an officer in the State Department (Mr. Collado) that the story of negotiations with the Under Governor of the Bank of Mexico for a credit to Mexico had been without foundation. As a matter of fact the officer in question had been in the United States several months as a member of the Pan American Financial and Economic Committee and had only recently, while in this country, been appointed to the post of Under Governor of the Central Bank of Mexico. Since receiving this appointment he had not entered into any negotiations looking toward a loan.

Crane stated that the Standard was marking time as far as Argentina is concerned. The Standard has not been paid since last June for its exports to Buenos Aires. The sum of \$3,500,000 is now owed on such account, and this will likely go up to \$6,500,000 by the end of the year. The Standard has not been willing to accept the Argentine proposition to take 50 percent pay in sterling and 50 percent in dollars. The Standard is continuing to make shipments as usual. The Standard simply considers the total a debt owed to it. Mr. Crane will give us a revised report on their situation as of the first of November.

In conclusion, Crane reported that the Canadians were pressing the Standard with the view to effecting arrangements to permit the Canadians to conserve more of their foreign exchange. Crane thought that 25 percent of Canadian foreign exchange is expended for oil purchases. Crane will keep us informed as to his relations with Canada on this subject.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Rumanian Charge d'Affaires telephoned yesterday while I was in a conference, asking for an appointment with me for today. I called him back late in the afternoon. I told him that if his call concerned control of foreign assets in this country, he should consult directly with Mr. Fehle. I told him, however, that I should be glad to make his acquaintance and to be of any possible service to him in connection with any other business which he might have with the Treasury. He added that he hoped to call on Under Secretary Bell.

Mr. Livesey telephoned me from the State Department at 11:50 this morning to the effect that paraphrases were now completed of two messages from Bucharest, the arrival of which he had reported to me at six o'clock last night. I have now sent for these messages and they will be distributed separately. It is understood that one of them threatens retaliation against the United States by Rumania on account of our freezing order.

In this connection I telephoned Mr. Livesey at ten o'clock yesterday, in accordance with instructions given to me by the Secretary at our Group Meeting yesterday. I referred to cablegram No. 605 from American Minister Gunther at Bucharest wherein he reported that he had told a Rumanian official that the Treasury Department might have acted independently, without consulting the State Department, in extending its control to Rumanian assets in the United States. I read to Mr. Livesey the letter from Secretary Hull, dated October 10, which had recommended the extension of the Treasury's control to Rumania. I asked Mr. Livesey to have the State Department send a cablegram to the Minister at Bucharest correcting his understanding of this point. Mr. Livesey promised to prepare such a message and to submit it to the political officers of his Department.



VM

PLAIN

Wellington

Dated October 19, 1940

Rec'd 3:30 p.m., 27th.

Secretary of State

Washington.

October 19, 1940.

Imports for the first eight months of 1940 totalled pounds New Zealand thirty-four million and fifty thousand, and exports, pounds New Zealand fifty-four million two hundred and forty-five thousand, compared with imports valued at pounds New Zealand thirty-six million four hundred and forty thousand, and exports valued at pounds New Zealand fifty-four million four hundred and thirty-eight in the first eight months of 1939. The excess export balance for the same period of 1940 was therefore pounds New Zealand twenty million one hundred and ninety-five thousand, compared with pounds New Zealand seven million nine hundred and ninety-eight thousand and pounds New Zealand eight million one hundred and thirty thousand in the first eight months of 1939 and 1928, respectively. The Value of both imports and exports in August was exceptionally high.

There has been but little recent change in the net overseas assets of New Zealand banks, including the Reserve Bank, which stood at points New Zealand twenty-four million

SEVEN

seven hundred and ten thousand five hundred one August 28, 1940, compared with pounds New Zealand eight million eight hundred and eighty-three thousand one August 28, 1939. The latest figure on the Reserve Bank's net overseas assets was pounds New Zealand eight million eight hundred and seventy-one thousand on October 14, 1940 compared with pounds New Zealand five million five hundred and thirty-three thousand on October 16, 1939. The ratio of reserve to notes and other demand liabilities has fallen in recent months from forty-two point four percent on June 3, 1940 to twenty-eight point five per cent on October 14, which is three point five per cent above the legal minimum.

Import restrictions effective during the calendar year 1941 have been published. The existing restrictions on a few articles were relaxed, including automotive parts and Canadian tires, but the list of prohibited articles was extended slightly. The new schedule covers imported total requirements for the full period January 1st to December 31st, 1941, and the quotas established may not be increased. Furthermore, goods imported under restrictions in force during 1940 must arrive in New Zealand before December 31st, 1940; otherwise, they will be chargeable against 1941 quotas. The Minister of Customs stated that in administering restrictions preference would be given first to goods essential for maintaining public health, such as medical supplies and foodstuffs; second, to materials needed by primary industry, and

-3- October 19, 1940 from Wellington.

and third, to raw materials and machinery for secondary industries. In every instance importers will be requested to obtain their supplies from the United Kingdom, if obtainable from that country, secondary preference being given to other countries within the sterling area.

The imports ban on passenger cars and assembled commercial vehicles is to be continued during 1941. The importation of a limited value of unassembled truck and busses will, however, be permitted. The effect of import restrictions, motor fuel rationing and the high price of gasoline continues to restruct the use of motor vehicles. New passenger car registrations fell from eighteen thousand four hundred and seventy in the first nine months of 1939 to five thousand seven hundred and forty-six in the same period of 1940. New commercial vehicles registrations fell from three thousand five hundred and ninety-four to one thousand four hundred and nine. Total passenger car registrations on September 30th, 1940 were one hundred and ninety-six thousand two hundred and twenty-nine, a decrease of three point five nine percent from the total registered on September 30, 1939. Commercial vehicle registrations totalled sixty-six thousand six hundred, an increase of one point nine percent. Reserves of gasoline are officially stated to have reached the limit considered essential for
emergency

~~4~~ October 19, 1940, from Wellington.

emergency purposes, and an unspecified increase in the gasoline ration is to be permitted on November 1st.

The Government has announced the terms of a compulsory par loan expected to raise a minimum of pounds New Zealand eight million. Individuals and companies must subscribe at least up to the amount of income tax payable in the 1938-39 fiscal year, in computing with tax system free income will be included. Tax exemption of pounds New Zealand fifty for individuals and pounds New Zealand seventy for companies are provided for. The loan does not bear interest until October 1st, 1943, after which date it will bear two and a half per cent until maturity on October 1st, 1953. Subscriptions must be made not later than November 8, 1940.

A national savings scheme has also been announced principally for the purpose of obtaining revenue from persons of medium or small incomes who would fall within the exemption for the compulsory loan. The savings scheme includes post office investments accounts and the sale of national savings bonds, both bearing three per cent interest.

Excess profits tax legislation was enacted in October. The tax does not apply to salaries or wages and certain other forms of income. Excess profits each instance are to be determined by the commission of taxes. After deducting incomes, social security and national security taxes payable

-5- October 19, 1940, from Wellington.

payable, the residue to excess profits is taxable at sixty per cent.

A committee of the Economic Stabilization Conference recently summoned by the Government, which represents employers, wage earners and the Government, has recommended increased production and stabilization of prices and wages, and where necessary, longer working hours, as a means of checking the rising cost of living during the war period. In accordance with the present Government's policy, it was advocated that war expenditures be met as far as possible by taxation and internal borrowing, and that currency inflation be avoided.

Excellent spring weather conditions have been reported from dairying sections of the Dominion and butter and cheese production continues to show substantial increases over the previous season. Butter graded for exports in the first two months, (August 1st to September 30th) of the 1940-41 season increased by thirty-one point one per cent, and cheese, by one hundred and six per cent over the amounts graded in the same period of 1939.

At the request of the United Kingdom wool controller, New Zealand's wool exports in the 1940-41 season will be expedited. Appraisments for the coming season are to commence on October 21st, 1940, a full month earlier than usual.

Negotiations

-6- October 19, 1940 , from Wellington.

Negotiations for the purchase by the United Kingdom of New Zealand meat in the 1940-41 season were stated to be reaching a final stage in mid-October. With respect to the 1939-40 agreement it is estimated that considerably more than the minimum of three hundred thousand long tons contracted for were sold and shipped. It is also estimated that all carry-over from the 1938-39 and 1939-40 season will have been disposed of by November 30, 1940.

PINKERTON

C. P.

TFV

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from the account of the German Gold Discount Bank, Berlin, maintained at the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
October 19	\$23,000	Irving Trust Company, New York, for account of Vongibara
	\$4,000	Irving Trust Company, New York, for account of Carl Marks and Company, New York



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

For Miss Chauncey

DATE October 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

There is attached a copy of a memorandum from Mr. Knoke reporting the visit to the Federal Reserve Bank of Vice President Hart of the National City Bank of New York, concerning that bank's business with Czechoslovakia.

Mr. Knoke talked with me by telephone today in regard to the subject of this memorandum. I confirmed that we had not blocked Czechoslovak funds on this market under our Executive Order. We had studied the propriety of issuing orders covering Czechoslovakia, Poland, Albania and other territories which had been invaded or absorbed prior to the inauguration of our present system of control, but so far have taken no action.

JMP

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date October 18, 1940.

To Files
From L. W. Knoke

Mr. Boies C. Hart, Vice President, National City Bank of New York, called today at the request of Mr. Rentschler. They were receiving, he said, from time to time requests from their correspondents in Czechoslovakia to open commercial credits in favor of American manufacturers. One such recent request was for the opening of a credit of \$9,000 for aeroplane instruments (radio receiving sets) to be shipped to Japan and then to Vladivostok. National City Bank does not know where the shipments will go from Vladivostok. Inasmuch as these are normal commercial transactions for an American bank to handle, National City Bank is proceeding as heretofore, feeling that if they refuse to open such credits they would lose the business to other banks in New York. At the same time National City Bank seems to be a little disturbed about what the effect might be on public opinion in prevailing circumstances if transactions of this nature became a subject of public discussion. National City Bank was wondering, Mr. Hart continued, if the Treasury Department has possibly overlooked the advisability of blocking Czechoslovakian funds in this market. I told Mr. Hart that I would inform the Treasury Department of his conversation with me.

According to Mr. Hart, National City Bank has between 10 and 12 Czechoslovakian accounts, the average balance of which has dropped from \$714,000 in April to \$280,000 in September.

LWK:KW

COPY

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£3,000
Purchased from commercial concerns	-0-

In the open market, sterling opened at 4.03 and remained at that level throughout the morning. It was learned that one New York bank only partly succeeded in disposing of £25,000 which it had purchased yesterday from a commercial concern. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£50,000
Purchased from commercial concerns	£50,000

The Swiss franc again moved upward to close at .2320-1/2, as against .2319 yesterday.

The other currencies closed as follows:

Canadian dollar	13-3/8% discount
Swedish krona	.2386
Reichsmark	.4005
Mexican peso	.2070
Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Cuban peso	9-3/16% discount
Lira	.0505

There were no gold transactions consummated by us today.

The Federal Reserve Bank made a three-months loan of \$50,000 to the Central Bank of El Salvador, setting aside as collateral \$57,080 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$772,000, secured by \$861,665 in gold.

There were no new gold engagements reported to us today.

The Bombay gold price was equivalent to \$33.96, up 14¢. Silver in Bombay was 1/16¢ higher at the equivalent of 44.31¢.

Report by Philip Young on
Pratt & Whitney, Grumman, Brewster, and Sperry

October 19, 1940

October 19, 1940

To: The Secretary

From: Mr. Young

When I talked with Under Secretary of the Navy Forrestal just prior to his return to Washington from the Brewster Aircraft plant last Thursday afternoon, he asked me to write a report on the trip and then he would fill in whatever additional information he had collected and make any additional comments that he wished. The attached sheets give a summary picture of my own observations without Mr. Forrestal's additions with respect to Pratt & Whitney, Grumman, Brewster, and Sperry. These sheets will be expanded to include Mr. Forrestal's contribution and submitted to you as soon as possible.

All of these companies referred to have been undergoing growing pains for the last year. At the present time they represent various stages of growing pains with Brewster in the worst condition. Both Pratt & Whitney and Sperry started to expand at a relatively early date, so that they are currently more advanced in their production and management situations. Grumman has not undergone any great expansion and it is possible that it may have difficulties with future expansion. Brewster has had a highly accelerated rate of expansion and is in a bad situation with respect to both physical plant facilities and management personnel.

From this trip there would seem to be two principal items worthy of consideration: first, there should be some arrangement between aircraft companies for the exchange of engineering and production information. For example, Grumman has developed a system whereby it uses shallow pits in which to set a plane in order to bring the fuselage down to the floor level. This avoids the use of unwieldy scaffolding. Secondly, the Defense Commission and other interested agencies of the Government should take measures to institute a regular periodic inspection of all of these companies in order to eliminate potential problems and to afford a check on production progress.

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Pratt & Whitney

PRATT & WHITNEY

Despite the fact that the Pratt & Whitney plant has rapidly expanded since 1939, it gives the observer a definite impression of efficiency and good management. At the present time this plant is turning out approximately a total of thirty-seven aircraft engines per day, and it is estimated that this rate of production will double when the plant additions now under construction reach production.

Attached, as Exhibit A, is an aerial photograph of the plant. The area marked A is the original 1930 plant of 396,000 sq. ft. The area marked B is the 1936 addition of 110,000 sq. ft. originally built for Hamilton Standard Propeller. The area marked C is the 1939 addition of 276,000 sq. ft. known as the French plant. The areas marked D and E are the 1940 additions, totalling 317,000 sq. ft., known as the British buildings, and area F, comprising 406,000 sq. ft., is now under construction and will be used for the trainer program.

Although by June, 1939, Pratt & Whitney had received a French contract which appeared promising, Army and Navy contracts had almost disappeared, a situation which caused the Pratt & Whitney officials to consider seriously a reduction in personnel. The tremendous increase in shipments and orders since that date, especially shipments and orders for export, is demonstrated graphically on the chart marked Exhibit B. In order to handle this increase in orders, the plant expansions noted above were necessary, and Exhibit C, attached herewith, demonstrates graphically the added dollar investment made necessary.

Outstanding items noted in the Pratt & Whitney situation are:

- (1) An efficient machine layout.
- (2) The use of standard machine tools where possible, thus providing maximum flexibility.
- (3) Good physical working conditions.
- (4) Excellent type of workmen.
- (5) Development of new soundproof testing houses for testing motors. (Test time has been cut from thirteen to ten hours.)
- (6) The desire of the management to find new methods to speed up production. (A new finish for propellers which reduces the time required by nineteen hours.)

- (7) The excellent quality of management and supervisory personnel.
- (8) The maintenance of high standards of quality. (Commercial engines are built to military standards.)
- (9) Large amount of engine standardization already achieved by Army and Navy.

Engine Standardization

Two conferences were held in Mr. Fred Rentschler's office, both of which dealt with the problem of engine standardization. The first conference got under way at 10:45 A.M. and was attended by quite a large number of persons representing the interested parties, and included Under Secretary of the Navy Forrestal; Mr. Eugene Wilson, President of United Aircraft; Mr. Fred Rentschler, Chairman of United Aircraft Corporation; Commander Richardson of the Navy; General Echols of the Air Corps; Mr. Fairey and Air Commodore Mansell of the British Purchasing Commission, and Philip Young.

Under Secretary Forrestal explained that the purpose of the meeting was to see if more standardization of designs, types, and parts could be secured in the future for engines purchased by the Army, Navy, and the British. It was also emphasized that nothing should be done at the present time which would tend to interrupt or delay working progress. If standardization could be achieved on certain items for engines in progress without creating delay, so much the better.

The importance of this conference became more apparent when it appeared that the Army was now in the process of placing an order for 12,000 engines, and the Navy for 4,500 engines. The 12,000 engines to be ordered by the Army are composed of three types, the 1830, the 1340, and the 985. The 4,500 engines to be ordered by the Navy are of four types, the 1830, the 1830 two-stage, the 1340, and the 985.

For both the 1340 and the 985 engines, the Army and Navy use the same type. With respect to the 1830 engine, however, the Army is using two types, the single-speed and the two-speed, while the Navy is using single-speed and two types of two-stage engines. 1/ Thus, for the 1830 there are actually four different types of the same model being built for the Army and Navy.

1/ The Navy uses 1830 two-stage 16 : 9 ratio for the Consolidated PB2Y and an 1830 two-stage 3 : 2 ratio for the Grumman fighter. The British use an 1830 two-stage with a 16 : 9 ratio.

The engines discussed at this conference were (1) the 985, (2) the 1340, (3) the 1830, and (4) the 2800.

(1) The 985 Engine (Preliminary training engine - 450 h.p.)

As the Army and Navy have already standardized on this engine and as there are no British orders involved, this engine was not discussed in detail.

(2) The 1340 Engine (North American trainers - 600 h.p.)

The Army and Navy have already standardized on this engine, and the British model involves only minor changes. This engine is used for the North American (Harvard) trainer, and it was proposed that it be standardized to a point where both United States and British engines would be interchangeable in the future. It was pointed out that the Army and Navy specifications were slightly more rigid than the British specifications, so that the British should adopt United States standard. Specifically, the minor changes necessary to standardize the 1340 concern:

- a. The propeller shaft (for both hydromatic and two-speed non-hydromatic propellers)
- b. The use of a balanced propeller (British and commercial purchasers use the unbalanced; the Army and Navy might adopt the unbalanced)
- c. The rear section of the crankcase (Army and Navy are using a spline drive as against the groove drive used by the British; the British could use a spline drive with adapters)
- d. Vertical drives for accessories (depends on the type of accessories used)
- e. Tachometer drive and oil pump drive (question of type of lubrication)
- f. Sump drain (minor difference of no consequence)
- g. Ignition shielding (although ignition harnesses are interchangeable, ignition parts are not interchangeable)
- h. Carburetors and carburetor adjustments (technical discussion of automatic versus nonautomatic carburetor as well as type of filters to be used)

- i. Cylinder finish (type of finish requiring least time and giving greatest protection)
- j. Cooling baffles (question of different cutouts to allow passage of control wires, etc.).

(3) The 1830 Engine (Fighter and bomber engine - 1200 h.p.)

As pointed out above, Pratt & Whitney is currently making four different types of 1830 engines. The Army is using two types, one with a turbo supercharger for the Martin B-24, and a single-stage 1830 to be used in the Douglas DC-3 transport. The Navy is using a single-speed 1830 for the PBV flying boat, and two types of two-stage 1830's, one for the Grumman fighter and one for the PB2Y four-engine flying boat.

In addition to these four types, the British are using a single-speed single-stage 1830 (C30) for installation in Beaufort fighters manufactured in Australia, and a single-stage two-speed (C4G) for British fighters. It will probably be possible to reduce these various types to four on future orders although any change on models now in production would not be practical. Many of the differences in type were similar to the differences detailed above for the 1340, principally the gear ratios, the fuel adjustments, and superchargers.

(4) The 2800 Engine (Bomber engine - 2000 h.p.)

There was little difference between the various types of 2800 engines. Pratt & Whitney point out that all of these types could be standardized if the Army would accept a different reduction gear. General Echols said that the Army could not change its 2:1 ratio reduction gear.

Although the British are now taking 2800 engines with this same ratio, they would like to get a engine with a ratio of 5:2 in the future. However, it was pointed out that it would be much better if the British standardized with the Army especially as the Ford production of these engines will also be made with a 2:1 ratio. There were a few changes in the rear drives of these engines manufactured for the British, but it seemed that these minor differences could probably be ironed out technically if the British frames which were to take the engines were not too far advanced.

2800 Engines To Be Manufactured By Ford

According to Pratt & Whitney, the principal reason why the 2800 engine was licensed to Ford was the fact that Pratt & Whitney could not build both the 2800 and its trainer engine. As a commentary upon the manufacture of aircraft engines by automobile engine producers, Ford has had to build a new plant and equip it with new tools in order to build the 2800 engine. It is estimated that it will take Ford from eighteen months to two years to get into full production, and that Ford is planning on a production rate of 15 to 30 engines per day. The candid opinion was expressed by Pratt & Whitney that it would take any automobile manufacturer 30 per cent longer than an aircraft engine manufacturer to put an aircraft engine into production.

Inspection

A small conference was held in Mr. Eugene Wilson's office with representatives of the Army and Navy present, but representatives of the British Purchasing Commission did not attend. Mr. Rentschler inquired as to the future inspection policy to be used by the Navy inasmuch as there was going to be a gradual shift from export orders to domestic orders. Commander Richardson said that this policy had already been established and would consist principally of a spot check system rather than any attempt to make a complete check of every item. It was estimated that the number of Navy inspectors in the plant would be increased from 30 to 100.

In this connection it should be noted that the Navy also does the inspecting for the Army. In addition to the use of the spot check, there would be close supervision by the Navy of test runs and a very careful check on the complete tear-down of every engine. With respect to the inspection of raw materials, it was stated that inspection of sources had been eliminated except for three or four materials and that the Navy was ready to accept tests of materials as made by the Pratt & Whitney laboratory under Navy supervision.

Raw Materials

Mr. Wilson stated that there had been no particular bottlenecks and no bad delays on the furnishing of raw material although there was always a continual struggle to get delivery on time. He pointed out that all of the casting work and heavy machine work was done by subcontractors, a situation which had led Pratt & Whitney to expand its subcontractor sources in order to provide adequate assurance

Pratt & Whitney

- 6 -

against bottlenecks. Evidently, facility contracts are now being worked out and will have to be expedited by the Navy.

Labor

Mr. Wilson said that he was not anticipating any labor trouble in the Hartford area although he admitted that there might be some difficulty getting adequate labor if the Vought-Sikorsky plant were expanded at Bridgeport. At the present time the Pratt & Whitney plant at Hartford is operating three shifts six days a week with about a third of a shift on Sunday to clean up minor bottlenecks.

Vought-Sikorsky

At the present time the British have on order 65 dive bombers and the Navy 68. In addition, the Navy has ordered 217 observation planes and expects to place further orders for this type. The British do not expect to place additional orders with Vought because this particular dive bomber will soon be obsolete, and Vought has no new type under consideration. In addition to the foregoing, all of Vought capacity will be taken up with Navy trainers. Due to the fact that the construction of dive bombers for both the British and Navy was so far advanced no attempt could be made at standardization.



D-2085

Regraded Unclassified

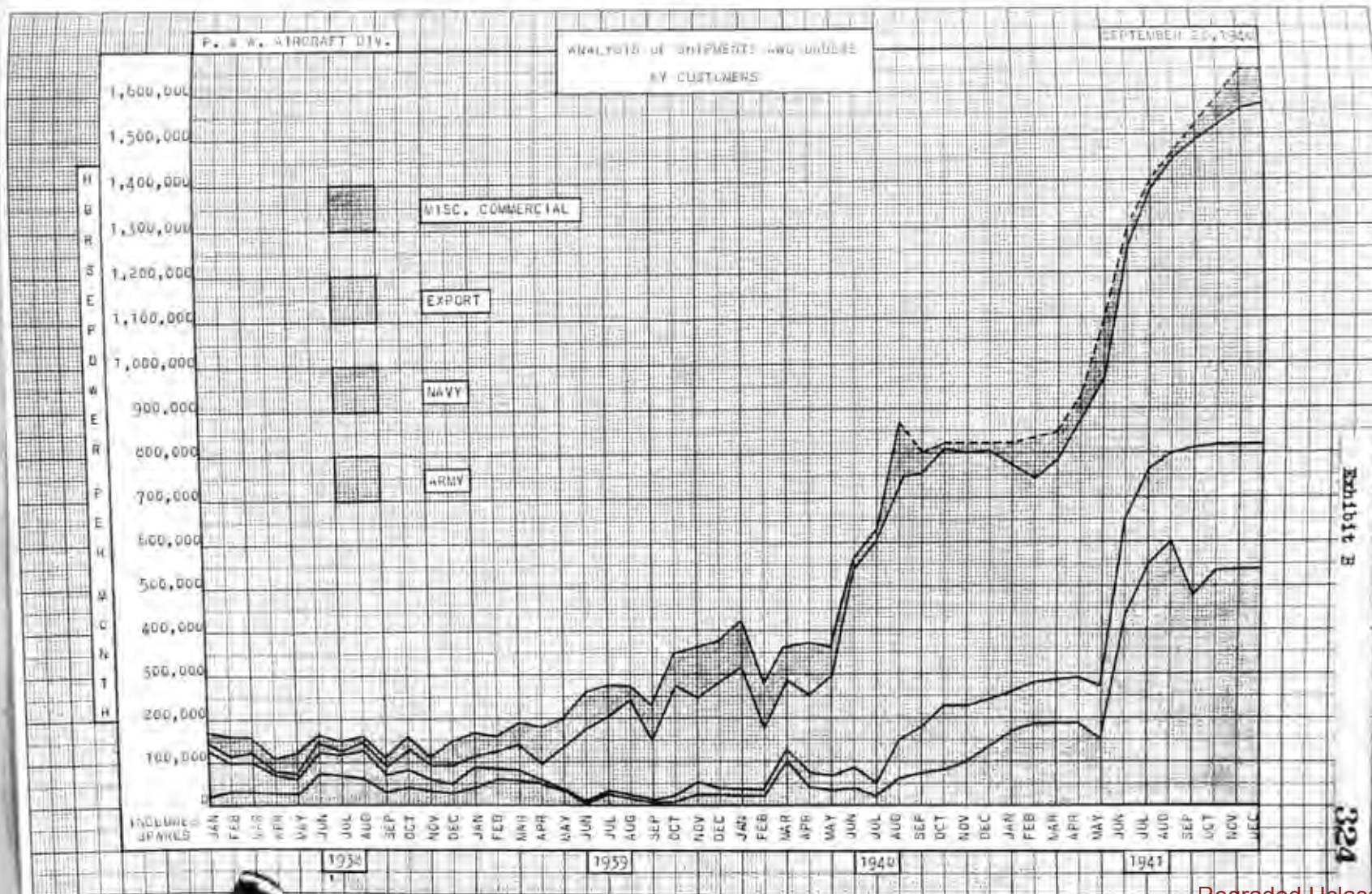


Exhibit B

324

P. & W. AIRCRAFT DIV.

ANALYSIS OF PRODUCTION EXPANSION
TO MEET NATIONAL DEFENSE PROGRAM

SEPTEMBER 20, 1940

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600,000
500,000
400,000
300,000
200,000
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0

PLANT A IS ORIGINAL 1930 PLANT OF 396,000 SQ. FT. OF MANUFACTURING SPACE.

PLANT B IS 1935 ADDITION ON SOUTH OF ORIGINAL PLANT BUILT FOR THE HAMILTON STANDARD PROPELLER AND COMPRISING 110,000 SQ. FT. OF MANUFACTURING SPACE.

AB-2 EXPANSION - ADDITIONAL TOOLING.

PLANT C IS 1939 ADDITION TO THE NORTH OF PLANT A, COMPRISING 275,000 SQ. FT. OF MANUFACTURING SPACE AND KNOWN AS THE FRENCH PLANT.

PLANT D IS 1940 ADDITION SOUTH OF PLANT B AND COMPRISING 107,000 SQ. FT. OF MANUFACTURING SPACE. THIS PLANT PLUS PLANT E ARE KNOWN AS THE BRITISH BUILDINGS.

PLANT E IS 1940 ADDITION EAST OF PLANT C, COMPRISING 130,000 SQ. FT. OF MANUFACTURING SPACE. THIS PLANT PLUS PLANT D ARE KNOWN AS THE BRITISH BUILDINGS.

PLANT F IS THE PROPOSED ADDITION OF APPROXIMATELY 405,000 SQ. FT. FOR TRAINER PROGRAM, ADDITIONAL TOOLING IN PLANT C AND INCREASED EFFICIENCY IN ALL PLANTS RESULTING FROM STANDARDIZATION OF PRODUCTION TYPES. IT WILL BE SITUATED SOUTH OF THE EASTERN END OF PLANT E.

PLANT ACCOUNTS AND AREAS

TOTAL PLANT ACCOUNT \$42,117,000
TOTAL AREA IN SQ. FT. 1,505,000

INCLUDES
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Grumman

GRUMMAN

At the present time the Grumman Aircraft Engineering Corporation, Bethpage, L. I., is building mostly fighters. It is also building a few small amphibians and three experimental planes for the Army and Navy. The Grumman factory is relatively small and used primarily for assembly work. All forging and casting is done by subcontractors. The Grumman plant builds the fuselages and the wings.

Outstanding items noted in the Grumman situation are:

- (1) Large percentage of plant and personnel used for experimental purposes.
- (2) Imagination and initiative of management (development of the folding wing).
- (3) Large amount of skilled hand labor and lack of machine tools.
- (4) Use of floor pits for assembling planes in lieu of scaffolding.
- (5) Production could only be increased in proportion to availability of skilled labor.

The impression the observer gets is that the efficiency of this plant is based on a group of highly skilled craftsmen working by hand with a minimum of machine tools. Nevertheless it is turning out fighters at a maximum of eight per week. At the present time it is two weeks ahead on the British order for G-36A's and only has seven left to go (the original French contract). On the British order for 120 G-36B's, delivery will not be up to the schedule as the G-36B has a folding wing which is still in the engineering stage and not yet in production. Mr. Grumman stated, however, that ten fusilages per month for this model would be turned out beginning in November and that it was hoped the wings would come into production by January. It is up to Grumman engineers to expedite this item.

A conference was held at 9:30 A.M. on Thursday morning with representatives of Grumman, the Navy, Army, Treasury, and the British Purchasing Commission. At that time an attempt was made

to ascertain what the differences were between the British type fighter and the Navy fighter for the purpose of securing as much standardization as possible. All of these differences were of a relatively minor nature and were concerned with the following:

- a. Windshields (type of glass to be used so as to afford a maximum safety and protection against bullets; Navy is studying)
- b. Gun sights (the British use the United States Army sight whereas the Navy uses a larger type sight which constitutes a different instrument arrangement; it is possible that the British might take the Navy sight in the future)
- c. Safety belts (the British have special shoulder type safety belt; Navy may adopt British type)
- d. Carburetor mixture control (question of standardizing movement of control)
- e. Starter (British use electric starter, Navy used cartridge starter; British would like to use Navy type if available)
- f. Generators (Army uses 24 volt system and Navy uses 12 volt system; Navy gradually changing to 24 volt type)
- g. Sperry artificial horizon (Navy used a cage, British do not due to accidents which have occurred; Navy willing to change on basis of British experience)
- h. Altimeters (Navy has calibration in inches, British has calibration in millibars)
- i. Corrosion finish (Army and British use a chrome pickle finish, Navy does not; Navy may accept chrome pickle after study)
- j. Catapult attachments (no chance for standardization due to different type of catapults on British and United States ships).

Grumman

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Inspection

Grumman Aircraft raised the same question that Pratt & Whitney did with respect to Navy inspection policy. This policy was explained by Commander Richardson.

Labor

At the present time Grumman is operating one shift of 1400 people six days per week, and a second shift of 50 people six days per week. The second shift is merely to clean up incidental bottlenecks. Increase in the rate of production has not been possible due to lack of engines, but, if sufficient engines are supplied in the future, the production rate can be stepped up from eight per week to ten per week or more. Further increase in production is possible if skilled labor can be secured.

Plant Expansion

Plant expansion in this instance would not tend to increase the production rate unless the company should inaugurate the policy of doing its own machine work on a large scale. At the present time a large portion of its plant and personnel are devoted to experimental projects.

Management

The management of this company gives an observer the impression of being imaginative and alert. As an example, the company has adopted a novel idea in its factory of using shallow pits in which to sit a plane in order that the fuselage may be brought within working distance of the floor. By the use of such pits, scaffolding is avoided and working efficiency is increased. In some instances, these pits are equipped with hydraulic jacks to raise or lower the plane in the pit in accordance with the demands of the specific job. This system may be compared to the use of hydraulic jacks and pits seen in almost every automobile service station.

At the present time the management of Grumman is worried because its Navy contract has not yet been signed, and it has already made commitments for materials.

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Brewster

BREWSTER

The Brewster Aeronautical Corporation is controlled by Mr. James Work, President and General Manager, and the detailed management seems to be handled by Mr. Z. Soucek, Vice President, and Mr. Dayton T. Brown, Vice President in charge of engineering. 1/ At the present time Brewster is in a bad production situation and is behind both on its deliveries and on its experimental developments. The plant layout is unusual and impractical for the aircraft industry so that it would seem that future production problems were bound to occur even if good management were instituted.

Evidently, Mr. Work has assumed the responsibility for directing the policies of the company, and it is probably due to this direction that it finds itself in many of its present difficulties. To be sure, the firm is undergoing very rapid expansion and is just beginning to get its feet on the ground, but, in my opinion, the ways in which it has attempted to solve its various problems will only lead to more difficulties.

Outstanding items noted in the Brewster situation are:

- (1) The use of one six-story and one eight-story building to do machine work and sub-assemblies.
- (2) The use of three Newark Airport hangars to do final assembly work and the difficulties of transportation between the basic plant in Long Island City and the Newark Airport.
- (3) Poor quality of labor in the Long Island City plants.
- (4) Necessarily inefficient machine tool layout due to physical conditions of plant.
- (5) Guilty conscience of the management and lack of interest on the part of employees.
- (6) Inefficient or poor experimental personnel.
- (7) Lack of adequate facilities for carrying on experimental projects.
- (8) Good machine tool layout for building Consolidated wings and pontoons in Newark.
- (9) Attempts of management to cover up basic production problems by emphasizing technical difficulties.

1/ Investigation is being made of Brewster financial status.

Brewster

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Plant Facilities

Brewster has three plants, two in Long Island City, and one at Newark Airport. The original plant in Long Island City is a six-story building which houses the drafting rooms, experimental facilities, heavy machine tool facilities, and minor machine operations.

Brewster has leased for two years an eight-story building which was originally built by Ford for the assembly of model T cars. This Ford building is about one block from the original plant, is of good size, has plenty of floor space as well as a full length areaway with a traveling crane for handling large items between floors. Nevertheless, it would seem that it is not well adapted for aircraft manufacture because the floor space is cut up with supporting columns, is of an odd shape and many continuous operations would have to be split between floors. At the present time Brewster is utilizing about 50 per cent of this building's floor space.

Minor machine operations are conducted in this Ford building, and it is being used principally for sub-assemblies especially wings. The difficulties of handling even small wings, such as used on the Brewster fighter, were apparent from watching the operation. Sub-assemblies manufactured in this building, including the wings, are moved to the Newark Airport for final assembly into planes.

At the Newark Airport, Brewster has leased three large hangars which compose one continuous building and afford space for a continuous production line. It is in the Newark building that final assembly is done, and it is also there that the Consolidated wings and pontoons are being manufactured.

Experimental Facilities

Brewster is attempting to carry on its experimental work in the main Long Island City plant. There is a small shed behind the main building that is used for this work and which is quite inadequate. Brewster has accepted a contract from the Navy for 493 SB2A-1 scout bombers and a contract from the British for 540 dive bombers. 2/ These bombers are basically the same, and the first one is supposed to be produced in February, 1941, with a sharp increase in production from that time on. Despite this, the

2/ The Dutch East Indies have ordered 108 dive bombers as well.

Brewster

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mock up of this bomber has only been partially completed, and there is no telling when it will get to a production stage. The mock up work is being carried on in one corner of the main floor of the Long Island plant under very adverse conditions. It would seem that other experimental models also being developed by Brewster are delayed similarly.

Consolidated Wings and Pontoons

Wings and pontoons for Consolidated are being built at the Newark Airport plant and should come into rapid production from now on. Evidently, Brewster had a great deal of difficulty in getting started on these items, but all signs at present would seem to indicate rapid production. Mr. Soucek advised me that he expected to ship nine sets of wings to Consolidated next week and that two sets per week would be shipped from then on.

Production Rate

At the present time Brewster stated that it is producing eight fighters per week. Although this statement may be correct, to a non-technical observer it would seem impossible that eight fighters per week could come out of that plant, and that the rate of production was probably nearer two or three per week at the present time.

In addition to the foregoing, Brewster stated that it expected to increase the production rate from eight per week to a possible twenty-five per week after the Ford building plant in Long Island City became more fully utilized. At the present time such a future rate of production seems fantastic, primarily due to the difficulties which are bound to be encountered from building airplanes in a vertical plant as against production in a horizontal plant. The Navy has unfilled orders for 162 fighters, the British for 204 fighters, and the Dutch for 72 fighters. These three types vary in various technical details as outlined below under standardization.

Because of production line tie-ups, Brewster may be able to hit a high production rate for a week or two, but it will be a result of sporadic belches rather than even and continuous flow.

Brewster

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Labor

Brewster is employing 3100 persons in its two Long Island City plants, and 1100 persons at Newark, making a total of 4200 employees. These are operating on a 2-1/2 shift basis six days a week. The quality of the labor in the Long Island plants would seem to be poor, unenthusiastic, and bad material for developing skilled aircraft production personnel. The quality of the labor at the Newark plant was somewhat better, but Brewster stated it was having difficulties with local politicians who were forcing undesirable labor elements to be employed by Brewster.

Management

Mr. James Work, who holds a controlling interest in the Brewster Aeronautical Corporation, was not present at the time the inspection was made. It is my understanding that Under Secretary of the Navy Forrestal talked with Mr. Work on the telephone, but the result of this conversation is not known. Mr. Z. Soucek, Vice President, is a former Navy man, a graduate of Annapolis and of the hard-headed, two-fisted type with plenty of punch. Mr. Dayton F. Brown, the Vice President in charge of Engineering, is evidently a competent aircraft engineer.

It is perfectly possible that if Messrs. Soucek and Brown were given a free hand to operate the plant that many of its difficulties could be ironed out. There is a basic question, however, as to whether Brewster should be allowed to continue its expansion in its present location in Long Island City due to the plant difficulties noted above. I rather doubt as to whether Soucek and Brown would take steps to move the Brewster plant from its present location even if they were placed completely in charge of operations.

From a long range point of view, it is my feeling that some attempt should be made for a gradual removal of this plant out of the city to a point where it could have a better physical layout. I did get the impression that Brewster had some competent supervisory and engineering officers in its staff.

Standardisation for the Fighters

Many of the technical items which were brought up as evidence of differences between the British and the United States types of

fighters were the same as those brought out by Grumman. Specifically, the principal ones were as follows:

- a. Engines and propellers (there is a difference in control layout)
- b. Gun sights (British and Army use one sight and Navy another) 3/
- c. Safety belts (British use a shoulder type which Navy may adopt) 3/
- d. Mixture control (movement of throttle to be standardized) 3/
- e. Generators (British use a 24 volt system and the Navy uses a 12 volt system) 3/
- f. Parachute flares (Navy does not use arising from tactical differences)
- g. Fire extinguishers (the British use a heat operated fire extinguisher which automatically works in a crash; although Navy does not use this item, it is willing to adopt it)
- h. Radios (the British use a high frequency set of heavier type than Navy; no standardization possible)
- i. Armor plate in fuselage (Navy have no armor plate underneath and British do; Navy studying)
- j. Fuel tank protection (the British cannot sacrifice range for added protection; Navy uses auxiliary tanks)
- k. Tail wheel (the British use a pneumatic tire and nonretractable wheel, Navy uses a hard tire with retractable gear; no standardization possible)
- l. Flotation wings (Navy requires full flotation whereas the British do not; British require more wing ammunition space)
- m. Gun cameras (British use a permanent camera mounted on the wing, Navy uses a movable fuselage camera; Navy may adopt British type)

3/ Noted also in connection with Grumman fighters.

Brewster

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n. Windshields (British use bullet proof windshields, Navy does not; Navy studying) 3/

o. Jettison canopy (British have provision for jettison canopy, Navy does not; Navy studying) 3/

p. Landing lights (British have two and Navy one; Navy studying)

q. Identification lights (British have upper and lower, Navy none; Navy may adopt British practice)

r. Hand fire extinguishers (British have hand fire extinguishers, Navy none; British will eliminate)

s. Heating (British have heat for wing guns and cockpit, Navy has none; Navy studying)

t. Ammunition (British would like to cut down to a minimum of 180 rounds per gun if two more wing guns could be added; Navy studying).

Scout Bomber Standardization

I have available a list of the differences in the scout bombers ordered by the British and by the United States Navy. These differences for the most part are those already brought out in the discussion of the Brewster fighter and the Grumman fighter. In this instance, however, more standardization can be achieved because of the fact that this plane is not yet in production and because of the fact that even the mock up is not yet completed.

These differences will be carefully studied by the British and the Navy through the Joint Aircraft Standardization Committee.

3/ Noted also in connection with Grumman fighters.

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Sperry

SPERRY

In order to check up on the situation with respect to future production of Sperry bomb sights for the British and on the production of Sperry automatic pilots for the Consolidated bombers, I got in touch with Captain Doe, Vice President of the Sperry Corporation, Friday morning, October 18th, and arranged an appointment for Friday noon, at which the British were present.

Sperry is composed of four companies; Ford Instrument, Sperry Gyroscope, Waterbury Tool, and Vickers. Ford Instrument makes secret fire control equipment for the Navy; Sperry makes automatic pilots and bomb sights; and Vickers (Detroit) makes various accessories, such as hydraulic pumps, etc.; Waterbury Tool is in the process of being combined with Vickers and furnishes tool manufacturing capacity.

Mr. Fairey and Mr. Gray of the British Purchasing Commission and I met with Captain Doe Friday noon at the Ford Instrument plant. As Ford Instrument was making confidential fire control equipment for the Navy and had no British orders, the British were not allowed to see this plant, but Commander Baker, the Naval Inspector in charge, was kind enough to let me have a general view of the layout. This plant has recently been expanded and now covers approximately 220,000 sq. ft., which is about four times its original size a year or so ago. It contains about 3-1/2 million dollars worth of machine tool equipment, most of which is already in place and operating.

The plant is beautifully laid out, of the latest construction, completely equipped with fluorescent lighting, and I did not see an old machine tool in the place. The type of labor was extremely good, alert and attentive. 1/

After looking over the Ford Instrument plant, Captain Doe took the group down to the Sperry Gyroscope plant in Brooklyn where we were introduced to its president, Mr. Gillmor as well as to his chief engineer, Mr. Weckel. We immediately had a discussion with Mr. Gillmor and Mr. Weckel concerning the Sperry automatic pilots to be installed in the Consolidated B-24's. Mr. Gillmor stated that there seemed to be some mix-up on the part of the British as to how this job was to be done. Originally it had been planned that the Sperry pilots would be installed by Consolidated under

1/ It is interesting to note that this plant is only a half mile from the Brewster Long Island City plant where the quality of labor seemed to be poor.

Sperry

- 2 -

Sperry's supervision at the Consolidated plant. Since that time it had been arranged that another company, Rohr, would undertake the installation of these pilots for Consolidated under Sperry supervision. 2/

Presumably, Consolidated wished to have this installation work done outside of the Consolidated plant under the theory that it might hold up the Consolidated production line. It was not at all clear as to whether Rohr was the subcontractor for Sperry or for Consolidated or for the British. It was this point that Sperry had asked the British to straighten out, and on which it had not yet received an answer.

Mr. Fairey said that he would straighten it out then and there, and it was arranged that Sperry should have full authority from the British to get these automatic pilots installed as soon as possible, and it was left up to Sperry as to whether it wanted to use Rohr to do the installation work.

Sperry said that it could install the first automatic pilot in the first B-24 in two weeks and that it would take approximately ten days for each installation thereafter. It was necessary, however, for some firm, either Consolidated or Rohr, to make special fittings in order to adapt the Sperry pilots to the B-24 construction. The six automatic pilots for the first six B-24's can be produced by Sperry in plenty of time for installation.

Sperry had already made arrangements for two OI bomb sights to be packed up for shipment to England in accordance with the request of the British made about ten days ago. These two sights were to be used in England for training purposes. Also the British had asked Sperry to send two men to England to demonstrate these sights and to train the British. Sperry had agreed to do this and has already secured passports for Mr. F. W. Vose and Mr. Joseph Sailer, Jr., of its staff. It is proposed that both the men and the sights go to England with the next shipment of former United States destroyers.

It was very helpful to Sperry to have this conference, and it had the added effect of demonstrating our interest in their operations and in the possibility of Sperry producing OI sights on a larger scale for British consumption. Due to the fact that

2/ Rohr is a small company across the field from Consolidated and is evidently operated by a brother-in-law of Major Fleet.

Sperry

- 3 -

information has not yet come from England as to the number of OI sights which the British will want to use on British bombers, little progress has been made in considering new production facilities. Although the group did not have much opportunity to look at the Sperry plant, it was possible to examine one of the OI bomb sights.

Sperry, like Ford Instrument, has been expanding its plant facilities. Both of these companies were sufficiently alert to start their expansion before they actually received "defense orders" so that today they are in a much better position to cope with the current increase in business.

At present, Sperry employs 3000-4000 men, and is continually adding more. Mr. Gillmor advised me that this increase in employees would begin to taper off at about the 7,500 level.

All of the Sperry staff were gratified at our interest in their work and extremely cooperative.

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BRITISH EMBASSY,
WASHINGTON, D.C.

October 20th, 1940.

Personal and secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated October 18th.

1. Naval.

At 5.15 p.m. on October 17th two British destroyers ran aground off the Tyne. They have not yet been re-floated.

H. M. armed merchant cruiser "Cheshire", torpedoed on October 14th, has arrived safely in port.

On the morning of October 17th four French submarines, escorted by a sloop and a tanker, passed westwards through the Straits of Gibraltar. The French cruiser "Primauguet", an oiler, and two submarines, are reported to have sailed southwards from Dakar on October 16th, four promising attacks on U-boats on October 17th are reported, 2 by aircraft, 1 by warship, and 1 by sloop. In the last ^{case} the submarine was attacked by gun fire.

2. Royal Air Force.

During the night of October 16th-17th 27 heavy bombers attacked shipyards at Kiel, 13 bursts were observed close to "Gneisenau" and all bombs fell in the dockyard area; docks and shipyards at Hamburg and Bremen were bombed on a smaller scale and, although fires were caused accurate observation of results was not possible. Eight heavy bombers located and bombed synthetic

oil plant at Leuna, and other objectives bombed by single aircraft included anti-aircraft batteries at Heligoland, docks at Cuxhaven, factories at Leipzig and a power station.

During daylight on October 17th 5 Blenheims carried out day bombing on various targets including an aerodrome in Holland.

Owing to weather conditions all operations were cancelled on night of October 17th-18th.

3. German Air Force.

Night of October 16th-17th (further reports) in the London area casualties were approximately 46 killed and 209 injured. At Plymouth some public utility services were damaged.

Six persons were killed and 19 injured at Liverpool.

Daylight October 17th. Between 8.20 a.m. and 5 p.m. four major enemy attacks on London were made by formations varying from 30 to 90 aircraft. Our fighter squadrons intercepted and only elements of three of these raids entered the London area.

The remainder turned back on reaching the eastern outskirts. Bombs were dropped in the St. Pancras district of London and other minor bombing was reported on the southeastern suburbs.

Outside London high explosive and incendiary bombs were dropped at Canterbury and the Deanery amongst other house property was damaged.

During the night of October 17th-18th enemy activity was on the usual scale, a total of about 250 aircraft being engaged out of which 225

operated over southeast England. London was again the principal objective although Birmingham and Liverpool were also subjected to a minor scale of attack. Mine-laying was suspected in the Thames Estuary and off the East Coast. In the London area 5 factories engaged on war work were hit, but at none of them was the damage serious nor is production likely to be affected to any extent. Serious damage was done to the Treasury building and a bomb fell in the courtyard of the National Gallery. An aerodrome was attacked just after dusk and 5 dispersed fighter aircraft were damaged. Although bombing in the outer suburbs was widespread, damage and casualties reported are not serious. At Birmingham minor damage is reported from six factories but in no case does it appear likely that output will be seriously affected. From Merseyside no serious damage is reported and, although high explosive bombs fell in the airport at Rochester, little damage was done.

4. Summary of Air Casualties.

<u>Enemy:</u> By our fighters	Destroyed	4
	Probable	6
	Damaged	5

British: 3 aircraft with pilots.

The above casualties occurred during daylight on October 17th and all aircraft were fighters.

5. Shipping Casualties.

By U-boat. It is now reported that a British ship (6000 tons) was torpedoed and sunk on October 6th off southwest Ireland. On October 17th a British ship (3800 tons) was torpedoed and sunk off northwest Scotland.

By mine. Two British ships, aggregating 3000 tons, were mined off the East Coast and one of 900 tons in the Thames Estuary on October 17th.

By E-boat. On the same day a north-bound convoy was attacked by an E-boat off the East Coast. Three ships were damaged, two of which aggregating 5,300 tons had to be abandoned. One E-boat is reported to have been sunk.

6. Middle East.

On the night of October 15th-16th and during the following day four Italian bases in Libya were attacked by our aircraft. At Tobruk fires were started in the harbour area.

Sudan.

As the result of an enemy air attack on October 16th 8 of our aircraft were destroyed on the ground at Gedaref.

CONFIDENTIAL

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Paraphrase of Code Radiogram Received at
the War Department on October 20, 1940

London, Filed 15:40, October 20, 1940:

1. The majority of the daylight missions of the Bomber Command on Saturday, October 19, were interfered with because of ground mists, low clouds and severe icing, and there were only 16 sorties. The same climatic condition caused the cancellation of a majority of the missions that night. About 27 bombers reached their targets and one plane was lost. A total of 151 sorties were projected last night, 41 against ports in Germany, 15 against railroad yards, 37 against oil targets, 32 against aluminum works, 6 against Berlin, and 20 against targets in Italy. Daylight missions of the Coastal Command on the 19th consisted of 25 patrol missions, 38 sorties, and 14 convoy escorts. The night operations of this Command were cancelled. Three coastal planes not heretofore reported were lost on October 17. Daylight operations of the Fighter Command on October 19 consisted of 63 patrols and 266 sorties. On the night of October 18-19 this Command dispatched two patrols.

2. Daylight activities of the German Air Force on October 19 were on a greatly lessened scale, with about 230 planes over and near the Coast. Most flights were for reconnaissance purposes but one ineffective raid, composed of about 60 fighters, reached London. That night activities were exceptionally heavy

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against London, Liverpool, and the Coventry districts. Not less than 269 separate raids were identified between 7:00 p.m. and 6:00 a.m.

3. German plane losses consisted of two confirmed and one damaged. The British lost two planes but the pilot of one was saved.

4. Damages during the daylight hours of October 19 were minor. Five airdromes were attacked without material effect. That night the principal objectives were railroads and dock areas. Railroads were hit in 11 places and docks in nine, but none was vital. Six large fires were set in London but all are now out or under control. One factory manufacturing munitions was badly damaged as were a post office, a gas works, and a hospital. There were extensive but superficial damages to Liverpool and Coventry.

5. The Fighter Command has adopted the policy of employing the least possible force necessary to ward off enemy attacks. This policy not only conserves pilots and planes but allows a strengthening of operational training units. There is no diminution of efficiency or combat morale. German tactics during the past week give evidence of improvisation and a fumbling for a satisfactory solution of their problem. The German employment of heavily escorted fighters for bombing, taken in conjunction with the British tactics described above, have lessened German losses but have not otherwise influenced the situation. Two hours ago a German plane sneaked in, dropped three

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bombs near this office, and disappeared. There was slight damage to one office because people in the flat overhead had left water running in their bathtub when hastily departing to take shelter. This ran over and flooded.

6. Reports given wide publicity in newspapers in the United States state that the German invasion was smashed about the middle of September. High officials in the War Office advise that at no time has there been any evidence that the German attempt at invasion was set for September 16. All that can be said is that enemy preparations were far advanced at that time. No additional light has been shed on this situation since that time.

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