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October 22, 1940
9:59 a.m.

H.M.Jr: Hello.

Operator: Mr. Forrestal.

H.M.Jr: Hello.

James
Forrestal: Good morning, Henry.

H.M.Jr: How's Dutchess County?

F: Well, it's a little worried this morning
but otherwise all right.

H.M.Jr: What're you worried about?

F: Well, that's just a good way to be I think.

H.M.Jr: Do you?

F: Sure.

H.M.Jr: (Laughs). If you want to be worried, damn it,
be worried.

F: Keeps you nervous, yeah.

H.M.Jr: You called me last night.

F: Oh, well, I just wanted on that matter that
we were talking about last week rather
vaguely - the question of Procurement, priorities -
I was trying to get you because I understood
that the matter was up for signature by the
President and I wasn't sure whether we ought
to try to make a correction of it now or not
but in the meantime he's solved it by signing
it.

H.M.Jr: Well, I didn't know about it. Well, what's
he signed?

F: Well, it's the Henderson, Stettinius and
Knudsen, as a Committee on priorities, with
Donald Nelson as the executive officer - the
administrator of it.

- 2 -

H.M.Jr: I see. They have the decision on all priorities?

F: Yeah. I haven't seen the Order, Henry, so I don't know but that's what I understand it to be. I think that - I'm not very satisfied with it but I think there's nothing to do but do what we can to make it work.

H.M.Jr: Uh-huh.

F: But I think the whole question is one that

H.M.Jr: Who's on it? Nelson is chairman

F: Well, no. The Committee is Stettinius, Knudsen and Henderson with Nelson then as - instead of occupying - they designate him really as the man to administrate a system of priorities and then he's naming in turn a committee - sub-committees on machine tools and aircraft - he's asked the Army to designate somebody on that aircraft committee and I presume will ask us.

H.M.Jr: Well, I thought - if you had asked me the question - I thought that was set up a couple of months ago. I thought that was Nelson's job.

F: Well, it really is and it has taken a little bit more concrete form however with considerably more power now.

H.M.Jr: I get you. And the President has signed some kind of a rules and regulations, huh?

F: Yeah.

H.M.Jr: O. K.

F: All right, Henry.

H.M.Jr: Thank you.

October 21, 1940
11:46 a.m.

.....

James
Forrestal:

Yes.

H.M.Jr:

And they need certain information which the Navy may or may not wish to give and George Haas, who is head of my Statistical Section, has that.

F:

Has he?

H.M.Jr:

If he came over to see you and told you what it was, you could tell him, they can or cannot have it?

F:

You bet.

H.M.Jr:

Now, they want it in the mails tonight. What time could you see George after lunch?

F:

2:30.

H.M.Jr:

He'll be at your office at 2:30.

F:

All right.

H.M.Jr:

And as one Dutchess County Democrat to another.

F:

O.K. (Laughs). What's his name.

H.M.Jr:

George C. Haas - H-a-a-s.

F:

Haas. O.K.

H.M.Jr:

Right?

F:

Fine, Henry.

H.M.Jr:

Thank you and thanks for calling on the Stephens matter and I'd like very much to see you.

F:

Well, anything of that kind I think that I'll just inform your secretary so that you know what stuff we've got, you see.

H.M.Jr:

Well, I appreciate it.

F:

All right, Henry.

**EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED**

Week ended October 19, 1940

	: JAPAN :	: RUSSIA :	: SPAIN :	: GREAT BRITAIN :
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	156,000 Bbls.	---	---	8,000 Bbls.
Crude -				
Blended or California High Octane Crude *	340,688 Bbls.	---	---	---
All Other Crude	53,599 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	91,907 Bbls.	82,000 Bbls.	---	---
All Other Gasoline	---	---	---	---
Lubricating Oil -				
Aviation Lubricating Oil ***	33 Bbls.	---	---	85 Bbls.
All Other Lubricating Oil	3,541 Bbls.	---	---	109 Bbls.
Tetraethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	22,876 Tons	---	2,331 Tons	7,038 Tons
All Other Scrap	39,773 Tons	---	6,917 Tons	4,525 Tons

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

Source: Office of Merchant Ship Control, Treasury Department.

October 21, 1940

Any material from which by commercial distillation there can be separated more than 3% of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 21, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

STRICTLY CONFIDENTIAL

On October 18, 1940, the Federal Bureau of Investigation reported that General Bergalli, Inspector-General of the Uruguayan Army, now in the United States, advised the Uruguayan War Office on October 15, 1940, that it is essential that Uruguay at once agree to the creation of naval and air bases in that country by the United States, the bases to be available to the allies of the United States in the event of war. Although the Uruguayan Government has previously been in opposition to this proposal, the proposal will shortly be accepted.

On October 18, 1940, the Coast Guard reported that a William S. Smith, president of a stevedoring contracting firm in New Orleans, had expressed the opinion that the Panamanian steamship, SS PANAMANIAN, which was beached at Galveston October 4, will be the subject of an attempt at sinking in the Canal while the vessel is bound for Japan via the Canal; Mr. Smith had been warned confidentially by his New York brokers, Smith and Johnson, 80 Broad Street, New York City, to "lay off that ship, it's hot."

fir.

OCT 21 1940

My dear Mr. Chairman:

I have your letter of October 15, 1940, enclosing a copy of a recommendation of the Federal Advisory Council to the Board of Governors of the Federal Reserve System made at its meeting on October 8, 1940. I note that the Council urges that future issues of Government securities be placed, as far as possible, with individual and corporate investors, including insurance companies, trusts, and savings institutions, rather than with banks of deposit.

We in the Treasury have given a great deal of consideration to this subject and realize its importance. One reason for issuing the 2-1/4% bonds last July was to issue a security which would appeal to the permanent and private investors outside of the banks. Furthermore, the preferred allotment of these bonds and those issued last December whereby subscribers took registered securities for a definite period, was in line with the Council's recommendations.

You realize, of course, that the Treasury does not at this time have the flexibility under its debt issuing authority that it has had in the past because of the limitation placed upon it by Congress during this session and which authorizes me to issue \$4,000,000,000 of short-term obligations for defense purposes. I expect, however, to seek a change in this legislation and we may not have to use this restricted authority except, possibly, in December of this year.

Thank you very much for bringing this recommendation to my attention.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Marriner S. Eccles,
Chairman, Board of Governors of
the Federal Reserve System,
Washington, D. C.

File to Mr. Thompson

EWB:MLE
October 15, 1940

By Messenger 240

Board of Governors
of the
FEDERAL RESERVE SYSTEM
Washington

Office of the Chairman

October 15, 1940

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

Dear Mr. Morgenthau:

The Federal Advisory Council met in Washington on October 6-8, 1940, and at its meeting with the Board submitted the attached recommendation relating to the placing, so far as possible, of future issues of Government securities with individual and corporate investors other than commercial banks.

As you know, this is a matter to which the Board and the Federal Open Market Committee have given consideration in the past. It is hoped that there will be an opportunity at some convenient time to explore this subject more fully with you.

Sincerely yours,

(Signed) M S Eccles

M. S. Eccles,
Chairman.

Enclosure

COPYRECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

October 8, 1940.

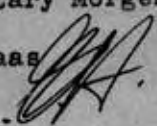
TOPIC No. 1. Financing of war defense program.

RECOMMENDATION: The Federal Advisory Council believes the danger of inflation would be increased by a material addition to the already large holdings of Government securities in the commercial banking system. The Council, therefore, urges the Board of Governors of the Federal Reserve System to use its influence to the end that future issues of Government securities be placed, as far as possible, with individual and corporate investors, including insurance companies, trusts, and savings institutions, rather than with banks of deposit; terms and maturities of future issues should be fixed with a view of encouraging ownership by such investors and discouraging ownership by banks of deposit.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 21, 1940

TO Secretary Morgenthau
FROM Mr. Haas 

According to Work Projects Administration reports, employment for the week ended October 9, 1940 increased to 1,762,000 persons, or 15,000 more than the number employed during the week ended October 2, 1940.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1940	
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785
June 19	1,714
June 26	1,666
July 3	1,611
July 10	1,619
July 17	1,659
July 24	1,689
July 31	1,700
August 7	1,709
August 14	1,708
August 21	1,699
August 28	1,692
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,703
October 2	1,747
October 9	1,762

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925
June	1,666
July	1,700
August	1,692
September	1,703

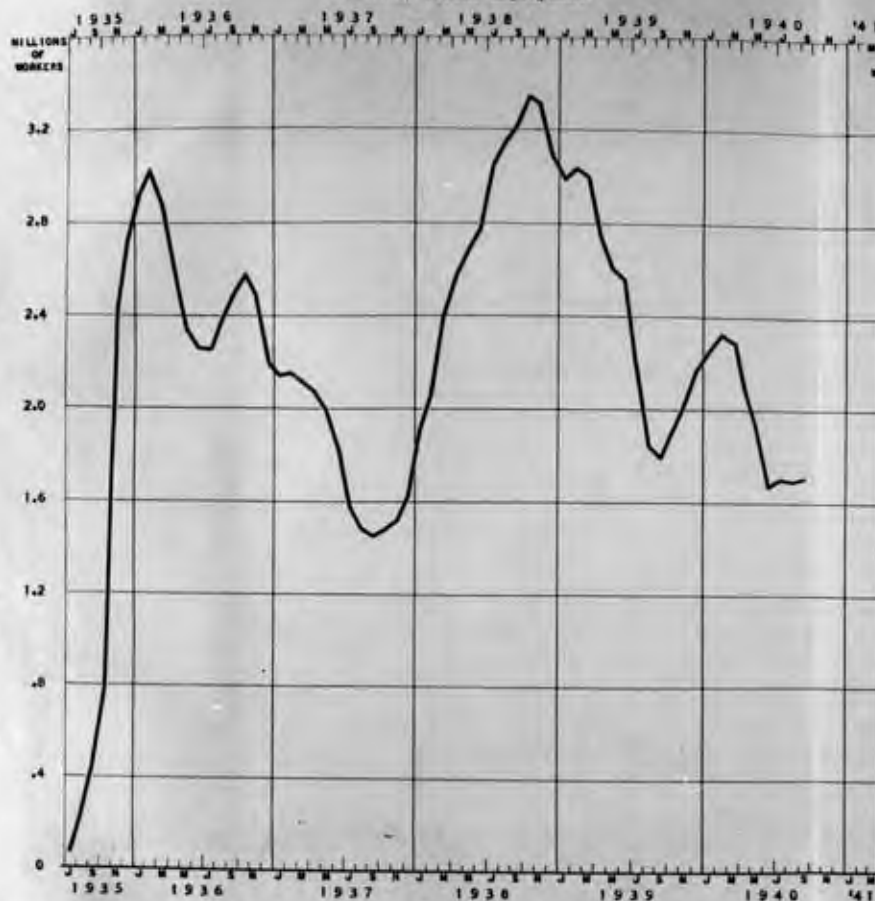
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

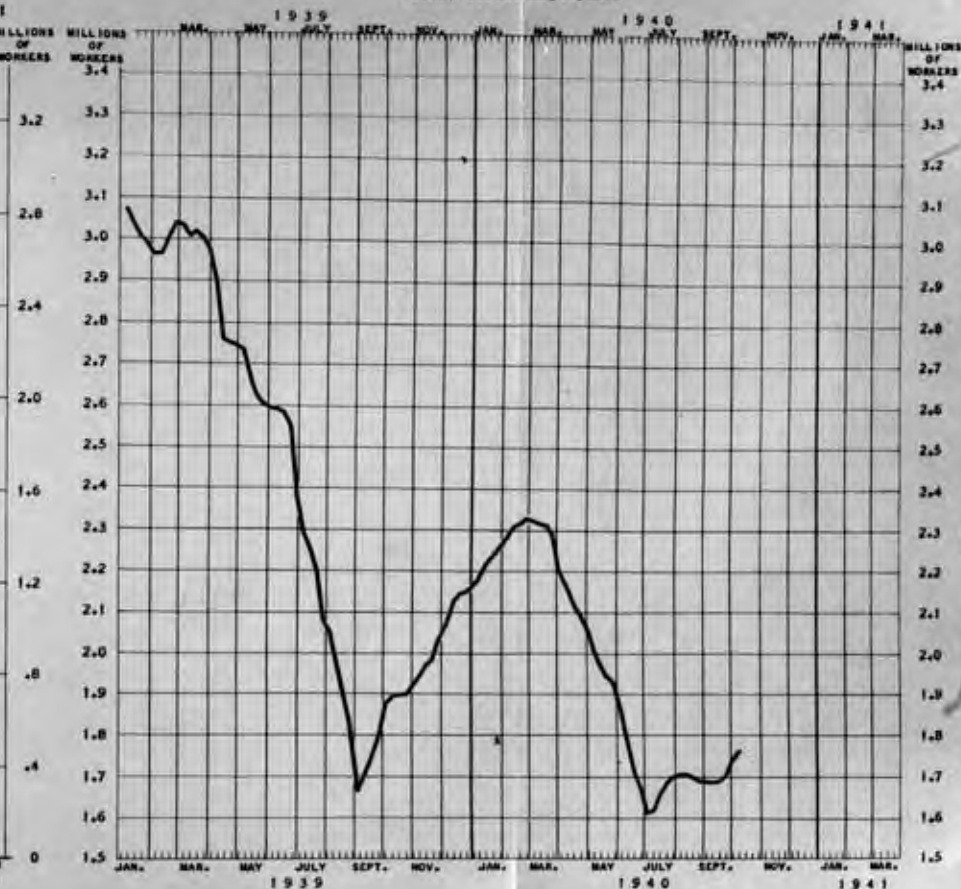
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 21, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending October 19, 1940

Summary

(1) The rise in basic commodity prices showed no slackening last week. On the contrary, it has developed into a somewhat broader upward movement through the inclusion of prices of certain basic foodstuffs.

(2) The evidence that a rise in commodity prices is getting under way brings nearer at hand the need for a well-planned price control program. In the development of this program certain points seem worth emphasizing:

(a) A control policy based on the curtailment of consumer spending is not desirable at this stage, since a further strengthening of our basic economy is needed in view of the large amount of unemployment and the presence of unused capacity in various consumer-goods industries.

(b) The need is for a planned program designed to anticipate and remedy possible causes of future price increases, particularly in the case of strategic defense materials. It is not sufficient to "police" prices; capacity shortages and other possible causes of price increases must be anticipated and remedied.

(3) A further rise in copper prices seems indicated by current data on production, deliveries, and stocks, in view of the enlarged copper requirements under the defense program.

(4) Business activity shows further improvement. Gains in all components of the New York Times index except automobile production have carried the combined index to 108.0, within 0.7 of its recent high. Steel orders have risen somewhat further, and heavy construction awards have reached a record high.

- - - - -

Secretary Morgenthau - 2

Commodity prices continue to rise

A feature of the past few weeks has been a continued rise in basic commodity prices. The rise has shown no slackening in the week just past; on the contrary, prices of foodstuffs have joined in the upturn, which had earlier been confined largely to industrial materials. (See Chart 1, upper section.) This suggests that the buying movement has gained somewhat greater momentum, or that it has spread to a larger section of trade and industry.

In the lower section of Chart 1 are shown the percentage changes in prices of individual commodities from their August 1940 lows to October 14 (last Monday), with an extension to show further price changes between October 14 and October 18.

It will be noted that during this latter period, hides have displaced wool as leader in the price upturn among basic industrial materials, having risen nearly 40 per cent since their August low, while wool has risen nearly 30 per cent. Strength in hides during the past week has been associated with a reported order from Russia for sole leather equivalent to 100,000 hides. Packers' sales of hides have been very heavy, and the rapidity of the price rise has recently caused many sellers in this country and South America to withdraw their offerings temporarily. Stocks of hides in this country at the end of August were the lowest for that date since at least August 1922.

Among the foodstuffs, wheat continues to head the list, having advanced fully 25 per cent since its August low. Tallow is the only other commodity in the group to approach this increase, having risen sharply during the past few days to extend its advance to 21 per cent. Cocoa prices have also shown a sharp increase, while lard has dropped below its August low. The rise in wheat prices is attributed almost entirely to the Government loan program, which has greatly reduced the available supply of cash wheat, despite a total supply in this country larger than last year.

In the futures markets for basic industrial materials (see Chart 2) hides have shown the most pronounced upturn, while prices of copper and lead have also shown noticeable increases. Among the leading agricultural products traded in the futures markets (see Chart 3), wheat prices have shown the most noticeable improvement.

Secretary Morgenthau - 3

Need for price control program

The evidence that a rise in certain basic prices is getting under way brings nearer at hand the need for a planned program to control price inflation. Such a program should not, at this stage, be directed toward a general suppression of inflationary influences, such as would be involved, for example, in a program to control the volume of consumer spending. On the contrary, the continued large amount of unemployment and the presence of unused capacity in various consumer-goods industries suggests that our basic economy could be strengthened by an increase in consumer spending, if wisely directed, while the defense program is getting under way.

The present need is for a planned program directed toward seeking out and anticipating possible capacity shortages or other possible sources of price increases among individual commodities. It is not sufficient to "police" prices; the basic causes of individual price increases must be removed. This involves looking into the future, and taking action now to insure against higher prices next year. The need for such action is particularly urgent, of course, in the case of commodities which are not only important in the general price level, but of which an adequate supply is essential for defense purposes.

For the purpose of controlling prices of individual commodities, two chief causes of increased prices may be recognized: (1) shortages of production capacity in relation to demand, and (2) increased production costs, arising from such factors as higher wage rates or higher prices for raw materials of which the supply cannot well be increased (i.e., tin, wool, rubber, etc.).

There would be no basis for price inflation, of course, if production capacity for all products were adequate to produce the quantities demanded, and if sufficient raw materials and labor were available at no increase in costs. Under the defense program this ideal situation doubtless cannot be realized, but it can be approximated for a considerable period by a carefully planned program. At the end of this period, when production in all industries may be near capacity and labor near full employment, the time will be at hand for more general methods of inflation control.

Secretary Morgenthau - 4

Higher copper prices indicated

As part of a study of possible bottlenecks in the production of basic materials, which may become responsible for increased prices, monthly spot prices of copper are shown in Chart 4 in comparison with the important supply and demand factors.

On the basis of previous relationships between copper prices and copper production, deliveries and stocks, it is possible to calculate the approximate price that, under average conditions, would result from a given combination of these factors. As shown in the upper section of Chart 4, this "estimated basic price" has tended to anticipate movements in spot copper prices. It rose sharply in August, and actual prices of copper have responded by rising during September and October. Some further increase in copper prices seems indicated by the price estimate, assuming a continuation of former relationships.

The factors responsible for the recent increase in copper prices, as shown in the lower section of Chart 4, are (1) a marked expansion in domestic deliveries of copper during the past two months, together with (2) some decline in production, and (3) a reduction in domestic stocks of refined copper.

Unless copper production is stepped up rapidly, a further increase in prices seems probable, in view of the impending large requirements for the defense program. The Bureau of Mines estimates the needs of domestic copper consumers during the last quarter of this year at an average of 107,800 tons a month, on the basis of a questionnaire sent to consumers. This figure, however, may be somewhat exaggerated. It is larger than any single month's deliveries in recent years, with the exception of October 1939, and is considerably in excess of current domestic production.

Non-ferrous metal production trends

The current production trends for copper, lead and zinc, showing their nearness to the 1937 peak levels, together with their respective price trends, are shown in perspective in Chart 5.

Secretary Morgenthau - 5

In the case of copper, it will be noted that neither production nor prices have yet reached the levels of 1937. The Federal Reserve Board production figures here presented are based on copper smelting output, for which capacity data are more inadequate than for copper refining. In view of the urgent demands of consumers, and reports in the trade that consumers are being "rationed" by sellers of copper, this may indicate that the copper smelting industry is operating not far from capacity. As a matter of fact, the increase from August to September was less than seasonal, suggesting that at the high levels of operation attained in August, further increases were difficult.

The production of lead has approached the level of 1937, and the production of zinc has exceeded its 1937 level. In the case of zinc, the total refinery output is even higher than here indicated, since the FRB production index excludes the domestic processing of zinc produced from foreign concentrates and reexported. Before last May, when Belgian refining capacity was available for outside use, no substantial volume of zinc was processed in this country from foreign concentrates. The actual output of zinc in the first 8 months of 1940, including foreign concentrates for reexport, represented 87 per cent of capacity, according to a trade estimate, as compared with 76 per cent based on the reported figures. In August the actual output, including production from foreign concentrates, represented about 90 per cent of capacity.

Of these three non-ferrous metals, only zinc prices are at 1937 levels. The prices for October 18, which appear on Chart 5, show the extent of the rise in each price since September.

Heavy construction contracts rise to record level

As a result of a gain of 152 per cent over the previous week, engineering construction for the week ended October 17 reached \$239,000,000, the highest weekly figure ever reported by the Engineering News Record. (See Chart 6, which shows daily average figures.)

The principal factor in this unprecedented rise was the awarding of contracts for \$97,000,000 for the construction of numerous shipyard and ordnance facilities in connection with the naval expansion program. It is reported that most of these facilities will be installed in private shipyards and steel mills and operated by them, although title will

Secretary Morgenthau - 6

remain with the Government. Other public construction awards, including a cantonment and camps and barracks for the Army, carried total public construction to nearly \$173,000,000, also a record high weekly figure.

Although public construction awards accounted for the major part of the total, private construction contracts also rose very sharply to \$66,000,000, the highest weekly figure since the week ended June 24, 1937. Contributing to the rise mentioned were awards for the construction of a \$15,000,000 aluminum plant for the Reynolds Metals Company, and a \$11,000,000 nylon plant for the DuPont Company.

As a result of the large volume of heavy construction under way, the structural division is one of the busiest units of the steel industry. However, orders for construction steel (lower section of Chart 6) declined somewhat during the week ended October 15, although they were still more than 54 per cent above the corresponding week of 1939. Among the large orders placed for fabricated steel were 9,500 tons for additions to the Glenn L. Martin airplane plant, 3,500 tons for the Norfolk Navy Yard and 2,500 tons for the aluminum plant previously mentioned. Pending structural projects not yet actually booked include 26,000 tons for crane runways at the Philadelphia and Portsmouth Navy Yards. In view of the large contracts just awarded for expansion of naval shipyards and ordnance facilities, a very large volume of additional business should result from this source alone.

The steel situation

Steel orders and steel output continue to rise gradually. New orders reported by the U. S. Steel Corporation for the week ended October 10 increased to 103 per cent of capacity from 101 per cent in the previous week. A further rise in steel production in the important Pittsburgh district has carried the operating rate this week 0.5 higher to 94.9 per cent of capacity, representing a new high since 1929. Four of the smaller districts have been operating slightly above rated capacity for more than a month and the Chicago district, second in importance, operated last week at 99 per cent.

Prices on export steel were advanced 25 cents a hundred pounds last week by leading exporters of plates and shapes, putting these prices in line with those on domestic orders. Steel scrap prices showed a further increase at only one market during the week.

Secretary Morgenthau - 7

Textile orders somewhat lower

A decline in textile orders more than offset a further increase in steel orders during the second week of October, causing a moderate decline in our weekly index of new orders. (See Chart 7.)

Weekly business indexes

With all components except the index of automobile production showing gains, the New York Times index of business activity during the week ended October 12 resumed its rise with a gain of 0.7. As a result the index advanced to 108.0, or only 0.7 below its recent high.

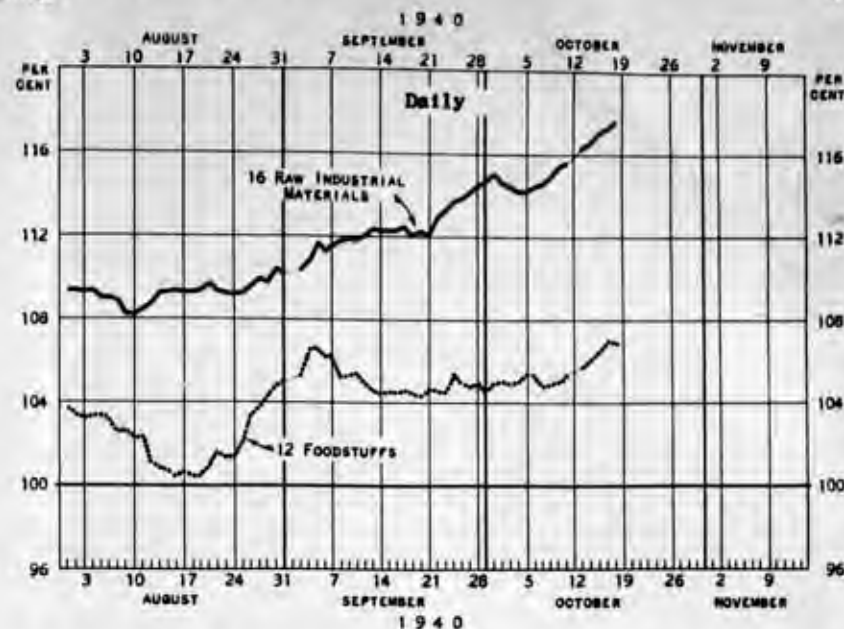
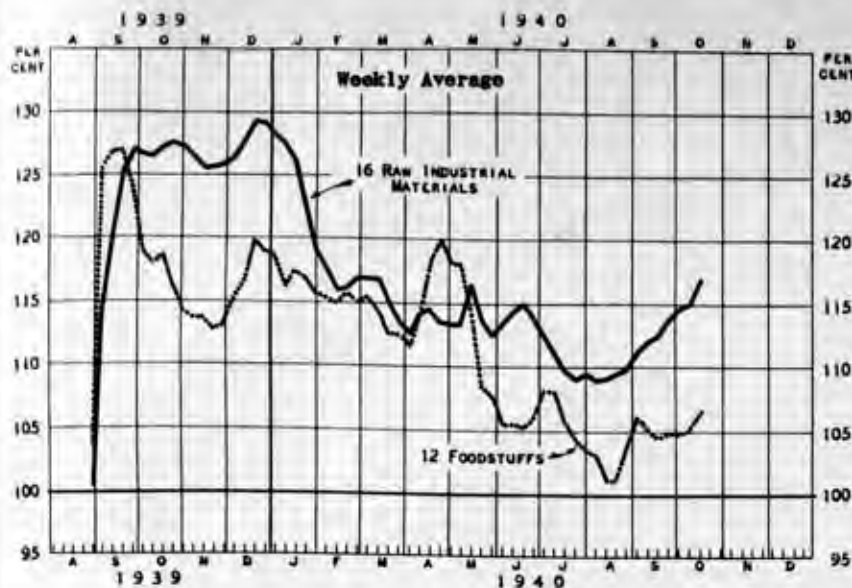
The principal factor in the rise was a contra-seasonal gain in electric power production to the second highest actual output figure on record. The adjusted index of cotton mill activity also advanced substantially, but the gains in the adjusted indexes of freight car loadings, steel ingot and lumber production were of moderate proportions.

The sharp decline of 20 points in the adjusted index of automobile production again reflected the distortion which has occurred this year in the normal seasonal pattern of the industry. Actual production during the week showed a further rise, and was 43 per cent above the corresponding week of 1939.

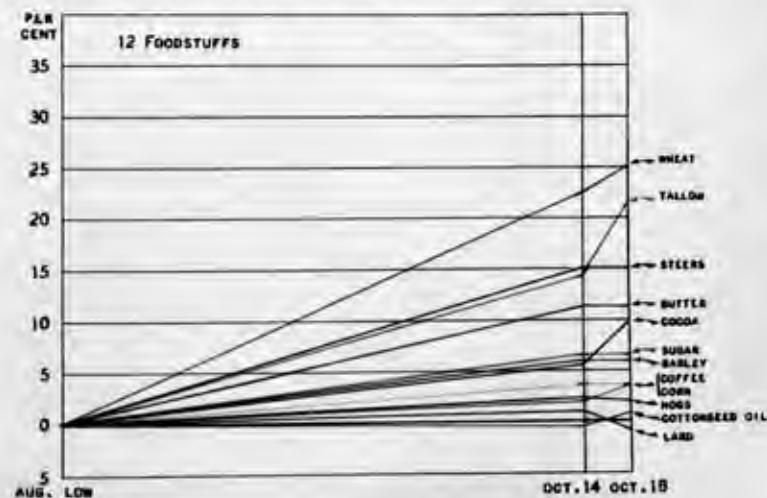
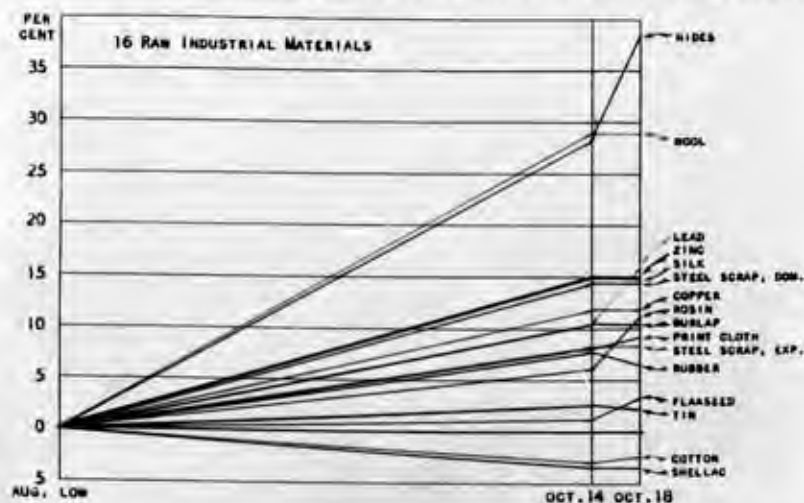
Barron's index of business activity for the week ended October 12 moved in line with the Times index and rose to 115.7 from 115.1 in the previous week.

Preliminary data for the week ended October 19 reveal a slight contra-seasonal rise in steel ingot production, and a further rise of more than 6,000 units in automobile production to the highest figure of the year. Despite this high level of production, the adjusted index of automobile production will show a substantial decline for the third consecutive week. Moreover, further declines in this index seem bound to occur in ensuing weeks, since actual weekly production is unlikely to expand much from present high levels, while the seasonal pattern of the Times index calls for steadily rising production through the first week in December.

MOVEMENT OF BASIC COMMODITY PRICES AUGUST 1939 = 100



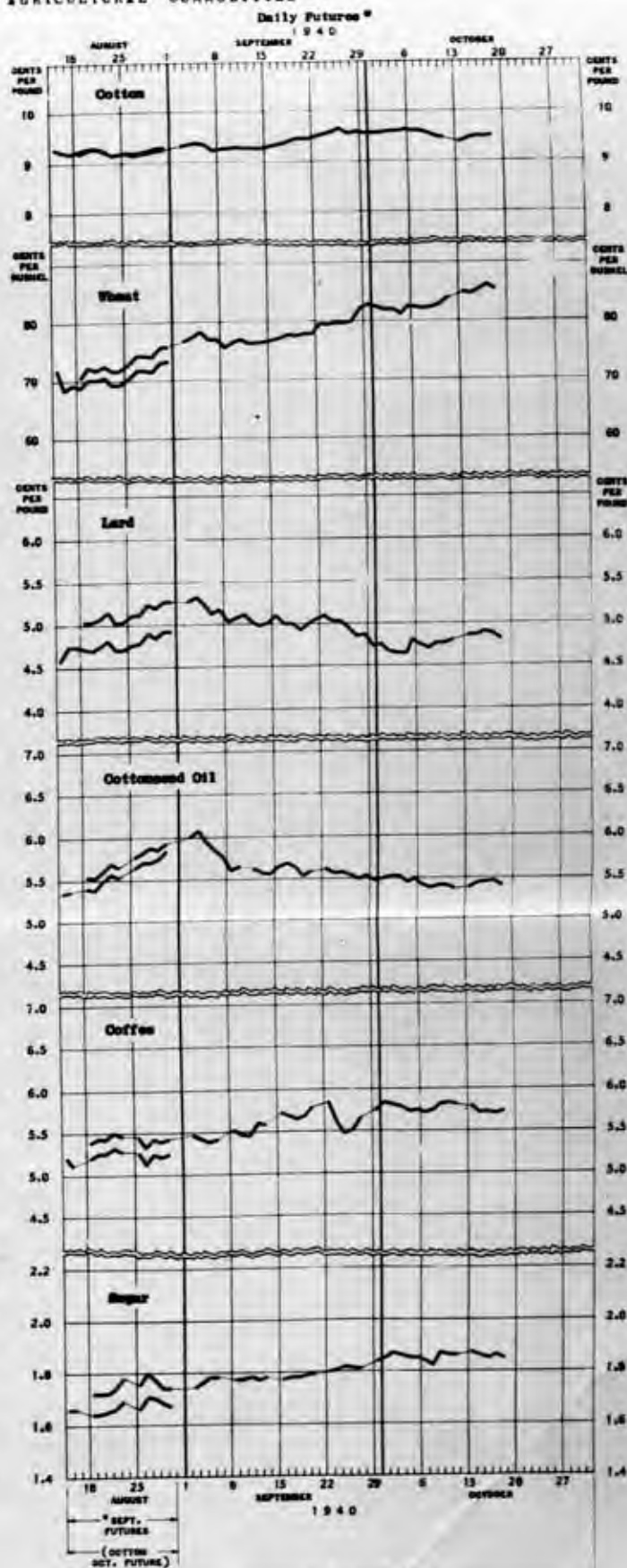
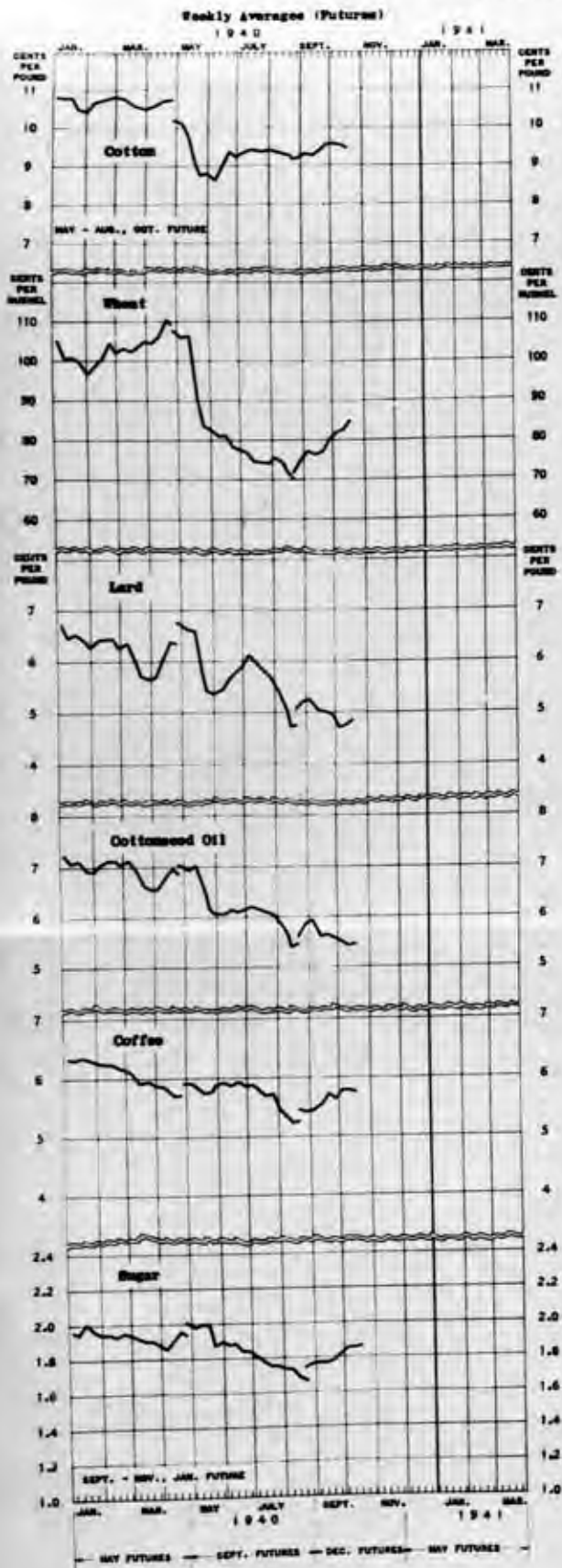
Percentage Change for Individual Commodities, August Low to October 14, and to October 18, 1940



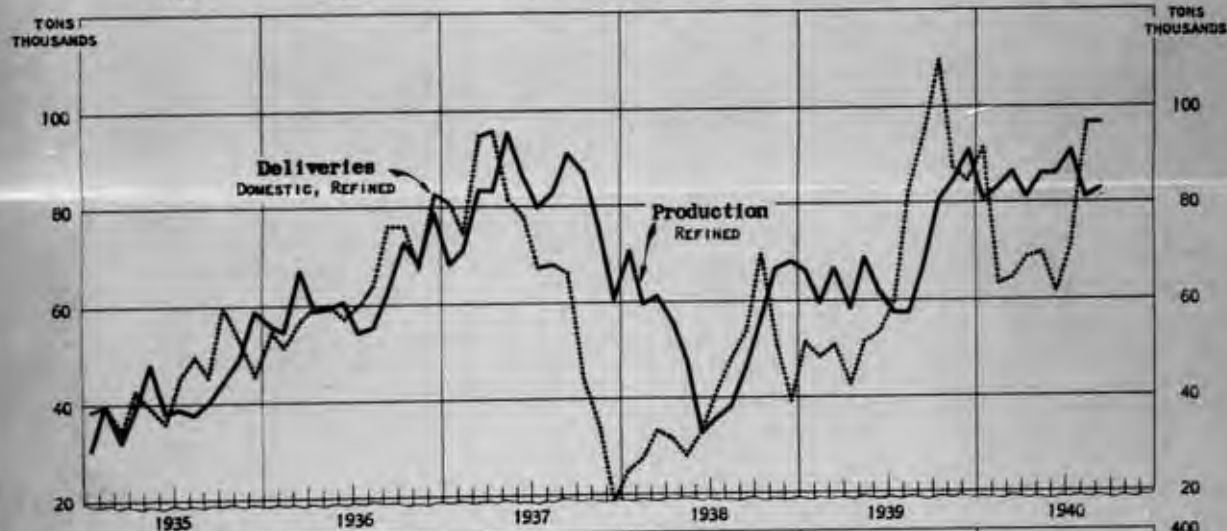
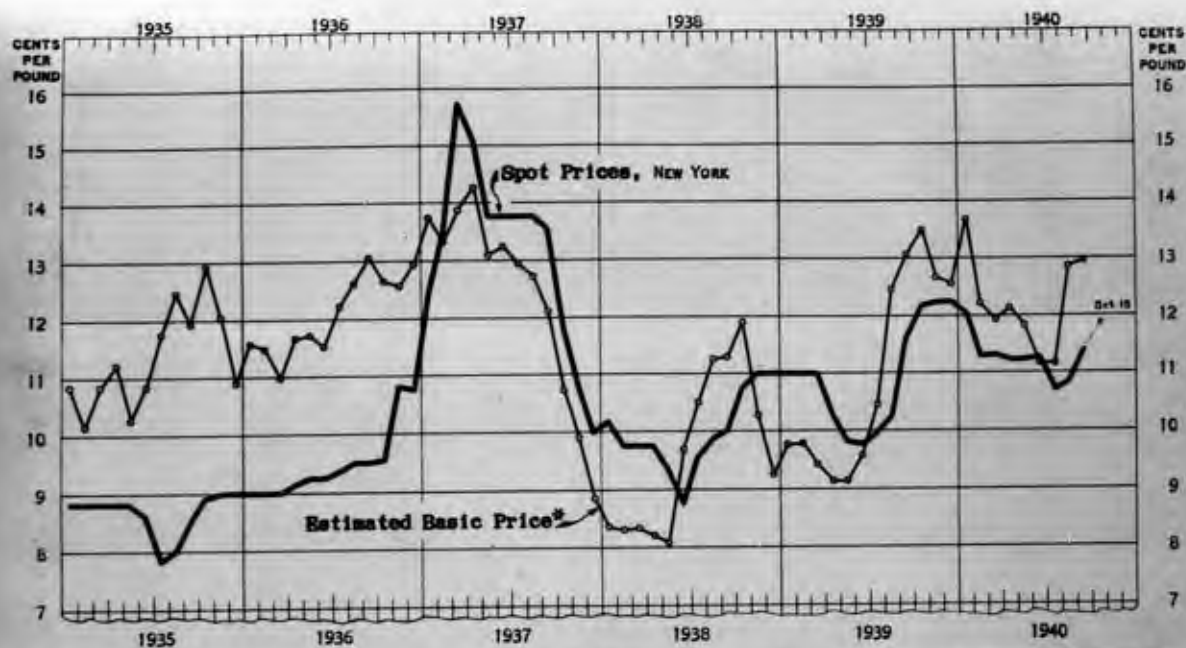
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PRICES OF SELECTED AGRICULTURAL COMMODITIES



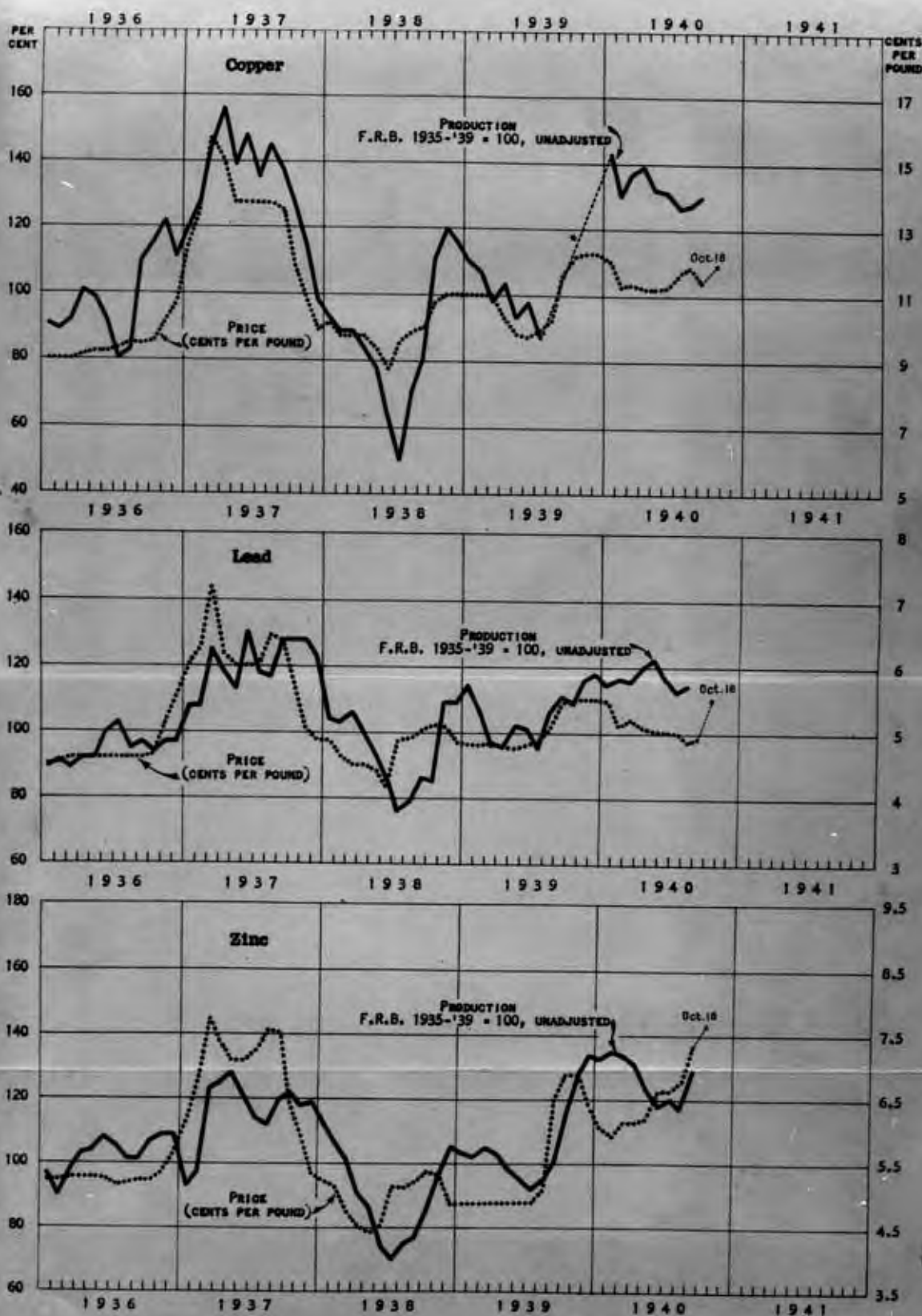
COPPER PRICES, PRODUCTION, DELIVERIES AND STOCKS



*COMPUTED FROM AVERAGE RELATIONSHIP OF COPPER PRICES TO U.S. PRODUCTION, SHIPMENTS, AND STOCKS OF COPPER.

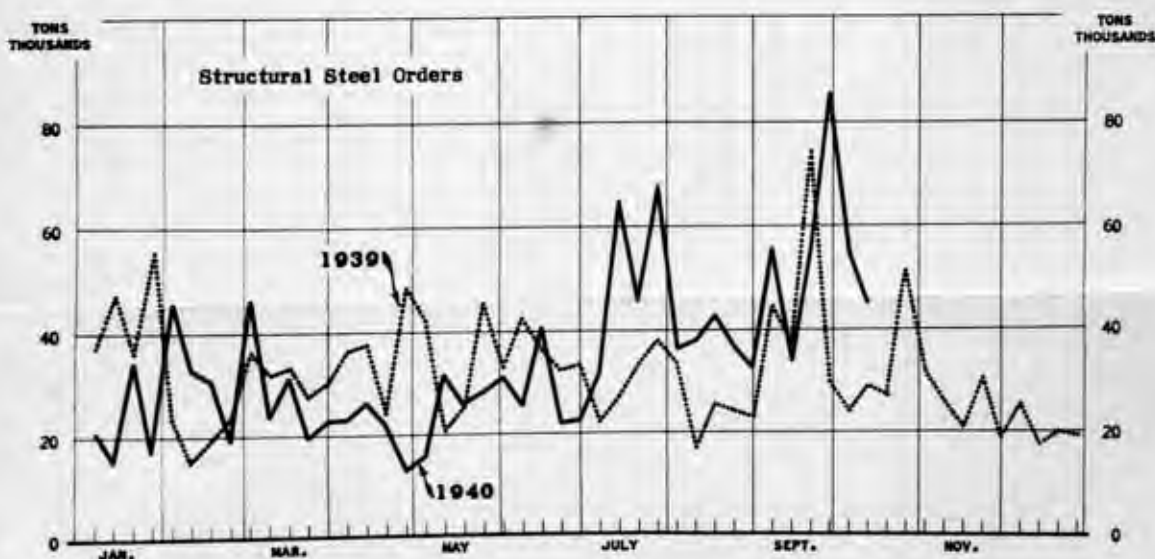
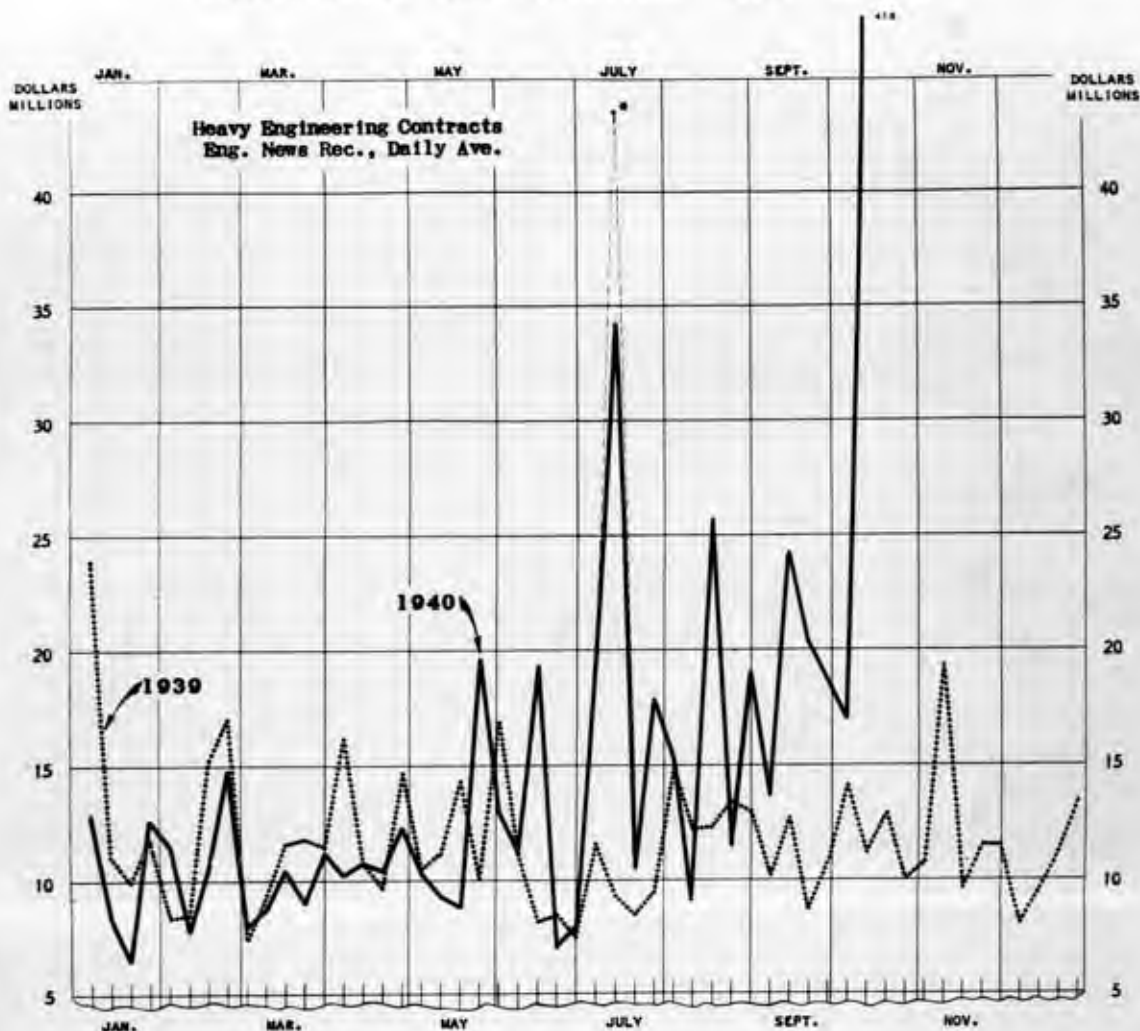
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SELECTED NON-FERROUS METAL PRODUCTION AND PRICES



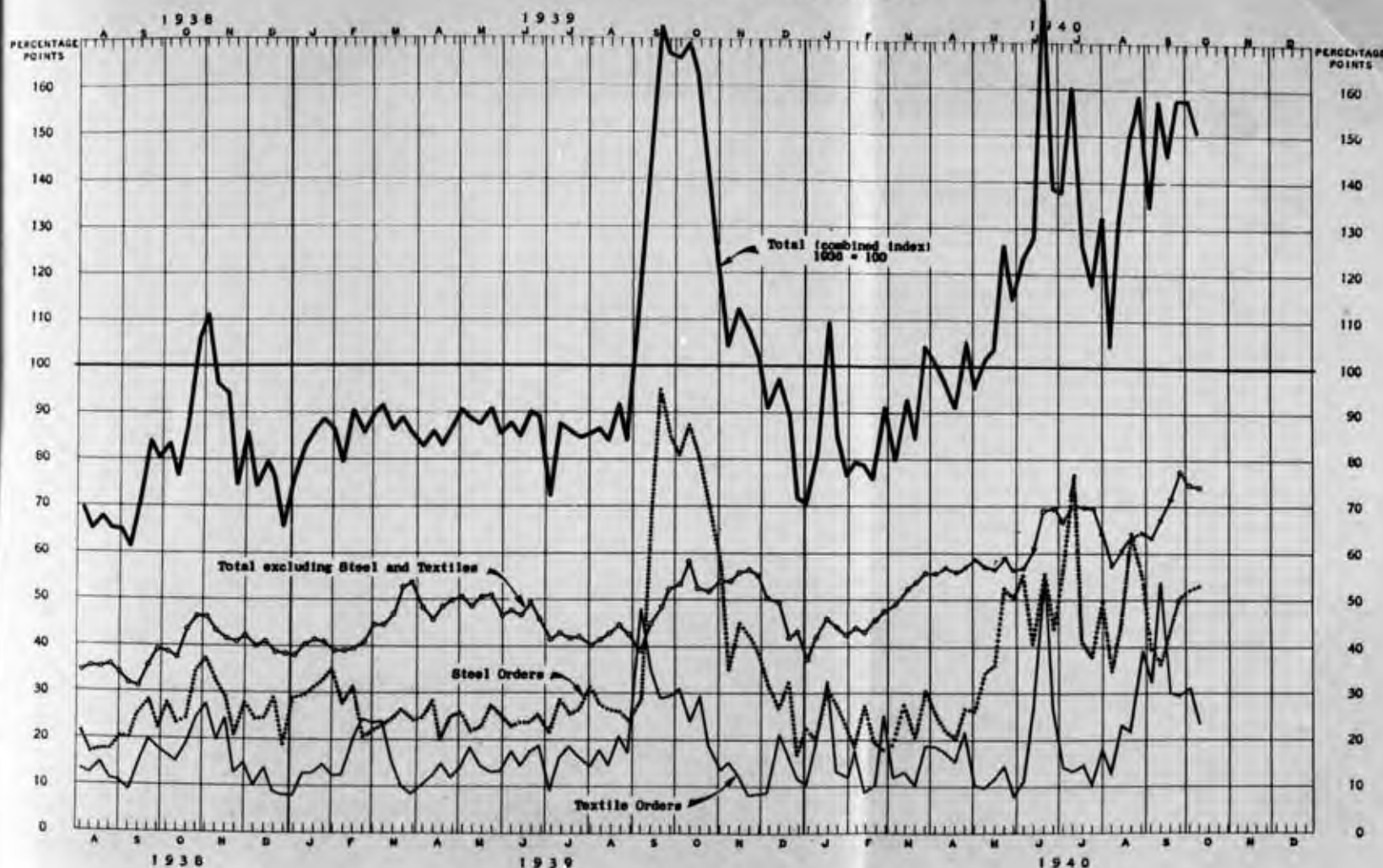
*F.R.B. Copper production not available August to December 1939

CONSTRUCTION AND STRUCTURAL STEEL ORDERS



* INCLUDING OUTLYING POSSESSIONS OF THE U.S.

INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



October 21, 1940

My dear Mr. Secretary:

I am sending you herewith a copy of the stenographic transcript of my meeting with Ambassador Gurnansky on October 17th together with a copy of the memorandum he left with me at that time.

Please advise me on this matter.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

2 Encl.

By Messenger 4¹⁰

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2 encls

By Messenger

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 21, 1940

Secretary Morgenthau

FROM Mr. Cochran

We received from the Federal Reserve Bank, New York, 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. 21	\$55,000	Banco Nazionale del Lavoro, Rome	Banca Commerciale Italiano, New York (Check drawn on Chase National Bank)	\$55,000	Banca Commerciale Italiano, New York	Check to order of Chase National Bank, New York for account of the Banco Nazionale del Lavoro, Rome

C O P Y

ROYAL NORWEGIAN LEGATION

Washington, D.C., October 21, 1940.

The Federal Reserve Bank of New York,
New York, N. Y.

Dear Sirs:

I should be much obliged to you for kindly opening
the following new accounts:

1. \$250,000.- His Majesty King Haakon the Seventh of Norway.
2. \$100,000.- His Royal Highness Crown Prince Olav of Norway.
3. \$650,000.- The Royal Norwegian Government, Special Account.

The necessary funds for these 3 accounts to a total
amount of \$1,000,000.- one million dollars - should be transferred
from the funds of the Bank of Norway (Norges Bank) deposited with
you and operated by me in accordance with the full powers given
me by the Royal Norwegian Government under April 26th 1940.

Yours very truly,

(Signed) W. Morgenstierne,
Minister of Norway.

WM/RE

dm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 21, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

We received from the Federal Reserve Bank of New York the following information regarding the transfers listed below from German accounts maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 21	\$200,000	Reichsbank, Berlin	Guaranty Trust Company, New York, for account of Reichsbank, Berlin
	81,069	" "	Manufacturers Trust Company, New York, in favor of Export Creditbank A. G., Berlin
	500,000	" "	Yokohama Specie Bank, New York, for account of and under cable advice to Yokohama Specie Bank, Tokio
	200,000	" "	Chase National Bank, New York for account of Stockholms Enskilda Bank, Stockholm
	350,000	" "	Chase National Bank for account of A/B Svenska Handelsbanken, Stockholm
	155,000	Deutsche Gold Discount Bank, Berlin	Irving Trust Company, New York for account of Yonigbura by order of Union Bank of Switzerland, Zurich



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£65,000
Purchased from commercial concerns	£21,000

Open market sterling was first quoted at 4.03-1/4. It closed at 4.03.
Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 5,000
Purchased from commercial concerns	£17,000

The Swiss franc eased to close at .2319. Today's decline exactly offset the improvement on Saturday to .2320-1/2.

The other currencies closed as follows:

Canadian dollar	13-1/2% discount
Swedish krona	.2386
Reichsmark	.4005
Mexican peso	.2070
Argentine peso (free)	.2370
Brazilian milreis (free)	.0505
Cuban peso	9-3/16% discount
Lira	.0505

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The New York banks received no metal prices from Bombay today.

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¢.

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

We made two purchases of silver totaling about 248,200 ounces under the Silver Purchase Act, both of which represented new production from various countries, for forward delivery.

We also purchased 300,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

COPY

October 21, 1940.

MEMORANDUM

TO: Files
FROM: L. W. Knoke

Mr. Eugene Havas, Financial Adviser of the Royal Hungarian Legation, called on Mr. Harrison by appointment to discuss informally the possibility of a five year loan of from \$500,000 to \$1,000,000 (to be fully secured by gold here) to enable the Hungarians to continue interest service for the next year on Hungarian obligations held in this country and on the American share of the Hungarian Standstill credit which expired on October 15, 1940. The Hungarian Minister to Washington had, under instructions from his government, previously discussed this matter with the State Department and also with the Treasury Department. It appears that the State Department had expressed the thought that some such loan might conceivably be granted through one of the following three agencies:

- (1) Federal Reserve Bank of New York
- (2) Stabilization Fund of the Treasury
Department
- (3) The Export-Import Bank.

The Treasury Department, Mr. Havas advised, had shown considerable interest in the matter and stated that the proposition would be put up to the Secretary of the Treasury for his decision this week. The Hungarian Minister had suggested to Mr. Jesse Jones that the Export-Import Bank should be approached formally only in case the Treasury Department and the Federal Reserve Bank had not seen their way clear to advance the funds. There seemed to be some

hesitancy on the part of the Hungarians to approach our commercial banks for such loan for fear that the Hungarians' willingness to put up collateral in the form of gold would become publicly known, particularly in Europe (Germany).

On this last point of publicity Mr. Harrison suggested that if ultimately the matter of a loan were formally put up to and favorably decided upon by us, no undue publicity need be anticipated from this end: our annual report and that of the Board of Governors would, as in recent years, presumably simply state the fact that a loan against gold had been granted without, however, divulging the name of the borrower.

Mr. Harrison continued that if we should get a request from the National Bank we would, of course, give it the serious consideration which it deserved; that legally we seemed to have the authority to make such loans but that naturally he was a little reluctant as to the five year feature as a long term period of that character was generally speaking bad business for a central bank. We would on receipt of such formal request explore the matter further with others and would wish to satisfy ourselves that its granting was in the public interest. Final decision would, of course, rest with our board of directors and the Board of Governors. However, there seemed no sense in raising money here for Hungary if the Standstill creditors here would continue to attach Hungarian funds in this market in order to satisfy their claims, as he understood some of them had done in the last few days. Mr. Havas agreed as to the advisability to have the Standstill creditors consent beforehand to the Hungarian proposal (payment of interest for one year but no amortization) and to the release of attached funds.

G-2/2657-220

RESTRICTEDM.I.D., W.D.
October 21, 1940.
12:00 M.

No. 225

SITUATION REPORT

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 continued its normal pattern of activity: daylight raids largely over southeastern England with pursuit bombers much in evidence; heavy night raids concentrating on the London and Liverpool areas and over the Midlands, presumably on Birmingham.

On the night of the 19th-20th bad weather stopped all British offensive operations. Last night the R.A.F. operated extensively over the continent, including an attack on Berlin.

II. Mediterranean and African Theaters of War.

1. Minor ground activity in Egypt and Libya.
2. Air Force Operations.

The R.A.F. bombed northern Italy on the night of the 20th-21st, reaching as far east as Padua. The British also bombed at scattered points in north and east Africa.

The Italian Air Force attacked the British bases along the North Coast of Egypt. A long-distance raid was also made on the oil refineries at Bahrein Island in the Persian Gulf. The point of departure of this raid is not determined as yet.

CONFIDENTIAL

TENTATIVE LESSONS BULLETIN
No. 60
G-2/2657-235

MILITARY INTELLIGENCE DIVISION.
WAR DEPARTMENT,
Washington, October 21, 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.

BRITISH COMMENT ON DEFENSE AGAINST TANK ATTACKSSOURCE

These comments were made by three British officers early in October, 1940. Two of the officers have had special training in chemical warfare, while the third has had long experience in armored units of the British Army. All three officers participated in the Flanders Campaign. Previous notes on British antitank tactics are to be found in TI10-3 and TI24-4.

CONTENTS

1. ORGANIZED DEFENSE
2. GUERRILLA DEFENSE

CONFIDENTIAL

CONFIDENTIAL1. ORGANIZED DEFENSE

In an organized defensive area, it is essential that antitank weapons of good size be available and so sited as to bring enemy tanks under fire at the maximum range. In general, the same criss-cross fire that is common for machine gun defense is also desirable for antitank defense. Antitank weapons should be distributed in depth. They should be located especially on terrain that is not suitable for tank advance so that enemy tanks may be brought under fire from the flank.

For both antitank weapons and weapons fired from tanks, the British officers said, shell with the highest possible velocity and the most effective armor piercing characteristics was required.

The officers were of the opinion that antitank mines were of very considerable importance, principally because they hold up an attack and thus make the armored vehicle especially vulnerable to artillery fire.

The question of flame throwers was raised, and the British officers stated that, although they had heard much about flame throwers, none of them had seen one in action in France. Neither had they witnessed the effect of flame throwers on tanks, but they felt that in close defense of an Infantry position, such weapons might have some value where it was impossible to secure the proper type of antitank weapons.

2. GUERRILLA DEFENSE

Guerrilla defense against tank attacks proved quite successful in both Finland and Spain, and the British are now developing various means and method for use in such defense. One favorite method is to throw a number of sticks of dynamite or other explosive directly ahead of a moving tank with a view to wrecking it completely.

Of special interest and value for use in rocky country and in villages is the Molotov Cocktail. This weapon is essentially a quart bottle full of gasoline, with a gasoline-soaked rag wrapped about its base. Immediately before throwing the bottle, the soldier sets fire to the gasoline-soaked rag. When the bottle breaks against the tank, the gasoline is set afire by the burning cloth. Recent developments with respect to the Molotov Cocktail include the use of a soft rubber covered material placed on the base in lieu of the gasoline-soaked rag. Upon striking hard surfaces, this material bursts into flame. In other cases, the bottle is filled with smoke material and combustible oils instead of gasoline, and the tank which it strikes becomes filled with smoke as well as covered with flame.

CONFIDENTIAL

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The British officers stated that a whole box of Molotov Cocktails could be dropped from an upper story window on an enemy tank, and that in such a case the effect of some half-dozen bottles could be achieved at one time. It appears that the bottles are packed in cases and used as regular ammunition where guerrilla tactics can be applied to tank defense.

CONFIDENTIAL

CONFIDENTIAL

SPECIAL BULLETIN
No. 21
G-2/2657-231

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, October 21, 1940

NOTICE

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CHARACTERISTICS OF SOVIET ARTILLERY WEAPONSSOURCE

The information contained in this bulletin is based primarily upon the reports of official American observers and secondarily upon handbooks concerning the Red Army and other publications. Paragraph 2d is based upon information received from very doubtful sources in May and June, 1940.

CONTENTS1. FIELD ARTILLERY WEAPONS

- a. Infantry Regimental Artillery
- b. Divisional Field Artillery
- c. Corps Artillery
- d. Field Artillery with Cavalry Units
- e. GHQ Artillery

2. ANTIAIRCRAFT ARTILLERY WEAPONS

- a. Antiaircraft Guns
- b. Automatic Antiaircraft Guns
- c. Antiaircraft Machine Guns
- d. Highly Doubtful Antiaircraft Weapons

CONFIDENTIAL

CONFIDENTIAL1. FIELD ARTILLERY WEAPONSa. Infantry Regimental Artillery *(1) 76-mm. Howitzer, 1927-1936

Actual caliber: 76.2 mm.
 Length: For the 1927 model, 16.5 calibers. The new model has an extra short tube, although its exact length is not known.
 Muzzle velocity: 360 meters per second.
 Weight of projectile: 6.5 kilograms.
 Weight in firing position: 680-780 kilograms.
 Weight in traveling position: 1320-1420 kilograms.
 Range: 6-7 kilometers.
 Number of shots per minute: 10-15.
 Effective radius of burst: 15 x 30 meters.
 Trail: Two I-beams.
 Motive power: 4 horses or tractor.

b. Divisional Field Artillery(2) 76-mm. Gun, 1902

Actual caliber: 76.2 mm.
 Length: 30 calibers.
 Muzzle Velocity: 588 meters per second.
 Weight of projectile: 6.5 kilograms.
 Weight in firing position: 1040-1100 kilograms.
 Weight in traveling position: 2050 kilograms.
 Range: 8.75 kilometers.
 Trail: Single.
 Motive power: 6 horses or truck.

(3) 76-mm. Gun, 1902-1930

Actual caliber: 76.2 mm.
 Length: 40 calibers.
 Muzzle velocity: 588 meters per second.
 Weight of projectile: 6.5 kilograms.
 Weight in firing position: 900 kilograms.
 Weight in traveling position: 1800-2020 kilograms.
 Range: 8.5-13 kilometers.

* Note: In addition to the 76-mm. howitzer, 1927-1936, the Infantry Regimental Artillery probably uses 37-mm. and 45-mm. antitank guns similar to those used by the Infantry. They will be described in a forthcoming bulletin of this series.

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Number of shots per minute: 6-8.
 Effective radius of burst: 15 x 30 meters.
 Trail: Single.
 Motive power: 6 horses or tractor or truck.
 Remarks: This gun has been standard until recently.

(4) 76-mm. Mountain Gun 1909

Actual caliber: 76.2 mm.
 Length: 16.5 calibers.
 Muzzle velocity: 380.
 Weight of projectile: 6.5 kilograms.
 Weight in firing position: 545-625 kilograms.
 Weight in traveling position: 1326-1365 kilograms.
 Range: 7 kilometers.
 Number of shots per minute: 10-15.
 Effective radius of burst: 15 x 30 meters.
 Trail: Box.
 Motive power: 8 loads in pack, or truck.

(5) 76-mm. Gun 1933 (Extra Long Rifle)

Actual caliber: 76.2 mm.
 Length: 60 calibers (doubtful).
 Shell: Streamlined.
 Range: 13 kilometers.
 Trail: Split.
 Motive power: 6 horses or tractor.
 Remarks: Probably an experimental model, since it appears too long to be practical in the field.

(6) 76-mm. Gun 1936

Actual caliber: 76.2 mm.
 Length: 46 calibers.
 Muzzle velocity: 706 meters per second.
 Weight of projectile: 6.5 kilograms.
 Weight in traveling position: 1700 kilograms.
 Range: 13.5 kilometers.
 Trail: Split.
 Motive power: Motor drawn; excellent pneumatic rubber tires.
 Remarks: Reported to be the most modern type in use; used in Finnish war; easily maneuverable; said to be capable of antiaircraft fire, but this doubtful.

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CONFIDENTIAL(7) 122-mm. Schneider Howitzer. 1910

Actual caliber: 122.3 mm.
 Length: 13 calibers.
 Muzzle velocity: 335 meters per second.
 Weight of projectile: 23 kilograms.
 Weight in firing position: 1300 kilograms.
 Weight in traveling position: 2360 kilograms.
 Range: 7.7-9.5 kilometers.
 Number of shots per minute: 6-7.
 Effective radius of burst: 20 x 60 meters.
 Trail: Box.
 Motive power: 6 horses or tractor or truck.
 Remarks: Obsolete but possibly still in use.

(8) 122-mm. Schneider Howitzer. 1910-1930

Actual caliber: 122.3 mm.
 Length: 12.8-13 calibers.
 Muzzle velocity: 231 meters per second (doubtful).
 Weight of projectile: 23 kilograms.
 Weight in firing position: 1365 kilograms.
 Weight in traveling position: 2120 kilograms.
 Range: 9.6 kilometers.
 Trail: Box.
 Motive power: 6 horses or tractor or truck.

(9) 122-mm. Krupp Howitzer. 1909

Actual caliber: 122.3 mm.
 Length: 14 calibers.
 Muzzle velocity: 335 meters per second.
 Weight of projectile: 23 kilograms.
 Weight in firing position: 1330 kilograms.
 Weight in traveling position: 2360 kilograms.
 Range: 7-7.5 kilometers.
 Motive power: 6 horses.
 Remarks: Obsolete type, but possibly still in use.

c. Corps Artillery(10) 107-mm. Schneider Gun. 1910

Actual caliber: 106.7 mm.
 Length: 28 calibers.
 Muzzle velocity: 580 meters per second.
 Weight of projectile: 16.4 kilograms.

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Weight in firing position: 2180-2280 kilograms.
 Weight in traveling position: 2480-2520 kilograms.
 Range: 11.5-16 kilometers.
 Number of shots per minute: 6-7.
 Effective radius of burst: 20 x 60 meters
 (doubtful)
 Motive power: 6-8 horses or tractor.

(11) 107-mm. Schneider Gun, 1910-1930

Actual caliber: 106.7 mm.
 Length: 28 calibers.
 Muzzle velocity: 588 meters per second.
 Weight of projectile: 16.6 kilograms.
 Weight in firing position: 1800 kilograms.
 Weight in traveling position: 2270-2490 kilograms.
 Range: 16.5 kilometers.
 Number of shots per minute: 6-7.
 Effective radius of burst: 20 x 60 meters
 (doubtful).
 Trail: Box.
 Motive power: 6 horses or tractor.

(12) 122-mm. Gun-Howitzer (new)

Actual caliber: 122.3 mm.
 Weight in firing position: 4550 kilograms.
 Trail: Split.
 Motive power: Tractor; 4 hard rubber wheels on carriage.
 Remarks: Probably an experimental type; may replace both the 107-mm. gun and the 152-mm. howitzer if successful.

(13) 152-mm. Schneider Howitzer, 1909-1910

Actual caliber: 152.4 mm.
 Length: 12-13.5 calibers.
 Muzzle velocity: 341-380 meters per second.
 Weight of projectile: 41 kilograms.
 Weight in firing position: 2270-2700 kilograms.
 Weight in traveling position: 2725-3100 kilograms.
 Range: 10-12 kilometers.
 Effective radius of burst: 25 x 70 meters.
 Motive power: 6-8 horses or tractor.
 Remarks: Obsolete type, but possibly still in use.

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CONFIDENTIAL(14) 152-mm. Schneider Howitzer, 1910-1930

Actual caliber: 152.4 mm.
 Length: 12 calibers.
 Muzzle velocity: 380 meters per second (doubtful).
 Weight of projectile: 41 kilograms.
 Weight in traveling position: 3065 kilograms.
 Range: 11.5-12 kilometers.
 Effective radius of burst: 25 x 70 meters.
 Motive power: 6-8 horses or tractor.

d. Field Artillery with Cavalry Units *(15) 114-mm. Vickers Howitzer

Actual caliber: 114.3 mm.
 Length: 15.5 calibers.
 Muzzle velocity: 311 meters per second.
 Weight of projectile: 14.5-15.9 kilograms.
 Weight in firing position: 1370-1545 kilograms.
 Range: 7.5 kilometers.
 Trail: Box.
 Motive power: 6 horses.

e. GHQ Artillery **(16) 152-mm. Schneider Gun, 1910

Actual caliber: 152.4 mm.
 Length: 28 calibers.
 Muzzle velocity: 640 meters per second.
 Weight of projectile: 41 kilograms.
 Weight in firing position: 4600-5760 kilograms (doubtful).
 Weight in traveling position: 6000 kilograms (doubtful).

* Note: Separate Cavalry brigades usually have 76-mm. mountain guns (see 1b (4)). Cavalry divisions have 122-mm. howitzers (see 1b (7), (8), and (9)) and 76-mm. guns, Model 1902-1930 (See 1b (3)), as well as 114-mm. howitzers. Cavalry Corps have 107-mm. guns (see 1c (10) and (11)) and 114-mm. howitzers.

** Note: The GHQ (ARGK) Artillery has about 20 calibers ranging from 20 mm. to 406 mm., including many obsolete models. In addition to those listed under this heading, it has French 155-mm. guns, French 240-mm. trench mortars, 40-mm. automatic guns, and 76-mm. antiaircraft guns, as well as 76-mm. guns (See 1b (12), (13), (15) and (16)) and 107-mm. guns (See 1c (20) and (21)).

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Range: 12.5-18 kilometers (doubtful).
 Effective radius of burst: 25 x 70 meters.
 Motive power: Motorized.

(17) 152-mm. Soviet Gun

Actual caliber: 152.4 mm.
 Length: 30 calibers.
 Muzzle velocity: 600 meters per second.
 Weight of projectile: 41 kilograms.
 Weight in firing position: 5225 kilograms.
 Range 12 kilometers.
 Motive power: Motorized.
 Remarks: This is possibly a modernization of the Schneider gun.

(18) 152-mm. Vickers Howitzer *

Actual caliber: 152.4 mm.
 Length: 14.6 calibers.
 Muzzle velocity: 365 meters per second.
 Weight of projectile: 98 kilograms.
 Weight in firing position: 3360 kilograms.
 Range: 8.7 kilometers.
 Motive power: 12 horses or tractor.

(19) 203-mm. Vickers Howitzer

Actual caliber: 203.4 mm.
 Length: 15.9 calibers.
 Muzzle velocity: 400 meters per second.
 Weight of projectile: 90 kilograms.
 Weight in firing position: 7725 kilograms.
 Range: 9.2-15 kilometers.
 Motive power: Tractor.

(20) 210-mm. Howitzer

Remarks: A weapon of this caliber has been mentioned in a Soviet publication. It is known that some of them were ordered from Czechoslovakia.

(21) 280-mm. Schneider Howitzer. 1915

Length: 11.5 calibers.

* Note: There is also a 152-mm. Schneider howitzer.

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Muzzle velocity: 315 meters per second.
 Weight of projectile: 200 kilograms.
 Weight in firing position: 16,100 kilograms.
 Weight in traveling position: 5420 kilograms.
 Range: 9.6 kilometers.
 Rate of fire: 1 shot in 2 minutes.
 Motive power: Tractor.
 Remarks: A new experimental 280-mm. howitzer was seen in November, 1939. It was perhaps an old Schneider 280-mm. on a new mount.

(22) 305-mm. Obukhov Howitzer, 1915

Length: 20 calibers.
 Muzzle velocity: 440 meters per second.
 Weight of projectile: 377 kilograms.
 Weight in firing position: 57,280-67,500 kilograms (doubtful).
 Weight in traveling position: 20,000 kilograms (doubtful).
 Range: 13.5 kilometers (Howitzer has possibly been relined to give greater range).
 Rate of fire: 1 shot in 3 minutes.
 Motive power: Railway.

(23) 305-mm. Vickers Howitzer

Length: 15 calibers.
 Muzzle velocity: 365 meters per second.
 Weight of projectile: 123-340 kilograms (doubtful).
 Range: 10.5 kilometers.
 Motive power: Tractor.

(24) 406-mm. Gun *

Actual caliber: 406.4 mm.
 Weight of projectile: 877 kilograms.
 Range: 22-23 kilometers.
 Motive power: Railway.

2. ANTIAIRCRAFT ARTILLERY WEAPONSa. Antiaircraft Guns(1) 76-mm. M/33 Gun

Length: 50 calibers.

* Note: It is not definitely known whether this weapon is a gun or a howitzer.

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Muzzle velocity: 800 meters per second.
 Weight of projectile: 6.5 kilograms.
 Maximum horizontal range: 14.5 kilometers.
 Maximum vertical range: 9.5 kilometers.
 Rate of fire: 20-25 shots per minute.
 Motive power: Fixed or tractor.

(2) 76-mm. M/15/28 Gun

Length: 40 calibers.
 Muzzle velocity: 640 meters per second.
 Weight of projectile: 6.5 kilograms.
 Weight in traveling position: 6000 kilograms.
 Maximum horizontal range: 11 kilometers.
 Maximum vertical range: 7 kilometers.
 Rate of fire: 10-12 shots per minute.
 Motive power: 4-wheel tractor.

(3) 76-mm. M/15 Gun

Length: 36-40 calibers (doubtful).
 Muzzle velocity: 588 meters per second.
 Weight of projectile: 6.5 kilograms.
 Weight in firing position: 1278 kilograms.
 Weight in traveling position: 1278 kilograms.
 Maximum horizontal range: 9.5 kilometers.
 Maximum vertical range: 6 kilometers.
 Rate of fire: 10-12 shots per minute.
 Motive power: 4-wheel tractor.
 Remarks: This is an obsolescent type.

(4) 76-mm. Gun

Length: 50 calibers.
 Muzzle velocity: 1136 meters per second.
 Weight of projectile: 4.4 kilograms.
 Weight in firing position: 2365 kilograms.
 Weight in traveling position: 3400 kilograms.
 Motive power: Truck.
 Remarks: Data doubtful; apparently not accurate.

(5) 76-mm. Gun. 1900

Remarks: Formerly in use, but now obsolete or obsolescent; had simplified mount.

(6) 76-mm. Gun. 1900

Remarks: Formerly in use, but now obsolete or

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obsolescent; had Ivanov mount.

(7) 76-mm. Gun. 1902

Remarks: Formerly in use, but now obsolete or obsolescent; had Ivanov mount; length, 30 calibers.

(8) 76-mm. Putilov Gun. 1914-1915

Remarks: Formerly in use but now obsolete or obsolescent; length, 30 calibers.

(9) 80-mm. Bofors Gun

Length: 51 calibers.

Muzzle velocity: 750 meters per second.

Weight of projectile: 8 kilograms.

Weight in firing position: 3000 kilograms.

Weight in traveling position: 4000 kilograms.

Maximum horizontal range: 15 kilometers.

Maximum vertical range: 9.7 kilometers.

Motive power: Tractor.

Remarks: In 1933 the U.S.S.R. purchased a few of these guns from Bofors, but there is no record of its purchasing any ordnance from this company during the years 1934-1937. Bofors also makes 76-mm. antiaircraft guns of this type. It is not known whether the Red Army, which is the principal one using 76-mm. guns, has any of these.

(10) 88-mm. Gun

Remarks: It has been reported that fifteen of these guns were ordered from Germany in 1927. Their use at this time is doubtful, although an observer in Moscow in June, 1940, said the Red Army had 88's, both truck-drawn and tractor-drawn.

(11) 105-mm. Leningrad M/34 Gun

Length: 60 calibers.

Muzzle velocity: 945 meters per second.

Weight of projectile: 15 kilograms.

Weight in firing position: 10,500 kilograms.

Maximum horizontal range: 18 kilometers.

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Maximum vertical range: 13 kilometers.
 Rate of fire: 20 shots per minute.
 Motive power: Fixed or tractor.
 Remarks: This gun is possibly a modification of
 a Bofors prototype and not an original Soviet
 design.

(12) 117-mm. Gun

Remarks: It has been reported, but not confirmed,
 that 60 of these weapons were ordered in 1924
 and are now possibly installed as fixed coast
 defense guns.

b. Automatic Antiaircraft Guns(13) 20-mm. Oerlikon Automatic

Length: 70 calibers.
 Muzzle velocity: 870 meters per second.
 Weight of projectile: 128 kilograms.
 Weight in firing position: 235-300 kilograms.
 Weight in traveling position: 600 kilograms.
 Maximum horizontal range: 5 kilometers.
 Maximum vertical range: 3.7 kilometers.
 Rate of fire: 200-250 shots per minute.
 Motive power: 1 or 2 horses.
 Remarks: Use of this gun in the Red Army is
 doubtful. No report has been made on it since
 1933, when it was in use.

(14) 40-mm. Vickers Automatic

Length: 50 calibers.
 Muzzle velocity: 720 meters per second.
 Weight of projectile: 0.913 kilograms.
 Weight in firing position: 737 kilograms.
 Maximum horizontal range: 7 kilometers.
 Maximum vertical range: 4 kilometers.
 Motive power: Motor or horse-drawn.
 Remarks: Although it is listed in a German hand-
 book, use of this weapon in the Red Army is
 doubtful.

(15) 40-mm. Vickers M-18 Automatic

Length: 40 calibers.
 Muzzle velocity: 610 meters per second.

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Weight of projectile: 0.911 kilograms.
 Weight in firing position: 1327 kilograms.
 Maximum horizontal range: 5.7-7.1 kilometers.
 Maximum vertical range: 4-5.7 kilometers.
 Rate of fire: 80-200 shots per minute.
 Motive power: 1 or 2 horses.

c. Antiaircraft Machine Guns(16) 7.62-mm. Maxim

Muzzle velocity: 880 meters per second.
 Weight in firing position: 80 kilograms with mount.
 Maximum horizontal range: 2.75 kilometers.
 Maximum vertical range: 1 kilometer.
 Rate of fire: 250-500 shots per minute.
 Motive power: Truck.
 Remarks: Tripod mount; belt fed, 250 rounds; also mounted in groups of three or four machine guns on trucks.

(17) 13.2-mm. Hotchkiss

Length: 76 calibers.
 Muzzle velocity: 800 meters per second.
 Weight of projectile: 0.052 kilograms.
 Weight of firing position: 97 kilograms.
 Weight in traveling position: 200 kilograms.
 Maximum horizontal range: 6.5-7 kilometers.
 Maximum vertical range: 3-4 kilometers. Effective range is 1.5-2.5 kilometers.
 Rate of fire: 500 rounds per minute. Practical rate is 180-250 rounds.

d. Highly Doubtful Antiaircraft Weapons *(18) 37-mm. Extra-long Gun: Mounted either singly or in threes.(19) 52-mm. Gun: Extra long tube; has 20-inch bushing or inner liner which is slipped into the breech-end of the tube by hand before the breech-block is screwed on; said to have two

* Note: The information in this paragraph was obtained from very doubtful sources. It was claimed that the antiaircraft weapons mentioned in this paragraph were in manufacture at Kostroma, near Yaroslav.

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mounts - a stand base for fixed installation and a high speed, 3-wheeled mount with the third wheel detachable.

- (20) 104-mm. Gun, French Type: Tube about 12 feet long.
- (21) 162-mm. Gun: Tube about 5 meters long; mounted on a 4-wheel, high speed carriage with wheels about 4 feet in diameter; said to be fired automatically by electricity with use of a revolving cylinder which holds 9 shells; rate of fire said to be 18 rounds per minute.

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BRITISH EMBASSY,
WASHINGTON, D.C.

Secret.

21st October 1940.

Dear Mr. Secretary,

I enclose herein for you
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,

Wm. Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated 19th October 1940.

1. Naval.

During afternoon of October 18th two torpedo boats sent to investigate report of enemy surface craft sighted three large enemy mine-sweeping trawlers fourteen miles off Dover and attacked with torpedoes. One trawler was hit.

Shells fired at Dover yesterday slightly damaged a naval trawler.

On evening of October 18th British destroyer attacked an Italian U-boat in Western Mediterranean. It came to the surface and sank after being abandoned by the crew.

During evening of October 18th His Majesty's Ship "Cornwall" intercepted southward of Freetown the French ship "Indochinois" (6800 tons), believed to be troop carrying, and ordered her back to Dakar.

2. Royal Air Force.

Owing to weather conditions during the night of October 18th/19th most projected operations were cancelled but the heavy bombers were sent to attack aluminium works and 19 medium bombers to the "Bismarck" at Hamburg. The heavy bombers have returned but reports

from the medium bombers are not yet complete.

2. GERMAN AIR FORCE

Night of October 17th/18th (further reports). Total casualties in London area are estimated at 97 killed and 365 injured. Reports from Birmingham that no serious damage was caused to any of the "key" factories hit but that it was heavy among working class houses.

Damage at a London Underground Railway Station mentioned in paragraph 3 of telegram of October 17th was serious and it is anticipated that clearance will take a considerable time. About 75 persons were killed.

During October 18th visibility was bad over the country owing to low cloud and mist and enemy activity was almost negligible and confined to a few reconnaissance flights by single aircraft.

During the night of October 18th/19th activity was on a much reduced scale, probably owing to weather conditions, and was almost entirely confined to the early hours of darkness. About 160 enemy aircraft were plotted over the country of which approximately 80 operated in the London area and about 80 each in the Liverpool, Manchester, Birmingham and Coventry areas. Damage, believed serious, was caused to the factory of the Gramophone Company. No other damage to factories was reported but in some of them production is delayed owing to water shortage. At Birmingham 4 factories are reported hit; the only serious damage reported was to one cooking

plant and to a metal factory.

One enemy bomber was damaged; we had no fighter casualties.

4. Shipping Casualties.

A homeward-bound convoy was twice attacked by U-Boats in the north-western approaches yesterday. It is believed that six ships were hit but further details are not yet available.

Two convoys aggregating 49 ocean-going vessels have arrived safely. Cargoes included 6 of steel, 6 of oil and 6 of cereals.

5. Middle East.

Libya. On October 17th successful attacks were made on light anti-aircraft guns and mechanical transport at Sidi Barrani and on shipping at Benghazi.

Sudan. Between October 15th and October 18th successful attacks were carried out on various Italian bases, railways and aerodromes in Abyssinia by bombing aircraft.



BRITISH EMBASSY,
WASHINGTON, D.C.

October 21st, 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,

Henrik Butler

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram from London
dated October 20th, 1940.

1. Naval. On October 19th a British destroyer was mined off North Foreland and sank; 96 survivors have been reported.

On the same day, a Naval Trawler was also sunk apparently by a mine off the Thames Estuary.

A preliminary report of an attack by aircraft of the Fleet Air Arm on ships and establishments at Tromsø on the morning of October 16th states that 17 aircraft attacked oil tankers and sea-plane base and started fires. One aircraft had to make a forced landing.

A British submarine on return from patrol in Mediterranean waters reports having unsuccessfully attacked Italian battle fleet off Taranto on September 30th, and on October 9th having torpedoed and sunk a 9,000 ton merchant vessel in convoy in the South Adriatic after this latter attack she was severely hunted and suffered some damage.

The French ship "Indochinois", while being escorted back to Dakar by a British destroyer, started to scuttle herself; four rounds of pom-pom were fired into her bridge and scuttling was prevented by a boarding

party./

-3-

party. There were no casualties and the ship is now being taken to Freetown.

2. Royal Air Force. During the night of October 18th/19th, the aluminium works at Leuna were successfully located and attacked by four aircraft; large fires and a number of explosions were caused. Amongst other targets attacked, with results partially or totally unobserved, were docks at Hamburg, Emden and Lubeck, Krupps works at Kiel and other railway targets and factories in Germany.

During the night of October 19th-20th owing to the weather conditions the projected operations were cancelled, except as regards two heavy bombers which were sent to a railway target in Germany, and a third heavy bomber to a military objective in Berlin. These three aircraft have returned.

3. German Air Force. Night of October 18th/19th (further reports) casualties in the London area were approximately 45 killed and 184 wounded, and at Birmingham 6 killed and 70 wounded.

Daylight October 19th. The principal enemy activity was a raid of about 60 enemy aircraft, mostly fighters, 87 penetrated to central London in the early afternoon and split up into smaller units before flying back over east London. No bombs were dropped. During the day some single enemy aircraft were plotted but only a few

penetrated/

-3-

penetrated inland. Two enemy bombers destroyed. A single enemy aircraft dropped 10 bombs in a district of Coventry without causing casualties.

Night of October 19th/20th.

Activity began at dusk and for the first four hours was abnormally heavy.

It then continued on a larger scale than usual until 2 p.m. and afterwards single aircraft arrived over London every 20 minutes. Other attacks were made upon Liverpool, Manchester, and the Coventry districts. In the London area persistent attacks were made on the docks where one serious fire was caused. Two gas-works were hit and set on fire but both fires are under control. In Poplar district some Diesel oil tanks were hit and some oil lost. Euston Station was hit and a fire, which has now been put out, caused in the Central Hall. Damage was caused by bombs at three hospitals and some interruption to road and suburban rail services resulted from enemy bombing.

Outside London, Coventry was persistently attacked and slight damage was caused at three factories.

At Liverpool there was no major damage

and/

Regraded Uclassified

and casualties were only two killed and six injured.

Elsewhere in Lancashire damage was confined to private property.

4. Summary of Air Casualties.

Enemy by fighters:	<u>Destroyed</u>	<u>Damaged</u>
(Bombers)	2	1

British:

2 fighters (1 pilot safe).

Shipping Casualties. Another homeward bound convoy was attacked on the night of October 19th/20th in the Northwestern approaches, and 11 ships are reported to have been sunk or damaged.

5. Middle East. On two successive nights October 18th/19th, our aircraft attacked Benghazi. A merchant ship was hit, and bombs straddled a large war ship and three destroyers. Hits were also registered on another ship and on warehouses and railway sidings.

An Italian aerodrome at Rhodes was attacked by three heavy bombers during the day and night of October 18th. Direct hits were obtained on buildings, and a hangar was set on fire.

On October 19th, 12 enemy aircraft dropped 100 bombs in Sidi area of Western Desert without causing either damage or casualties.

Sudan. On the night of October 17th/18th, one of our aircraft dive-bombed a large concentration of transport mules near Kassala and on October 18th fires and explosions were caused by our

bombers/

bombers amongst Italian petrol and ammunition dumps.

Three Gladiators machine-gunned enemy aircraft at an aerodrome in Eritrea and report having destroyed three fighters and damaged four bombers.

Persian Gulf. On October 19th three or four enemy aircraft dropped about 35 bombs at Bahrain, damaging an oil line.

6. Dodecanese. There is reliable information that the Italian authorities have received instructions from Rome to examine the possibility of obtaining certain supplies from neighbouring countries in view of the impossibility of replenishing stocks.

October 21, 1940
12:50 p.m.

H.M.Jr: Hello.

Henry
Stimson: Hello, is this Henry Morgenthau?

H.M.Jr: Henry Morgenthau.

S: This is Stimson.

H.M.Jr: Good morning.

S: Good morning. I just called you up to say that I spent the entire morning with my people here - Wesson and Lewis and General Moore and Arthur Palmer, my own Philip Young

H.M.Jr: Yeah. Was Philip Young there?

S: No. I say Palmer is my Philip Young.

H.M.Jr: Oh, he's your Philip Young. I get you.

S: And we've been working just as hard as we can and I can see it's flexible but there are - any reasonable man can see the difficulties and the necessities of adjustments this way and that, and I think I can make Layton see that when he comes.

H.M.Jr: Yeah.

S: He called me up Saturday, apparently, feeling rather grieved.

H.M.Jr: Why?

S: Well, he seemed troubled - I think his main trouble was that it might delay them. I had told - you know I saw Purvis and I went over it with him - had a little talk with Purvis and I told him that I was taking it myself as I told you.

H.M.Jr: I know.

- 2 -

S: The only thing was that I would have to take a reasonable amount of time to educate myself to - if I did it myself. Well, I've been taking that - begun on that this morning.

H.M.Jr: Yeah.

S: And poor old Layton I think had expected to get back this week or something like that. He was apparently rather disappointed but he agreed to be here Tuesday - to meet me Tuesday, but I don't know how to get at him now to fix the hour. We're ready to go ahead at 9:30 tomorrow with him.

H.M.Jr: Well, if you don't mind my suggesting it, as long as you've called me

S: I'd be glad of a suggestion.

H.M.Jr: Well, I think that anything on this - it should be done through Purvis. Hello?

S: Yes.

H.M.Jr: And if you want to see them at 9:30 tomorrow morning, I would get word to Purvis that he and Layton should come because after all, Purvis is going to stay here and Layton isn't, you know.

S: Yes. Well, of course, I'm perfectly willing to do it - have the room full if they want, but Layton happens to be the boss of Purvis.

H.M.Jr: Oh, no. Oh, you're wrong, pardon me. Hello?

S: Yes.

H.M.Jr: Oh, you're wrong on that.

S: Why I had a very distinct impression that way.

H.M.Jr: That Layton is over Purvis?

S: Yes.

H.M.Jr: Oh, no.

- 3 -

S: I don't mean on general matters but on these matters he's come over with this special mission. He's the one who has the drawing of all the papers and getting the decisions and communicating with Churchill.

H.M.Jr: Well, he asked the President how he should work

S: Well, the President put Purvis in, but Purvis isn't really his boss. (Pause)

H.M.Jr: Well, if that's so then

S: But I'm perfectly willing to have Purvis here, perhaps Purvis could get Layton here at the time. I don't know where Layton stays when he's here. I think he's at the Embassy isn't he?

H.M.Jr: I don't know, but I can find out.

S: No, I won't - well, if you don't - I thought possibly you were in touch with him.

H.M.Jr: Well, but personally, I mean, I think it's most important that we keep the lines straight on Purvis, because

S: All right. I'm perfectly willing. That's a good suggestion.

H.M.Jr: And so, if you ask me to, I'll get word and have Purvis and Layton there at 9:30 tomorrow morning.

S: Well, I'd be very much obliged to you. It would just save me that much time but I had no intention of putting it onto you.

H.M.Jr: And may I send Philip Young too?

S: Yes, certainly.

H.M.Jr: Thank you. And now, yesterday I had

S: And what we're going to do is just discuss this whole thing and I shall probably ask

- 4 -

Knudsen, either he or - either him or Vance, who is the one who came last time, but who is under Knudsen.

H.M.Jr: Now, Purvis was up in the country and spent four hours with me yesterday and they're ready to place another order for 9,000 more planes.

S: (Laughs).

H.M.Jr: Well, that's under - they've got this arrangement with Knudsen about it. They know - he knows about it and this goes back to the meeting that we had in the office - you remember?

S: Yes, on top of the 14,000 that they then offered?

H.M.Jr: Yeah, this is - Knudsen said they could take care of 1250 a month when he asked for the 3,000 a month.

S: What kind of planes?

H.M.Jr: All different kinds. This is to follow up, I mean, when the other order dies out, you see.

S: Yes, I see.

H.M.Jr: See. And

S: Well, I wish we saw some earlier planes in sight.

H.M.Jr: I do too.

S: I just heard indirectly from our Air Corps that they were a little discouraged because some of the plants were slowing down. Production instead of coming up is going down.

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

S: Yeah, that's what I heard. It came to me indirectly but, I mean, it was through Ordnance but it came from the Air Corps.

- 5 -

H.M.Jr: It may perfectly possibly be so.

S: What?

H.M.Jr: It may perfectly possibly be so.

S: Yes. There comes a period in the rearrangement from one kind of production to another when there is a slowing down temporarily.

H.M.Jr: Well, I'll

S: All right. I'll thank you very much if you will do that - give that message to them.

H.M.Jr: Thank you so much.

S: If Philip Young wants to come, I'll be glad to have him.

H.M.Jr: Thank you.

S: All right.

H.M.Jr: Good-bye.

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ALLISON SHIPMENTS

	: Sept.: : 1-28:	Sept. 29 : - Oct. 5 :	Oct. : 6-12 :	Oct.: 13-19:	Total
British	164	43	67	52	326
Army	56	6	6	9	77
Navy	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total	<u>221</u>	<u>49</u>	<u>73</u>	<u>61</u>	<u>404</u>

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

October 21, 1940.

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ALLISON ENGINEERING COMPANY

Deliveries of Airplane Engines

	: Actual	: Estimated deliveries on
	: deliveries :	existing orders

1940

January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 27.....	50	
July 28 - August 31.....	91	
September 1 - 28.....	221	
September 29 - October 5....	49	
October 6 - 12.....	73	
October 13 - 19.....	61	
October 20 - 31.....		105
November.....		336
December.....		364

1941

January.....	400
February.....	416
March.....	433
April.....	454
May.....	448
June.....	437
July.....	400
August.....	369
September.....	431
October.....	45
November.....	45
December.....	45

1942

January.....	25
February.....	21

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

October 21, 1940.

STRICTLY CONFIDENTIAL

October 21, 1940

My dear Mr. Berle:

Thank you for your letter of October 17th concerning communications transmitted by Mr. Herve Alphand.

This matter had already been brought to my attention and we took the necessary action.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Adolf A. Berle, Jr.,
Assistant Secretary of State,
Washington, D. C.

October 21, 1940

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Hon. Adolf A. Burle, Jr.,
Assistant Secretary of State,
Washington, D. C.



DEPARTMENT OF STATE
WASHINGTON

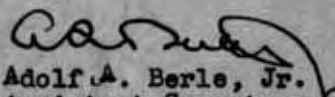
October 17, 1940

CONFIDENTIAL

My dear Mr. Secretary:

The Federal Bureau of Investigation has received information that Mr. Herve Alphand, French Commercial Attaché, has been communicating with the Vichy Government concerning the use of French funds. Enclosed herewith are the reported contents of two such messages.

Sincerely yours,


Adolf A. Berle, Jr.
Assistant Secretary

Enclosures

The Honorable

Henry Morgenthau,

Secretary of the Treasury.

COPY

10th October 1940.

Following is decoded translation of copy of telegram sent from French Consulate by Herve ALPHAND, 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."

COPY

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."

12/3/40

75

On November 28th, after HM Jr returned from his vacation in Jamaica, this was again presented to him, and he said in view of the tax conference at the White House on Friday evening, November 29th, it was not necessary to send the attached report to the President.

76

Memorandum to the President giving tax discriminations as between corporations as a result of the recently enacted excess profits tax. You said when this was first presented to you that you wanted to study it before signing it and to bring it up after election, but you were here only 1½ days after election

MEMORANDUM

October 21, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

There is attached hereto a memorandum for the President in response to his request in his memorandum of October 9th.

JHS

MEMORANDUM

October 21, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

There is attached hereto a memorandum for the President in response to his request in his memorandum of October 9th.



THE SECRETARY OF THE TREASURY
WASHINGTON

October 21, 1940

MEMORANDUM FOR THE PRESIDENT:

Pursuant to your request there is submitted herewith a memorandum with respect to tax discriminations effected by the recently enacted excess profits tax.

The following tax discriminations as between corporations result from the tax:

(1) Under improving business conditions, the excess profits tax, in violation of the principle of ability to pay, will bear most heavily on those corporations which in the past have had the poorest earnings records.

(2) The excess profits tax, by placing a heavy tax handicap on growing corporations, will give to many established corporations a quasi-monopoly in their industries.

(3) The excess profits tax encourages enterprises with high earnings to complicate their corporate structures in order to secure unfair tax advantages.

These matters are discussed in detail on the following pages.

Tax Discriminations as Between
Corporations Contained in the Excess Profits
Tax Title of the Second Revenue Act of 1940

Discrimination between high earnings corporations and low earnings corporations directly consequent upon the use of prior earnings as a measure of excess profits. Title II of the Second Revenue Act of 1940, called the Excess Profits Tax Act of 1940, permits nearly all corporations to elect to compute their excess profits tax liability upon either of two methods. Under one of these methods, the invested capital method, the income which is subject to tax is that income which exceeds \$5,000 plus 8 percent of the corporation's invested capital for the taxable year. The alternative method imposes tax upon income in excess of \$5,000 plus 95 percent of the corporation's average income during the years 1936 to 1939, inclusive. Under this second method, hereafter called the average earnings method, certain additional adjustments are made for changes in the corporation's capital structure occurring in 1940 and thereafter.

Under these alternative methods of computing excess profits, corporations which during the base period years (1936 to 1939) earned in excess of 8 percent of their invested capital will choose the average earnings method. On the other hand, corporations which during the base period averaged earnings of less than 8 percent of their invested capital will choose the invested capital method. For example, a corporation having an invested capital of \$10,000,000 and an average income during the base period of \$2,000,000 will be permitted to earn \$1,905,000 in the taxable year free of excess profits tax under the average earnings method, the more favorable method for this corporation. A corporation having an invested capital of \$10,000,000 which had earned only \$500,000 during the base period would only be entitled to earn, free of excess profits tax, \$805,000 under the invested capital method, which in this situation would be the most favorable method. If each of these corporations, having the same invested capital, earned \$2,000,000 in 1940, the excess profits tax liability of the corporation using the invested capital method would be \$551,500, whereas the excess profits tax liability of the corporation using the average earnings credit would be negligible, amounting to \$29,750.

Even if the average earnings method is considered by itself, a similar disparity in tax treatment exists. For example, a corporation having an average income during the base period of \$1,000,000, which is equivalent in its case to a 20 percent return, will if it earns \$1,000,000 in 1940 have an excess profits tax liability of only \$12,500.

On the other hand, a corporation with the same invested capital but having an average base period income of \$500,000, which is equivalent to a 10 percent return, will have to pay a tax of \$214,000 if it increases that return to 20 percent and earns \$1,000,000 in 1940, the same amount as the first corporation.

It is thus apparent that, if business conditions improve materially and cause a large increase in corporate incomes, the excess profits tax will bear most heavily on those corporations which in the past have had the poorest earnings records. Among the corporations which do not have good earnings records in the past are:

- (1) Those corporations which have not yet recovered from the effects of the depression, and
- (2) New corporations which have not yet had time to establish themselves in their industries.

It may well be supposed that in many instances such corporations will have less ability to pay than corporations which have had consistently high earnings records in the past four years. Such corporations, for example, have not had as good an opportunity to provide against future bad business years as had those corporations which were able to accumulate large reserves in the past.

Under the present excess profits tax, if the incomes of corporations having relatively low earnings during the base period materially increase, due to defense expenditures or to an improvement in general economic conditions, such corporations are precisely those which will bear the heaviest burden of the tax.

Since the excess profits tax does not raise any appreciable amount of revenue from those corporations having the highest taxable capacity, and in fact permanently exempts from an excess profits tax an amount equal to 95 percent of the previous high earnings of such corporations, the generally recognized need for increased revenue must be satisfied from other sources. Thus, the Second Revenue Act of 1940 imposes, in addition to an excess profits tax, a 3.1 percent increase in the normal tax of all corporations having incomes in excess of \$25,000. About 50 percent of the estimated yield of this Act for 1940 will thus be obtained without regard to any measure of excessiveness of income whatsoever. The revenue which the excess profits tax fails to collect from corporations having high earnings records must in part therefore be obtained from corporations which in no sense have excessive earnings.

Discrimination between corporations in direct competition. The discriminatory effect of the use of the average earnings method, both in itself and in conjunction with the invested capital method, is sharpest in the case of corporations in direct competition in the same business. A corporation with a high earnings record, which continues to maintain such a record, will pay only a negligible amount of excess profits tax. Such corporations will be those which have been well established in their field for some time and which often enjoy monopolistic advantages. Corporations which have had relatively low earnings records but whose competitive position is improving will have to pay increasingly larger excess profits taxes as their earnings increase. As a consequence, the excess profits tax places a heavy handicap on growing corporations attempting to compete with older and entrenched corporations in the same field. From the entrenched corporation the excess profits tax will take practically nothing unless it substantially increases its previous high earnings. From the growing competitor the excess profits tax will in many instances take 50 percent of its increase in earnings. Such a discriminatory application of the tax can only serve to consolidate the position of the established corporation and make competition with it very difficult. At the very least, it is not sufficient that the competitor corporation increase its earnings to the same level as that of the established corporation before the stockholders of the two corporations will secure an equal return on the same investments in the corporations. Since nearly 50 percent of the competitor's increase in earnings must be paid as excess profits tax, the increase in earnings by the competitor corporation must be double the amount of the previous difference between the two corporations, represented by their respective credits, before such equality may be achieved. For example, if the competitor corporation had earned an 8 percent return in the past and the established corporation had earned 16 percent, the competitor corporation will now have to earn about 24 percent in order to give its stockholders the benefit of the same return as is enjoyed by the stockholders of the established corporation.

Since new or recently established corporations have thus placed before them a barrier that in many situations may prove insurmountable, the excess profits tax will give to many established corporations a quasi-monopoly in their industries.

The following example illustrates this consequence of the tax:

Assume that corporation A has an invested capital of \$50,000,000 and earned an average of \$9,000,000 (18 percent of its invested capital) annually during the base period. In 1940, corporation A earns

- 4 -

\$10,000,000 (20 percent of its invested capital) after payment of income taxes. Assume further that corporation B, a young and growing competitor, has an invested capital of \$20,000,000 and average earnings during the base period of only \$1,000,000 (5 percent of its invested capital). In 1940 corporation B earns \$3,200,000 (16 percent of its invested capital) after payment of income taxes. The excess profits taxes of corporations A and B for 1940 will be computed as follows:

	Corporation A	Corporation B
Invested capital	\$50,000,000	\$20,000,000
Base period earnings	9,000,000	1,000,000
1940 earnings	10,000,000	3,200,000
Excess profits credit	8,555,000	1,605,000
Income subject to excess profits tax	1,445,000	1,595,000
Excess profits tax	676,500	751,500

Thus corporation A--two and one-half times as large as corporation B, earning a rate of return in the past four times as great as that of corporation B, earning in the current year three times as much as corporation B, and still earning a considerably higher rate of return--nevertheless has a tax liability 10 percent smaller than that of corporation B.

Discrimination in favor of enterprises electing average earnings method which split up into multiple corporate entities. Under the average earnings method corporations whose invested capital is less in the taxable year than it was during the base period are permitted to earn (with a minor exception) as much in the taxable year free of excess profits tax as if their invested capital had not been reduced. This feature of the average earnings method has serious consequences in that it constitutes an open invitation to large enterprises to secure substantially increased credit against the tax by dividing themselves into smaller corporate entities. This is best illustrated by the following example:

Assume that corporation X has an invested capital of \$10,000,000 and average base period earnings of \$2,000,000. Its excess profits credit will be \$1,905,000 under the average earnings method, thus permitting it to earn tax free 19 percent of its invested capital. If corporation X transfers half of its assets to a newly organized subsidiary, corporation Y, each corporation thereafter having an invested

capital of \$5,000,000, the excess profits credit of corporation X will still be \$1,905,000. It will thus be permitted to earn 38 percent of its invested capital without payment of tax. Furthermore, corporation Y will have an excess profits credit under the invested capital method of \$405,000. The entire enterprise will thus be permitted to earn \$2,310,000 free of excess profits tax, or 23 percent of its total \$10,000,000 invested capital. Merely by splitting into two corporations the enterprise has increased its permissible tax free return by more than 20 percent.

October 21, 1940

MEMORANDUM FOR THE PRESIDENT:

Pursuant to your request there is submitted herewith a memorandum with respect to tax discriminations effected by the recently enacted excess profits tax.

The following tax discriminations as between corporations result from the tax:

(1) Under improving business conditions, the excess profits tax, in violation of the principle of ability to pay, will bear most heavily on those corporations which in the past have had the poorest earnings records.

(2) The excess profits tax, by placing a heavy tax handicap on growing corporations, will give to many established corporations a quasi-monopoly in their industries.

(3) The excess profits tax encourages enterprises with high earnings to complicate their corporate structures in order to secure unfair tax advantages.

These matters are discussed in detail on the following pages.

Acting Secretary of the Treasury

JLS

**Tax Discriminations as Between
Corporations Contained in the Excess Profits
Tax Title of the Second Revenue Act of 1940**

Discrimination between high earnings corporations and low earnings corporations directly consequent upon the use of prior earnings as a measure of excess profits. Title II of the Second Revenue Act of 1940, called the Excess Profits Tax Act of 1940, permits nearly all corporations to elect to compute their excess profits tax liability upon either of two methods. Under one of these methods, the invested capital method, the income which is subject to tax is that income which exceeds \$5,000 plus 8 percent of the corporation's invested capital for the taxable year. The alternative method imposes tax upon income in excess of \$5,000 plus 98 percent of the corporation's average income during the years 1936 to 1939, inclusive. Under this second method, hereafter called the average earnings method, certain additional adjustments are made for changes in the corporation's capital structure occurring in 1940 and thereafter.

Under these alternative methods of computing excess profits, corporations which during the base period years (1936 to 1939) earned in excess of 8 percent of their invested capital will choose the average earnings method. On the other hand, corporations which during the base period averaged earnings of less than 8 percent of their invested capital will choose the invested capital method. For example, a corporation having an invested capital of \$10,000,000 and an average income during the base period of \$2,000,000 will be permitted to earn \$1,908,000 in the taxable year free of excess profits tax under the average earnings method, the more favorable method for this corporation. A corporation having an invested capital of \$10,000,000 which had earned only \$500,000 during the base period would only be entitled to earn, free of excess profits tax, \$808,000 under the invested capital method, which in this situation would be the most favorable method. If each of these corporations, having the same invested capital, earned \$2,000,000 in 1940, the excess profits tax liability of the corporation using the invested capital method would be \$261,500, whereas the excess profits tax liability of the corporation using the average earnings credit would be negligible, amounting to \$29,920.

Even if the average earnings method is considered by itself, a similar disparity in tax treatment exists. For example, a corporation having an average income during the base period of \$1,000,000, which is equivalent in its case to a 20 percent return, will if it earns \$1,000,000 in 1940 have an excess profits tax liability of only \$12,500.

- 2 -

On the other hand, a corporation with the same invested capital but having an average base period income of \$800,000, which is equivalent to a 10 percent return, will have to pay a tax of \$214,000 if it increases that return to 20 percent and earns \$1,600,000 in 1940, the same amount as the first corporation.

It is thus apparent that, if business conditions improve materially and cause a large increase in corporate incomes, the excess profits tax will bear most heavily on those corporations which in the past have had the poorest earnings records. Among the corporations which do not have good earnings records in the past are:

- (1) Those corporations which have not yet recovered from the effects of the depression, and
- (2) New corporations which have not yet had time to establish themselves in their industries.

It may well be supposed that in many instances such corporations will have less ability to pay than corporations which have had consistently high earnings records in the past four years. Such corporations, for example, have not had as good an opportunity to provide against future bad business years as had those corporations which were able to accumulate large reserves in the past.

Under the present excess profits tax, if the incomes of corporations having relatively low earnings during the base period materially increase, due to defense expenditures or to an improvement in general economic conditions, such corporations are precisely those which will bear the heaviest burden of the tax.

Since the excess profits tax does not raise any appreciable amount of revenue from those corporations having the highest taxable capacity, and in fact permanently exempts from an excess profits tax an amount equal to 95 percent of the previous high earnings of such corporations, the generally recognized need for increased revenue must be satisfied from other sources. Thus, the Second Revenue Act of 1940 imposes, in addition to an excess profits tax, a 2.1 percent increase in the normal tax of all corporations having incomes in excess of \$25,000. About 80 percent of the estimated yield of this Act for 1940 will thus be obtained without regard to any measure of excessiveness of income whatsoever. The revenue which the excess profits tax fails to collect from corporations having high earnings records must in part therefore be obtained from corporations which in no sense have excessive earnings.

Discrimination between corporations in direct competition. The discriminatory effect of the use of the average earnings method, both in itself and in conjunction with the invested capital method, is sharpest in the case of corporations in direct competition in the same business. A corporation with a high earnings record, which continues to maintain such a record, will pay only a negligible amount of excess profits tax. Such corporations will be those which have been well established in their field for some time and which often enjoy monopolistic advantages. Corporations which have had relatively low earnings records but whose competitive position is improving will have to pay increasingly larger excess profits taxes as their earnings increase. As a consequence, the excess profits tax places a heavy handicap on growing corporations attempting to compete with older and entrenched corporations in the same field. From the entrenched corporation the excess profits tax will take practically nothing unless it substantially increases its previous high earnings. From the growing competitor the excess profits tax will in many instances take 50 percent of its increase in earnings. Such a discriminatory application of the tax can only serve to consolidate the position of the established corporation and make competition with it very difficult. At the very least, it is not sufficient that the competitor corporation increase its earnings to the same level as that of the established corporation before the stockholders of the two corporations will secure an equal return on the same investments in the corporations. Since nearly 50 percent of the competitor's increase in earnings must be paid as excess profits tax, the increase in earnings by the competitor corporation must be double the amount of the previous difference between the two corporations, represented by their respective credits, before such equality may be achieved. For example, if the competitor corporation had earned an 8 percent return in the past and the established corporation had earned 15 percent, the competitor corporation will now have to earn about 24 percent in order to give its stockholders the benefit of the same return as is enjoyed by the stockholders of the established corporation.

Since new or recently established corporations have thus placed before them a barrier that in many situations may prove insurmountable, the excess profits tax will give to many established corporations a quasi-monopoly in their industries.

The following example illustrates this consequence of the tax:

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- 4 -

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	Corporation A	Corporation B
Invested capital	\$20,000,000	\$20,000,000
Base period earnings	2,000,000	1,000,000
1940 earnings	10,000,000	3,200,000
Excess profits credit	8,000,000	1,600,000
Income subject to excess profits tax	1,440,000	1,600,000
Excess profits tax	672,000	720,000

Thus corporation A--two and one-half times as large as corporation B, earning a rate of return in the past four times as great as that of corporation B, earning in the current year three times as much as corporation B, and still earning a considerably higher rate of return--nevertheless has a tax liability 10 percent smaller than that of corporation B.

Discrimination in favor of enterprises electing average earnings method which split up into multiple corporate entities. Under the average earnings method corporations whose invested capital is less in the taxable year than it was during the base period are permitted to earn (with a minor exception) as much in the taxable year free of excess profits tax as if their invested capital had not been reduced. This feature of the average earnings method has serious consequences in that it constitutes an open invitation to large enterprises to secure substantially increased credit against the tax by dividing themselves into smaller corporate entities. This is best illustrated by the following example:

Assume that corporation X has an invested capital of \$10,000,000 and average base period earnings of \$2,000,000. Its excess profits credit will be \$1,900,000 under the average earnings method, thus permitting it to earn tax free 19 percent of its invested capital. If corporation X transfers half of its assets to a newly organized subsidiary, corporation Y, such corporation thereafter having an invested

- 3 -

capital of \$8,000,000, the excess profits credit of corporation X will still be \$1,000,000. It will thus be permitted to earn 25 percent of its invested capital without payment of tax. Furthermore, corporation Y will have an excess profits credit under the invested capital method of \$400,000. The entire enterprise will thus be permitted to earn \$2,400,000 free of excess profits tax, or 25 percent of its total \$10,000,000 invested capital. Merely by splitting into two corporations the enterprise has increased its permissible tax free return by more than 20 percent.

225
SAC:BNH:BNH
10/21/40

October 21, 1940
4:20 p.m.

H.M.Jr: Hello.

Operator: Dr. Magill.

Dr. Roswell
Magill: Hello, Henry.

H.M.Jr: Hello. How are you?

M: Roswell Magill.

H.M.Jr: Right.

M: Well, I appreciate your letting me speak to you because I know you must be busy as you can be these days.

H.M.Jr: Always have time for you.

M: Well, that's very nice of you. Henry, my associate here, Mr. Dunnegan, in the law firm who is a director of the Texas Company called me today and said that Mr. Rogers who is president of the Texas Company would like to spend a few minutes with you if he can in regard to shipments of oil. He says that what he has in mind - he wants to talk the thing over with you a little and to tell you that the Texas Company is very anxious to comply with any desires which the United States or you may have as to shipments of oil to customers.

H.M.Jr: Surely.

M: And that he'd like to talk to you about the situation somewhat. I don't know any more about the details than I'm telling you.

H.M.Jr: When does he want to come down?

M: He suggested that either Saturday or Monday would be suitable to him.

H.M.Jr: Oh, my. Well, Saturday is out of the question and Monday is a lifetime off. I tell you what

- 2 -

you tell him to do. When he gets ready let him call McKay and I'll give McKay his name. His name is Rogers?

M: Rogers, yeah.

H.M.Jr: Let him call up McKay direct the day before he wants to come, that's all that is necessary.

M: You could do it on that notice?

H.M.Jr: The day before, yeah.

M: All right, I'll tell him.

H.M.Jr: Monday would be a bad day though.

M: I told him that I didn't - that Saturday I didn't think you'd want to make it and that I of course didn't know about next Monday.

H.M.Jr: Well, if he could come Tuesday, say, and call up McKay Monday - check with him.

M: Yeah. All right. Well, it may be he can come later this week, I don't know.

H.M.Jr: Right. Well, thank you Ros.

M: How are things going?

H.M.Jr: Fine.

M: I was down for a very short trip last week but I didn't have much - any time, so I didn't try to see you. Is everything working all right?

H.M.Jr: Everything is fine.

M: That's good. Well, I hope I'll see you.

H.M.Jr: Thank you.

M: Thank you.

DEPARTMENT OF STATE

WASHINGTON

reply refer to
840.51 Frozen Credits/706

October 22, 1940

My dear Mr. Secretary:

The receipt is acknowledged of your letter of October 15, 1940 concerning the request made by the Rumanian Minister that licenses be granted for the release of certain Rumanian funds which have been blocked by virtue of Executive Order No. 8565 of October 10, 1940.

On October 19 the Rumanian Charge d'Affaires left at this Department a copy of an estimate of the expenses involved in the functioning of the Rumanian diplomatic and consular establishments in the United States. It is understood that the original of this estimate was presented to the Treasury Department. It has been noted that the estimated expenses in question amount to a total of \$13,500.00 per month. In the opinion of this Department this figure does not seem excessive.

With respect to the account of Colonel D. Petrescu, Military Attache of the Rumanian Legation, this subject was discussed orally last week by officers of the Treasury and State Departments. At that time the latter Department stated that in its opinion the release of \$6,000.00 for the return to Rumania of Colonel Petrescu, his wife, child and secretary did not appear to be unreasonable.

Insofar

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

-2-

Insofar as the account of Mr. George Boncesco, Financial Counselor of the Rumanian Legation, is concerned, it is understood that Mr. Boncesco has presented his resignation to his Government in Bucharest.

Sincerely yours,

(signed) Cordell Hull

LAR

GRAY

Belgrade

Dated October 21, 1940

Rec'd 11:21 p.m.

Secretary of State,
Washington.

461, October 21, 4 p.m.

The Rumanian Ambassador here has personally asked me whether anything can be done to have permission granted to the Chase National Bank of New York to pay to the Union des Banques Suisse at Zurich the amount in dollars of checks issued by the National Bank of Rumania to himself and five members of his staff. These checks, amounting to approximately \$3000, are for salary and were issued prior to the blocking of Rumanian funds in the United States. The names of the persons involved and the exact amounts can be furnished if desired.

LANE

HK

DEPARTMENT OF STATE

Washington

In reply refer to MA

October 21, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses herewith six copies of the paraphrase of telegram no. 607 dated October 15, 1940, received from the American Legation at Bucharest, Rumania related to the freezing of Rumanian assets in the United States.

Enclosure:

From American Legation, Bucharest,
No. 607,
October 15, 1940.

eh

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest.

DATE: October 15, 1940

No. : 607

This morning General Antonescu told me emphatically that at the present time there were not more than 1000 members of the German armed forces in Rumania. This figure included the fire brigade which did such splendid work recently in extinguishing the oil well blazes. He stated that there were approximately 3000 coming here for training in addition to one mechanized division and that he had an understanding with the German Military authorities that all of them would remain for only two months for training and that, at their departure, they would leave behind them all the equipment the purchase of which he asserted he had arranged.

GUNTHER

October 22, 1940
11:24 a.m.

H.M.Jr: Hello.

Operator: Magill.

H.M.Jr: Hello.

Roswell
Magill: Hello, Henry.

H.M.Jr: Ros, I'm calling you up because if I understood you right, I think if you don't mind my saying so on a man-to-man basis, that you're making a mistake.

M: Yeah.

H.M.Jr: And that is, as I understand it, it's this law firm which you're associated with that it's on their behalf that you're asking me to see the head of Texas which is their client.

M: Yeah.

H.M.Jr: Well, you've never done that before, Ros.

M: Well, - ah - all he wants - gosh, Henry, I hope you know - I certainly - the last thing I want to do would be to ask you anything that is in any way improper. The reason I called you about it was simply this - he, Rogers, wants to talk to you as I understand it - I don't know the ins and outs of the thing at all - but he wants to talk to you with respect to their shipments of oil and whether any of the - whether there should be imposed informally any embargoes on the shipments of oil by virtue of an informal arrangement with you other than what the company might make as a matter of its own course. In other words, as I get it, what he wants to do is entirely to cooperate with you in making whatever arrangements with respect to oil you want to have made or you would like to see made.

- 2 -

- H.M.Jr: Yeah, but you know I've had an unwritten rule since I've come here that I won't see the heads of any companies when the appointments are made by their attorneys.
- H: I didn't know that, no.
- H.M.Jr: Oh, sure you know. The whole time you were here - I mean, you know that I'd always say if some law firm wants to arrange for something I'd let them see my lawyer but if the head of the Texas company wrote me a letter and said he wanted to see me - I mean, there's no reason for him to have a go-between.
- H: Well, I'm awfully sorry. I honestly didn't know that you had any such rule and on the face of it I don't quite see why you should, Henry, so long as what the fellow wants to talk to you about is something that is within the province of both of you. Now, if after you've spent two and a half minutes with him you think that the man for him to talk to is Ed Foley, why of course, that's all right.
- H.M.Jr: No, no, the thing
- H: As I gathered the situation, it was one which it would be - it was an appropriate one for you to consider and as I say he's not, as I understand it, he doesn't want to ask you any favors of any description. What he would like is your advice and your instruction as to what a large American company ought to be doing in this connection.
- H.M.Jr: Well, I can understand that but the thing that - he's unimportant, but my relationship with you is very important.
- H: I'm awfully glad to have you say that because I sure think so too.
- H.M.Jr: And I was so disturbed on second thought that I talked with Eddie last night and asked his advice and, frankly, he thought that you'd made a mistake in asking me to see this man.

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M: Well, I'm awfully sorry if I have and you certainly have my sincere apologies and I actually would do anything in the world that you want me to do. Where I have drawn the line is this - I would certainly not undertake to see you on behalf of a client and ask you to do anything or ask you to see a client who was going to ask you to do something, or something of that sort. As I gather it, this isn't that kind of a case.

H.M.Jr: Well, it's

M: The Texas Company, I take it, within whatever the legal limitations are is entitled to ship oil to anybody it wants to. Now he, as I get the picture, wants to talk to you as to whether or not you would like informally to advise him that you would prefer and the Government would prefer that oil shouldn't be shipped to such and such places.

H.M.Jr: Well, their attorneys have been down here on that and they have an understanding with Huntington Cairns - they know just what the situation is. They've been down here for days - weeks.

M: Who, the Texas?

H.M.Jr: The Texas Company.

M: Well, now, I didn't know that at all.

H.M.Jr: Well, they've been here, they've been sitting in the hotels, they've been sitting in our offices, on the last three tankers which went they went all through the thing. They said, now, before we load them, we want to know what your position is and we gave them a definite answer and based on that, they loaded three tankers and either have or are going to let them go, but they went all through this once.

M: Well, now, I didn't know that at all.

H.M.Jr: And I never saw their attorney, there was no reason for me to see him, they got a satisfactory answer and in doing the business - I think that

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the person they did business with was Huntington Cairns and the whole thing was cleared up to their satisfaction as far as I know.

M: Well, that is all completely new to me, Henry, I didn't know any of that at all.

H.M.Jr: Well, we've had negotiations with them now going on for two or three months.

M: Yeah.

H.M.Jr: You see, they have the exclusive right to sell oil to Spain and I can't name the attorneys because I've never met them but they went all through this thing, the boys said, well, now what can we tell them - we took lots of trouble and we assured them that they could load these three tankers and they wouldn't be bothered.

M: Well, on that state of the record of course I see your point. That gives the thing an entirely different turn. As I say, it was my understanding - I knew none of that and had never heard of any of it before - and my whole understanding was that Rogers wanted to talk to you as one head of a company to a head of a Department of the Government and ascertain what your pleasure was with respect to these oil shipments. I didn't know he had a lot of history on it.

H.M.Jr: Oh, there's been a tremendous amount of history and as far as I know there's nothing pending unless he has in mind some additional shipments, and if he has as long as his attorneys have the contact with Huntington Cairns, if he says he isn't getting satisfactory treatment, why that's something else, but as I understand it

M: But if he's been dealing with Cairns I don't know why he shouldn't go ahead and deal with him some more.

H.M.Jr: Well, especially, if he has had a couple of lawyers here doing it.

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M: Yeah.

H.M.Jr: Don't you think so?

M: As I say, I don't know anything about that so I don't get that. Well, now I am certainly as anxious as you are not to come even close to asking you to do anything here that is in the remotest degree improper.....

H.M.Jr: Well, it's just

M: want me to do in this connection - I'm completely in your hands.

H.M.Jr: Well, frankly, after sleeping on it and giving it a good deal of thought I think it's a mistake, Ros, I really do.

M: Well, in other words, you'd rather not see him as far as that's concerned unless - if he wants to write you directly, why go to it.

H.M.Jr: Right. Anybody can write me a letter and if he's the head of a \$10,000 company if he wants to see me, I'll see him.

M: Yeah.

H.M.Jr: I mean, all he's got to do is - the Standard Oil people are down here time and again - I mean, they simply write a letter they want to come in and see us about this or that and they come in, but there's

M: Well then why don't we do this, why don't you simply - I did talk to McKay this morning

H.M.Jr: That's what prompted my call because I was waiting for a chance to talk to you because I was bothered about - I discussed the whole thing

M: Let's call that off entirely and what I shall do is this - I'll get in touch with Dunnegan, who spoke to me before, and simply say that if Mr. Rogers wants - that I had

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not understood about all this legal business going on and why don't they carry on with that if that's what they want to do or if Rogers thinks it necessary to see you that he drop you a note or call up McKay and arrange to do it directly.

H.M.Jr: If you don't mind.

M: I'll be very glad to do that.

H.M.Jr: And I hope

M: And I'm awfully sorry that

H.M.Jr: Ros, if

M: you had the idea that I was trying to gain some special consideration here because I certainly was not.

H.M.Jr: Well, I thought the easiest way is to talk to you as though you were sitting across the desk.

M: You're certainly right and please always do that.

H.M.Jr: I'd like to if you'll let me.

M: Please always do that.

H.M.Jr: Thank you so much.

M: All right, Henry. Thank you.

October 22, 1940

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Allison E Engine for Bell Aircraft

Arrangements were made to deliver one Allison E Engine to the Bell Aircraft Corporation on October 21, 1940, for use in the prototype of the plane which they are building for the British. This is in accordance with Captain Collins' request to you over the telephone, and I told him about it over the phone on Saturday, October 19. He was very appreciative and said that this would be of considerable help in expediting production of this plane.

RY.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The Swedish Minister called on me by appointment yesterday evening at 4:30. He had received word from his Government that rumors were circulating in Europe, and emanating particularly from Germany, to the effect that the United States Treasury would likely extend its control, to include the freeing of Swedish funds on this market. I told the Minister that we were aware of such rumors, but that no such project was actively under consideration. The Minister argued at some length against the imposition of control on his country so long as it is not invaded. I agreed with him that this had been the policy of our Government to date. When he referred to the request which he had filed with the State Department in regard to special action by this Government in controlling Swedish assets, I let him know that the Treasury Department had been consulted on the reply thereto and that we had given as extensive assurances in this reply as was at all possible to give. We are not able at this time to say anything further in the premises.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Dr. White spoke with me by telephone on October 21 and referred to the information which the Federal had provided us some days ago in regard to British gold transactions, etc. Dr. White and I agreed that no action should be taken by the Treasury toward the request which came from the Advisory Council to the Defense Commission in the premises. We shall await some word from that body. In the meantime Dr. White asked if I would let the Federal Reserve Bank know that we would appreciate receiving regularly information of the type comprised in the report under reference. It would be preferable to receive this weekly, but fortnightly or even monthly would be acceptable.

At 9:20 this morning I asked Mr. Knoke by telephone if he would arrange for Mr. Rozell to provide us with data of the type comprised in his letter to us of a few days ago. Mr. Knoke promised to look into the matter and to let me know the basis on which such reports would be made.

October 23, 1940

Mr. Knoke has now told me that the desired information will come weekly in a separate letter marked for my attention.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, called yesterday at 12:30. In view of the comprehensive statement which the British Purchasing Commission is now providing directly to Mr. Haas, Pinsent inquired whether I thought it necessary that he provide us directly with a condensation thereof. I told him that this was not necessary, since the Treasury having the full report could summarize it as might be desirable for the Secretary. I did mention, however, the desirability from our standpoint of future statements of British expenditures being broken down to show disbursements in Canadian dollars as separate from United States dollars. Likewise the exact amount in gold, as apart from foreign exchange, should be indicated in such reports. Pinsent is in communication with Sir Frederick Phillips in regard to the more prompt and complete provision of the data which Secretary Morgenthau desires, and hopes that future reports will be more satisfactory.

Mr. Pinsent stated that a representative of the William Allen White Committee had asked his assistance in drawing up material favorable to legislation which would permit the granting of credits to Great Britain. He asked if the Treasury had any suggestions to make on this subject. I replied definitely in the negative.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I talked by telephone with Mr. Knoke at 9:20 this morning. He stated that Mr. Havas, Financial Advisor to the Hungarian Legation, had called at the Federal Reserve Bank yesterday to discuss the possibility of a credit. No decision was reached and the conversation was considered a purely informal talk. Havas let it be known that his Legation would await a definite reply from the Treasury before making any formal approach to the Federal Reserve Bank. Furthermore, Havas had told Secretary Jones when he called on him on Friday that an official approach to the R. F. C. would be made only if the Legation might fail to obtain the credit from either the Treasury or the Federal Reserve Bank at New York. Knoke was under the impression that Havas was not aware that the National Bank of Hungary had this past summer repaid the Federal Reserve Bank at New York the participation of this bank in the Central Bank credit which had been extended to the Hungarian National Bank in 1931, through the B.I.S. Knoke preferred that the Treasury should not raise any discussion of this matter with Mr. Havas.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Upon an appointment made last Saturday, Mr. Alphand called yesterday noon, accompanied by Mr. Marquais, the General Paymaster for France in New York. The visitors were received by Mr. Pehle and me in my office. We first discussed the matter of permitting the French to utilize dollar resources in this country for the upkeep of French diplomatic and consular establishments in Latin America. Alphand handed to Mr. Pehle the estimate for such expenses, consisting of a copy of a sheet previously delivered to us. In answer to my question as to whether an estimate had been included for Brazil this time, Alphand stated that this had still been left blank since the French had some resources in Brazil, which had been placed at the disposal of the French Purchasing Commission there, and that they were disposed to use these for the maintenance of their consular establishments in that country as long as they will last. He made the reservation, however, that when such funds are exhausted he will be obliged to include Brazil with the other countries wherein the establishments will be maintained by dollars coming from deposits in the United States. In answer to my further question, Alphand stated that the French had no other resources in Latin America.

In further discussion of the estimate for diplomatic and consular establishments it developed that such estimates included funds to be paid the Havas News Agency. It appears that such payments are calculated at a fixed sum, and do not include the entire upkeep of the news agency branches in this hemisphere. Alphand explained that funds for this purpose are included in the French budget for its Ministry of Foreign Affairs and that such expenditures are considered routine in the French Service. Mr. Pehle and I explained that press service charges were not, in our opinion, customarily included in administrative expenses of consular establishments and we asked that he give a separate itemization for such expenses. He promised to do this promptly, but urged that we proceed with the issuance of a license as soon as possible in order that French diplomatic and consular officers in Latin America may be paid. He hoped for a license covering both October and November, with a ten percent addition to his estimate as submitted.

Considerable discussion was had over the point as to whether disbursements for foodstuffs for Martinique and Guadeloupe could be made without license from the account operated with the Federal Reserve Bank at New York by the French Purchasing Commission. I explained to Alphand that our Treasury had suggested to the French Government, as well as to the British Government, the setting up of this type of special account to be used exclusively for war purchases. It is our belief that this account should not be utilized for payment for foodstuffs and other materials imported to the French West Indies for the civilian population thereof. Applications for license for such transactions should be filed, but the Treasury would be willing to accept monthly estimates in order to avoid the necessity of applications to cover

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individual transactions. In answer to Alphand's question, I confirmed that Mr. Leroy-Beaulieu had in June discussed with Under Secretary Bell and myself the question of purchasing foodstuffs in this country for Martinique and Guadeloupe, and that we had been sympathetic to the idea of their using funds in the United States for that purpose. There had not, however, been any mention of the utilization of the funds in the special account above mentioned for this purpose.

Mr. Alphand discussed several other problems with us, with which Mr. Pehle was familiar. Most of these problems have already been submitted to the Department of State, and we explained to Mr. Alphand that the Treasury could take no action pending advice from the Department of State.

Mr. Alphand telephoned me at 10:50 this forenoon to inquire whether we had received any further word from the Department of State in regard to the French applications. I replied that nothing had been received since the oral message from Mr. Welles of last Friday, with which he was familiar. Alphand stated that his Ambassador had arranged for an appointment with Mr. Sumner Welles and anticipated referring to some of the pending questions. In answer to his inquiry, I stated that I saw no objection to such action.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£45,000
Purchased from commercial concerns	£43,000

The Federal Reserve Bank purchased £24,100 in registered sterling from the New York agency of the Bank of Taiwan, Ltd.

In the open market, sterling again moved off, closing at 4.02-1/2. The decline was once more attributed to the attempt of a New York bank to dispose of small amounts of sterling previously purchased from commercial concerns. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 7,000
Purchased from commercial concerns	£14,000

The Argentine free peso rate displayed a weak tendency yesterday and today. It closed at .2365 this afternoon, as against Saturday's final rate of .2380.

The Cuban peso, which has remained in the neighborhood of 9-3/16% discount for several days, narrowed to 8-3/4% today.

The other currencies closed as follows:

Canadian dollar	13-1/2% discount
Swedish krona	.2383
Reichsmark	.4005
Mexican peso	.2070
Brazilian milreis (free)	.0505
Lira	.0505

There were no gold transactions consummated by us today.

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

\$4,023,000 from Canada, shipped by the Bank of Canada for account of the Government of Canada to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.

3,048,000 from Japan, shipped by the Yokohama Specie Bank, Kobe, to its San Francisco agency, for sale to the U.S. Mint at San Francisco.

\$7,071,000 Total

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The report of October 16, received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$12,826,000, an increase of \$830,000 in the short position. The net changes in the positions are as follows:

Country	Short Position October 9	Short Position October 16	Increase in Short Position
England*	\$ 1,414,000	\$ 1,899,000	\$485,000
Europe	4,675,000	4,576,000	99,000 (Decrease)
Canada	62,000 (Long)	93,000	155,000
Latin America	489,000	466,000	23,000 (Decrease)
Japan	4,357,000	4,730,000	373,000
Other Asia	1,153,000	1,104,000	49,000 (Decrease)
All others	30,000 (Long)	42,000 (Long)	12,000 (Increase in Long Position)
Total	\$11,996,000	\$12,826,000	\$830,000

*Combined position in registered and open market sterling.

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on October 16, showed that such deposits totaled \$98,242,000, a decrease of \$4,213,000 since the last report as of October 9. Included in this total were \$35,600,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, off \$159,000 from October 9, and \$50,754,000 in deposits made by Japanese banks in Japan and Manchuria. The decline of \$5,003,000 in the latter category mainly reflects payment on maturing Japanese import bills. Loans made to Japanese banks by Yokohama's New York agency totaled \$19,636,000, an increase of \$1,880,000 over the October 9 figure.

The Bombay gold price was equivalent to \$33.92, off 4¢ from Saturday's quotation. Silver was unchanged at the equivalent of 44.31¢.

In London, the prices fixed for spot and forward silver were both 1/16d higher, at 23-1/2d and 23-7/16d respectively. The dollar equivalents were 42.67¢ and 42.56¢.

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 seven purchases of silver totaling 656,752 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 456,752 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 35,000 ounces of silver from the Bank of Canada under our regular monthly agreement. Today's purchase raises the total bought from that source during the current month to 335,000 ounces, as compared with the agreed monthly limit of 1,200,000 ounces.

LAR

PLAIN

London

Dated October 22, 1940

Rec'd 10:53 a.m.

Handwritten: J. M. K.

Secretary of State,
Washington.

3499, October 22.

PERSONAL FOR THE SECRETARY OF THE TREASURY FROM
BUTTERWORTH.

Handwritten: Answer

Among others I have been granted by the State Department leave of absence with permission to visit United States and unless you interpose objection I will, if it can be arranged, fly to Lisbon and sail from there on the EXCALIBUR October 30. I hope you will find it possible to concur as I have not had home leave as such since taking up my duties for Treasury in 1935. Here the pattern of things financial is set and no new developments from the point of view of either domestic finance or exchange control are to be expected in the near future. I shall, of course, make the necessary arrangements to insure that the financial reporting be continued during my absence.

KENNEDY

KLP

G-2/2657-220

RESTRICTED

No. 226

SITUATION REPORTM.I.D., W.D.
October 22, 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.

Pressure on London is being maintained at slightly lower levels than that of a few days ago. Weather has been unfavorable for air operations. London, Manchester and Liverpool were attacked during the day of the 21st and the night of the 21st-22nd. The British bombed the Channel ports in France and Belgium and the port of Hamburg during the night.

II. Mediterranean and African Theaters of War.

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

Both British and Italian operations were minor and scattered over a wide area.

3. Naval Operations.

The Italian Navy announced that its torpedo boats had engaged a British convoy in the Red Sea, sinking 6 ships, and that a cruiser of the Sydney type had come within range of coast guns and had been damaged by several hits. The British account of this action is not yet available.

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TENTATIVE LESSONS BULLETIN
No. 63
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, October 22, 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.

BICYCLE TROOPS IN THE GERMAN ARMYSOURCE

This bulletin is based upon the reports of official American observers. The information in Paragraph 4 was provided by a British brigade commander who participated in the campaign in Norway.

CONTENTS

1. ORGANIZATION
2. TACTICS
3. HISTORY
4. USE OF BICYCLISTS AS ADVANCE
GUARD CAVALRY IN NORWAY

RESTRICTED

RESTRICTED1. ORGANIZATION

Bicycle troops appear in the German Army in several different units, including the bicycle battalion of the Cavalry brigade and the bicycle troop of the divisional or corps reconnaissance battalion.

a. Bicycle Battalion of the Cavalry Brigade

A bicycle battalion appears in every German Cavalry brigade. The strength of this unit is approximately 700 officers and men. It consists of five companies: three of riflemen bicyclists; one of heavy machine gunners who are transported by motorcycle; and a motorized company which is known as the heavy weapons company.

b. Divisional Reconnaissance Battalion and its Bicycle Troop

The bicycle troop of the divisional reconnaissance battalion is, in peace time, a unit of the corps Cavalry (reconnaissance) regiment. This regiment establishes, on mobilization, a number of divisional reconnaissance battalions, which are attached to Infantry divisions.

Reconnaissance battalions are usually organized as follows:

	<u>Officers</u>	<u>Men</u>
Headquarters	3	15
Signal Platoon (Motorized)	1	35
Cavalry Troop	5	196
Bicycle Troop	4	140

In addition, heavy weapons such as 75-mm. Infantry howitzers, 37-mm. antitank guns, or 20-mm. antiaircraft guns are often assigned to a reconnaissance battalion if its mission requires them.

The bicycle troop is organized generally as follows:

(1) The commander, who is provided with a cross country car, and messengers, some of whom are motorcyclists.

(2) Three bicycle platoons, each consisting of three bicycle squads, with one light machine gun carried on a bicycle in each squad; one light mortar squad with motorcycle transport; one light truck for carrying ammunition.

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(3) One machine gun squad, motorcycle, consisting of two heavy machine gun squads.

(4) One motorized train.

The armament of the troop consists of 54 rifles, nine light machine guns, two heavy machine guns, and three 50-mm. mortars.

2. TACTICS

When horsed and bicycle troops operate together in a divisional reconnaissance battalion, Cavalry troops generally provide the forward screen of patrols, while bicycle troops follow in support along main roads in the center of the battalion's sector.

3. HISTORY

Bicycle troops played an important role in the German Army in the closing years of the World War. The number of such units multiplied largely because it was found too costly and time-consuming to establish new Cavalry regiments. Hence, excess Cavalry reservists, for whom no place could be found in existing Cavalry regiments, were posted to bicycle battalions. In 1917, bicycle troops played a prominent role in the overseas expedition which captured the Baltic isles.

4. USE OF BICYCLISTS AS ADVANCE GUARD CAVALRY IN NORWAY

The British officer upon whose narrative this account is based commanded a regiment of guards dispatched to Norway after the withdrawal from Namsos had started. His mission was to intercept, to delay, and if possible to prevent the northward march of the Germans to Narvik.

Every time contact was made with German columns, their leading elements were bicycle troops. * When they could pedal their bicycles, they advanced mounted, but when they could not, they marched on foot and pushed them. Not only did the bicyclists make advances on mountain roads and trails which the French Staff had declared impassable, but they rode over much terrain that they could not normally have been expected to traverse.

* The officer is probably commenting on operations of the bicycle troops of a divisional reconnaissance battalion. However, it would appear that through his failure to mention Cavalry, reconnaissance battalions in Norway consisted wholly of bicyclists. Possibly the difficulty of overseas transport and the limitation upon cargo space rendered it too dangerous to transport many horses to Norway. G-2.

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Apparently their mission—which they well fulfilled—was to move faster than was possible for their dismounted opponents, to be continually on their tails, to give the withdrawing British insufficient time to organize defensive positions properly, and to allow them no rest whatever.

The discipline, persistence, fortitude, courage, and physical endurance of the German bicyclists were excellent, as needs be with such troops. Time after time, British holding detachments waiting in ambush wiped out leading units of German bicyclists with automatic weapon fire. More cyclists arrived, and, having deployed, went to work methodically with automatic weapons and light mortars. At the first indication of a withdrawal, mounted cyclists started the pursuit, pushing the rear guards inexorably and making full use of their extra speed.

Either the cyclists themselves or the troops of light mobile units well forward in the column to their rear were efficient and expert in repairing, building, and improvising bridges and in executing other field engineering expedients. Many streams, defiles, and even fiords had to be crossed, and although the British were thorough in their destruction of bridges, the German columns were rarely long delayed by such destruction.

The British officer reached the following conclusions:

(1) Any mode of locomotion faster than that possible for dismounted troops fighting delaying actions—and practical for the country to be traversed—is valuable to those "on their tails". In country impractical for armored vehicles, bicycles give increased speed. They are cheap, easily transported, offer little or no target to the enemy and require neither gasoline nor oats. In Norway they were valuable to the Germans, and a nuisance to the British.

(2) Personnel of bicycle units must be physically and morally hard. They must have courage, determination, and persistence.

(3) All British Infantry leaders who have expressed themselves on the subject have been greatly impressed with German mortars and the manner in which they were handled, as well as with German bridging and other stream crossing expedients.

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Paraphrase of Code Radiogram Received at the
War Department on October 22, 1940.

London, Filed 14:30, October 22, 1940.

EXTRACT

Major Edwards, Signal Corps, now on temporary duty in this office, recommends the immediate purchase of the latest models type affra item, IFF, VHF, ASV and associated equipments TBP. (The essential portions of the last sentence were copied directly from the Navy Department paraphrase and may be garbled in part - 0-2.) The acquisition of this equipment will obviate much research and development and will enable service tests to be made without delay. The space and installation provision required by the Air Corps to accommodate this equipment in present or projected types of aircraft should be set forth. Otherwise the installation will result in a very serious delay in the factory since the equipment is in some cases tricky and bulky and would require the displacement or rearrangement of much of the conventional equipment.

A great deal of enthusiasm is shown by all Assistant Air Attache officers in this office over the progress of all types of the equipment seen. The Air Ministry indicates that they will be able to furnish the types of equipment indicated. If desired, we can obtain an estimate of the cost which undoubtedly will be infinitely less than covering the ground already covered by the British.

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Edwards can negotiate the purchase and delivery if such authority is given without delay. This will hasten his return and save much time.

LHE.

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 Radiogram
Received at the War Department
at 2:20 a.m. October 23, 1940.

London, filed 15:30, October 21, 1940.

1. Due to bad weather the Bomber Command dispatched only three planes on daylight bombing missions on Sunday, October 20; but 26 planes made a reconnaissance over the North Sea. That night 38 planes operated against Channel ports, 12 against German railroad yards, 91 against naval ports in Germany, 19 against German oil targets, 12 against Czechoslovakian arms factories, and 20 against factories in Italy. None of these bombers were lost. The Coastal Command dispatched 22 patrol missions, engaged in 27 sorties and escorted 16 convoys. This Command destroyed two German planes and lost two of its own. The Fighter Command operated 457 planes in 67 patrols.

2. The German Air Force made five main daylight attacks, consisting of about 20, 20, 45, 90, and 80 planes, respectively on October 20, all against Southeast England. Some planes penetrated into the London area. The majority of the planes were apparently fighter-bombers and fighters. In addition, about 300 German planes engaged in reconnaissance and patrol. That night the main German objectives were London and the Midlands area, especially Birmingham.

3. German plane losses were nine confirmed, seven probable and six damaged. The British lost three planes but saved all pilots.

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4. Daylight German raids on the 20th resulted in negligible damages. Other than hits on railroads and on nine planes, the damages in London that night were not vital. Elsewhere four planes were struck. Coventry was particularly hard hit with damages to seven plants including an Ordnance Factory; with reported casualties of 15 trapped, 20 dead, and 78 injured. Damages to other targets were of a minor nature.

5. Dover was shelled on October 20 with only 15 of the total of 51 shots fired falling on land. A fire station and a garage suffered the only damages. One person was killed and two injured.

6. We are reliably informed that the Fighter Command now has six squadrons available for night interception duty, three equipped with Boulton Paul Defiant two-seater planes and three with Hawker Hurricane single-seater planes. In order to reduce the glare the size of the windshields has been reduced and the Perspex sliding hood has been removed. At the same time the Antiaircraft Command claim that they have obtained increased illumination from altitudes of 12,000 to 20,000 feet by grouping four 120-cm. searchlights (probably 90-cm. as the British have no 120-cm. antiaircraft searchlights - 92.) around one 150-cm. light and operating them together. The whole war in the air is going up to greater altitudes. German planes are coming over high, in one instance at 37,000 feet, and diving on the Spitfires with the Heinkel-111 fighters.

7. German propagandist radio has broadcasted information that the United States Embassy in London has moved to the country.

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To remove any doubt in this matter I wish to state that all officers attached to this office are living in London, that this office is open for business seven days a week, and that none have any idea of leaving.

LNN

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 Radiogram Received at the
War Department 9:39 p.m., Oct. 22, 1940

Belgrade, Filed October 22, 1940.

The morale of the Yugoslav General Staff has been raised considerably by a telegram from the Yugoslav Military Attache at Moscow.

The Yugoslavian Military Attache at Moscow states that increasing general disapproval of Germany is shown by the Soviet Government. In addition the occupation of Rumania has met with the disapproval of Moscow.

FORTIER

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

CONFIDENTIAL

Paraphrase of Code Radiogram Received at the
War Department on October 22, 1940.

London, Filed 14:30, October 22, 1940.

1. The operations of the Bomber Command during the night of October 20-21, as outlined in yesterday's daily cablegram, were highly successful except that the attack in Czechoslovakia was without result. Two bombers came down at sea but the crews were saved. One plane crashed on returning. In all, this Command lost eight planes.

2. The Bomber Command dispatched 18 planes on daylight missions on Monday, October 21. That night a total of 120 planes were operated, 51 against naval objectives, 25 against enemy ports, 26 against oil targets, 9 against lines of communication and 9 against aircraft factories. The Coastal Command during daylight hours dispatched 41 sorties, 26 patrol missions and escorted 11 convoys. Two planes crashed on returning. The Fighter Command operated 262 aircraft on 113 patrols.

3. The German Air Force conducted a series of small raids over the Midlands, London and Liverpool, operating about 80 planes, during daylight hours of October 21. That night about 140 German planes carried out raids over the same area, mostly prior to 3:00 a.m. The attacks on London were less intense than usual but those on

Coventry were severe. German aircraft engaged in random machine gunning. The weather and clouds made interception difficult and many British airdromes could not be used.

4. German plane losses were two confirmed and three damaged, all bombers. There were no British losses. In the Middle East the Italians and British each lost one plane.

5. A total of nine British airfields were reported attacked but none is out of commission. A hit on an underground shelter in London resulted in some deaths. A railway tunnel was flooded and a water main broken. A 36-inch gas main was broken and the gas set on fire. Coventry was hard hit. Not less than eight munition factories, including three water works, were wrecked or damaged by fire or had their water supplies seriously interrupted. Civilian establishments were severely damaged, the destruction of private houses making about 4500 homeless. About 22 minor roads were blocked. Casualties so far reported are 41 dead and injured and 23 trapped. There were also minor damages from raids at Hull and Weymouth. Six German shells fell in Dover without damage.

6. There have been received an increasing number of reports of the satisfactory results of British night attacks on German objectives.

7. High Intelligence officials of the War Office state that the enemy now plans an invasion with a real striking force. Due to weather conditions it will be carried out in unarmored ocean-going cargo vessels fitted for the rapid debarkation of troops. These ships will be run aground at previously determined beaches after

CONFIDENTIAL

the apparent failure of the troops transported in the small craft that has previously been reported assembled. The elements in these small vessels are expected to attempt to disorganize and confuse the British defensive forces.

8. There is no change in the situation in the Eastern Mediterranean.

LEE.

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

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RE RUSSIAN GOLD

October 22, 1940
2:30 p.m.

Present: Mr. Bell
Mr. White
Mr. Cochran

H.M.Jr: I want to ask the advice of you people. It won't take me very long to tell you what I want. Mr. Oumansky came to see me the other day and he wanted to come alone. He divided his conversation into two parts, one on the record, a personal message from Molotov to me, I didn't know why, but it was about airplane engines, which I have sent over to Mr. Hull and asked him to advise me.

The other one, which I wrote down in my own handwriting - the conversation ran for an hour and a quarter. For once I did one of these diplomatic memoranda and it took me ten or fifteen minutes to dictate it.

Welles is coming in here at 3:00. This is what he wanted and said he couldn't get, and it is damn annoying to them.

"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."

Now, if I can say yes to that, he would be tickled to death. What the hell is the matter with that?

Cochran: That request has been up, you know, and we have had one draft after another. Yesterday Page telephoned me from the State Department and said Mr. Welles was interested in

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getting some sentence written into this draft of a letter which we have had before, and I told him what our position had been, and he said, "Well, is that final?" I said, "Well, if Mr. Welles is interested in this so that I should take it up with Secretary Morgenthau, let me know."

H.M.Jr: Who is Page?

Cochran: He is in the Russian Division, next to Henderson.

White: How does that tie in with the frozen balances of the Balkan countries? If you said yes, would that mean that you would have to release that gold?

H.M.Jr: No.

White: Then if it doesn't mean that, then we have always taken the position that we won't distinguish between one gold and another purely on monetary grounds.

H.M.Jr: That is right.

Bell: Well, isn't he a little scared of the last flurry - of the flurry in the last Congress about buying Soviet gold?

H.M.Jr: Well, this is what my thought is. This is here amongst ourselves. This is what they want. God damn it, let's say yes. How many non-aggression pacts did they have which they have broken?

White: I think it is silly of them to ask us, really.

H.M.Jr: Well, they are asking us. This is what they want, and I can say - he says the same thing

- 3 -

as the "most favorite nation" clause. Isn't there a clause in that trade treaty on that?

White: But gold is excluded.

H.M.Jr: What is the matter with that? "...that would not be applied to all other countries."

Bell: What were the facts surrounding the million dollar or two million dollar transaction that came into one of the New York banks about two years ago and which we held up and refused to take, the Soviets? He isn't harking back to that, is he?

H.M.Jr: He isn't harking back to anything.

White: Probably they are reading a great deal into the discussions on the Hill about taking Russian gold.

H.M.Jr: What he says is this, if you want to take him at face value: He said, "Mr. Morgenthau, this was a very unimportant thing at the bottom of my list. Now it becomes of very great importance through the constant argument about it." He said, "We have paid no particular attention to this."

H.M.Jr: I got a little suspicious simply because they had been bringing it up so much and were unhappy over it.

White: What could they do? Supposing they were to take - supposing they were to, in consequence of this, send a lot of gold over here? Supposing they were to do that anyway, I mean without this assurance.

Bell: We would take it.

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White: What else could we do?

Cochran: Stick to the policy which we have had in the past?

White: That is right, unless we want to change that policy, and I feel myself strongly opposed, aside from any political consideration, to monkeying around with that gold policy of buying whatever gold is offered, but what I am wondering is, do you think what he is trying to do is find a back door to releasing these Baltic balances, because supposing if the Secretary says yes, he says all right, we have got this gold.

Bell: He hasn't got it.

White: Our answer to that is he hasn't got it.

Cochran: He hasn't got it either away from B.I.S. or away from us.

Bell: Or the British.

White: That is the answer. We are speaking here about only gold of which there is no question in the title.

Bell: That is right.

Cochran: The question would arise, if we got some concrete evidence from someone that some gold that he was shipping over here was gold taken from the Netherlands, for instance --

White: Bernstein's view of the legal division has always said that any gold, it doesn't matter who it comes from, is a separate matter. I mean there we have a right not to accept gold because it has - if it has a cloud to

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its title, so that even if you said yes to this, you still would be in the position to question whether you would want to take some gold if you were in doubt as to its title. That would not be outside of your policy, because that is the kind of treatment you would give any country. Even if gold came from Argentine and you had doubt about its title, you would give it the same treatment.

Bell: That is right.

H.M.Jr: Let me put it - as long as I am here, I am not - to me, any country that we are at peace with and who wants to sell us gold, I am going to buy it, because it is a monetary matter. Once I depart from that, gold becomes like lumber. It is just so much lumber, and that is the thing I sold to Ouman-sky when they were dumping their gold. I brought to his attention what had happened to them when they treated platinum that way. They drove the price of platinum down and it never went back.

Now, being partly funny about this non-aggression pact - but I am very sincere about this thing. As long as I am here, gold to me is a monetary matter, the thing to us for settlement of international balances, and as long as we are at peace with them, I will treat them the same as anybody else.

White: And that does not necessarily involve your refusal to accept gold when for some legal reason there seems to be a cloud on the title. You would have done that at any time in the past.

Bell: That is right.

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White: And it is - and you wouldn't accept that gold if it came from Germany or anywhere else if you thought that there was what you might consider doubt as to its legal title, so I don't think saying that commits you necessarily to forever pursuing the policy of taking anything they have to give you.

Cochran: That was my only question, if we suspected strongly or had evidence that some of the gold they had been shipping had been taken from the Netherlands, and Germany was using them as a cover --

Bell: Well, you would question the title in that case, and you would do the same thing if you had suspicions with respect to Switzerland gold or Swedish.

H.M.Jr: Or Japanese silver.

Bell: Or Japanese silver. You would treat them exactly as you were treating every other country.

H.M.Jr: What do you think under those circumstances?

Bell: I don't think there is any danger.

H.M.Jr: You don't?

Bell: No.

H.M.Jr: Are you willing that I make this statement to Welles at 3:00 o'clock?

Bell: I am.

H.M.Jr: You are, Harry?

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White: Yes.

Bell: I think we can always get out of it the other way by saying that we would treat it --

White: Mr. Secretary, if they follow that by sending a lot of gold here, before you take it, you can call him and say, "What do you mean by this?" The assumption is that he is asking this and they expect to do business on a normal basis. If they do business on an abnormal basis, then you want to know what it is about and you may change your mind.

H.M.Jr: I am willing to do it. How about you?

Cochran: I have been willing to this, restricted by the legal side of it. I put the draft up to Bernstein. I thought we had it as strong as he was willing to go there. I mean, if there is no chance of our changing on this, I am happy to go along.

H.M.Jr: There isn't, as far as I can see. I think it would be the height of stupidity to use gold for anything except settlement of international balances, and after all, you ought to adhere to that.

Cochran: I say I am very happy to. That is the only thing, is the legal side of it.

White: That has been the definite Treasury position for many years.

H.M.Jr: This is a legal matter.

Bell: Well, if the legal question was ever raised,

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you would apply the same legal interpretation to Russian gold as you apply to all other countries.

Cochran: Right.

H.M.Jr: That is all he is asking.

Bell: That is all he is asking.

H.M.Jr: Listen, supposing tomorrow a bunch of gold came in from South Africa and we didn't know whether it was Polish gold or French gold. Would we question it? We understand there is 86 million dollars worth of gold down in Dakar, but we don't know whether this is Polish gold. We would question it, wouldn't we?

Bell: We could.

Cochran: Sure.

H.M.Jr: I don't think this ties my hands, because I told him that we still, as far as gold goes, are always on a 24-hour basis.

White: That is why I don't understand why they ever raised it. You never turned them down on the purchase of gold.

H.M.Jr: I think he is sincere, that he had this on his list, then suddenly they made a mountain out of a molehill and they got worried, and now - the longer they can't get an answer, the more suspicious they are.

White: That is probably it. The mere fact that what seems to them a simple thing and they can't get a "yes" answer is probably disturbing to them.

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- H.M.Jr: And in his whole conversation he never brought up the frozen funds in the Baltic. He never mentioned them.
- Bell: But if he raises those, there again we are treating him just like we would treat anybody else.
- White: As Dan says, we are questioning their title to that, so that isn't not buying their gold.
- H.M.Jr: I am going to do it as long as I asked you first. It is a serious question.
- All right.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Page of the Russian Division of the Department of State telephoned me yesterday afternoon. He stated that the Soviet Ambassador was requesting Under Secretary of State Welles to insert a further sentence in the contemplated draft of a letter from the State Department to the Russian Embassy, pledging that the Government of the United States would not take any steps toward refusing to purchase gold from the Soviet which were not taken vis-a-vis all countries. (This is not the exact language, but the sense). I told Mr. Page that the draft which we had already approved had, according to my recollection, made it clear that the Treasury does not practice discrimination in its gold purchases. I added that Mr. Henderson of the Department of State and I had had several conversations over the question of our attitude toward Russia on this question of trying to bind the Treasury exceptionally, and that I was convinced that Secretary Morgenthau would make no pledge in this direction beyond that incorporated in the draft letter to which we had already agreed. I told Page that this was my personal reply, but that if Mr. Welles felt that their negotiations with the Russians importantly depended upon our attitude on gold, and if he desired that this question be again submitted to Secretary Morgenthau, I would gladly do so. I would take no further action, however, unless I might be requested to do so by Mr. Page or someone else in the Department of State.



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For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

In the report of October 11 covering transactions in Italian accounts maintained at the National City Bank of New York there appeared a cash withdrawal by the Bank of Naples Trust Company for \$125,000. The National City Bank now report that the correct amount of this withdrawal is \$50,000.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statements in Italian accounts maintained at:

National City Bank

Chase National Bank

A handwritten signature in dark ink, appearing to be 'JMP' or similar, is written below the typed names of the banks.

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. 8				\$100,000	Banco de Napoli Trust Co., N.Y.	Check to order of Credito Italiano, N.Y.
Oct. 10				28,000	" "	Check to order of Swiss Bank Corp., N.Y.
Oct. 11				100,000	Banca Commerciale Italiano, New York	Cash withdrawal
Oct. 11				150,000	" "	Check to order of Chase National Bank, N.Y.
Oct. 11				73,000	Banco de Napoli Trust Co., N.Y.	Check to order of Banca Commerciale Italiano, N.Y.
Oct. 14				300,000	Banca Commerciale Italiano, New York	Check to order of Chase National Bank, N.Y.
Oct. 14				364,325	Credito Italiano, New York	Banca d'America e d'Italia, Genoa
Oct. 14				30,000	Banca d'Italia, Rome	B.C.I., N.Y.
Oct. 15				100,000	Banco de Napoli Trust Co., N.Y.	Check to order of Irving Trust Co.
Oct. 15				363,000	Banca d'America e d'Italia, Genoa	National City Bank, N.Y. "Special Commercial Credit Account, Enrico Lamberti"
Oct. 16				55,000	Credito Italiano, New York	Draft #659
Oct. 18				100,000	Banca Commerciale Italiano, New York	Check to order of Credito Italiano, New York

<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. 22	\$ 70,000	Banca Commerciale Italiano, New York	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on Irving Trust Co.)	\$111,493	Credito Italiano, New York	Check to order of Trust Company of North America, New York
	35,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on J. P. Morgan & Co., N.Y.)			
	30,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on Bank of America, San Francisco)			
	25,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on Bankers Trust Co., N.Y.)			
	25,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on J. H. Schroeder Banking Corp., N.Y.)			
	20,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on Marine Midland Trust Co., N.Y.)			
	10,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on Central Hanover Bank & Trust Co., N.Y.)			
	10,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on Bank of the Manhattan Co., N.Y.)			
	8,000	" "	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on First National Bank of Boston)			

Chase National Bank (Continued)

<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. 22	\$ 6,000	Banca Commerciale Italiano, New York	B.C.I., N.Y. (check drawn by B.C.I., N.Y. on Sterling National Bank, N.Y.)			

No. 373

AMERICAN CONSULATE GENERAL
Rangoon, Burma, October 22, 1940.STRICTLY CONFIDENTIAL

Subject: Resumption of Shipments of Aircraft Materials and Parts from Burma to the Factory of the Central Aircraft Manufacturing Company at Loiwing, China.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to this Consulate's strictly confidential despatch No. 345 of August 12, 1940, entitled "Effect Upon Central Aircraft Manufacturing Company at Loiwing, China, of Prohibition Upon the Re-Exportation from Burma of Airplanes and Parts". When the prohibition referred to therein upon the exportation from Burma to China of airplanes and parts was lifted at midnight on October 17, 1940, the transportation was recommenced of such materials destined for the factory of the Central Aircraft Company at Loiwing, China, where they commenced to arrive by truck on the morning of October 18th. About 30 trucks are now being used for this purpose between Rhamo and Loiwing. At the time these restrictions were removed there were approximately 400 tons of formerly prohibited goods, consisting of airplane materials, parts, and engines stored at Rhamo, the river port in Burma on the upper Irrawaddy, as well as about 400 tons of supplies and stores not within the prohibited categories. In addition, there were stored at Rangoon about 300 tons of aircraft materials, together with approximately 100 tons of machinery for the factory, awaiting shipment by river to Rhamo and thence by truck to Loiwing. The total value of the materials and supplies stored at both Rhamo and Rangoon is estimated at \$5,500,000 United States currency, of which about \$5,250,000 constitutes the value of the aircraft materials and parts.

These aircraft materials, which are to be transported to Loiwing as expeditiously as possible, are to be used in the manufacture of 163 military planes contracted for by the Chinese Government. These planes are to consist of 55 Curtiss fighters of the 75A type, 33 Curtiss interceptors of the C.W.21 type, and 75 long-range Vultee light bombers. In addition to the 700 tons of materials already in Burma, from 300 to 400 tons more are to be imported during the next four or five months for use in the manufacture of aircraft called for under the terms of the aforementioned contract.

It is estimated that, when production is started, from five to six fighters or interceptors, or from three to four Vultee bombers, can be manufactured a week. At this rate all 163 planes should be completed by the end of 1941. This tentative schedule is based upon the assumption

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that the facilities of the factory will be concentrated upon the production of only one type at a time. If, however, the Chinese authorities desire the delivery of planes of several types during a stated period, a change-over of machinery involved will result in delays.

In addition to the manufacture of the 163 planes called for by the contract, the plant at Loiwing will assemble the 50 North American and 50 Ryan training planes mentioned in this Consulate's despatch No. 321 of June 24, 1940. About 25 of each have already arrived in Burma, and they are now being shipped to Loiwing.

Respectfully yours,

AUSTIN C. BRADY
American Consul

Distribution:

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

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No. 372

DUPLICATE

Rangoon, Burma, October 22, 1940.

STRICTLY CONFIDENTIAL

SUBJECT: Resumption of Shipments of Aircraft Materials and Parts from Burma to the Factory of the Central Aircraft Manufacturing Company at Loiwing, China.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D.C.

SIR:

I have the honor to refer to this Consulate's strictly confidential despatch No. 345 of August 12, 1940, entitled "Effect Upon Central Aircraft Manufacturing Company at Loiwing, China, of Prohibition Upon the Re-Exportation from Burma of Airplanes and Parts". When the prohibition referred to therein upon the exportation from Burma to China of airplanes and parts was lifted at midnight on October 17, 1940, the transportation was recommenced of such materials destined for the factory of the Central Aircraft Company at Loiwing, China, where they commenced to arrive by truck on the morning of October 18th. About 30 trucks are now being used for this purpose between Bhamo and Loiwing. At the time these restrictions were removed there were approximately 400 tons of formerly prohibited goods, consisting of airplane materials, parts, and engines stored at Bhamo, the river port in Burma on the upper Irrawaddy, as well as about 400 tons of supplies and stores not within the prohibited categories. In addition, there were stored at Rangoon about 300 tons of aircraft materials, together with approximately 100 tons of machinery for the factory, awaiting shipment by river to Bhamo and thence by truck to Loiwing. The total value of the materials and supplies stored at both Bhamo and Rangoon is estimated at \$5,500,000, United States currency, of which about \$5,250,000 constitutes the value of the aircraft materials and parts.

These aircraft materials, which are to be transported to Loiwing as expeditiously as possible, are to be used in the manufacture of 163 military planes contracted for by the Chinese Government. These planes are to consist of 55 Curtiss fighters of the 75A type, 33 Curtiss interceptors of the C.W.21 type, and 75 long-range Vultee light bombers. In addition to the 700 tons of materials already in Burma, from 300 to 400 tons more are to be imported during the next four or five months for use in the manufacture

-2-

of aircraft called for under the terms of the aforementioned contract.

It is estimated that, when production is started, from five to six fighters or interceptors, or from three to four Vultee bombers, can be manufactured a week. At this rate all 163 planes should be completed by the end of 1941. This tentative schedule is based upon the assumption that the facilities of the factory will be concentrated upon the production of only one type at a time. If, however, the Chinese authorities desire the delivery of planes of several types during a stated period, a change-over of machinery involved will result in delays.

In addition to the manufacture of the 163 planes called for by the contract, the plant at Loiwing will assemble the 50 North American and 50 Ryan training planes mentioned in this Consulate's despatch No. 321 of June 24, 1940. About 25 of each have already arrived in Burma, and they are now being shipped to Loiwing.

Respectfully yours,

Austin G. Brady
American Consul

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2. Copy to Embassy, London.
3. Copy to Embassy, Chungking.
4. Copy to Consulate, Yunnanfu.

800
WLF/ep

No. 372

TRIPLICATE

Rangoon, Burma, October 22, 1940.

STRICTLY CONFIDENTIAL

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These aircraft materials, which are to be transported to Loiwing as expeditiously as possible, are to be used in the manufacture of 163 military planes contracted for by the Chinese Government. These planes are to consist of 55 Curtiss fighters of the 75A type, 33 Curtiss interceptors of the C.W.21 type, and 75 long-range Vultee light bombers. In addition to the 700 tons of materials already in Burma, from 300 to 400 tons more are to be imported during the next four or five months for use in the manufacture

-2-

of aircraft called for under the terms of the aforementioned contract.

It is estimated that, when production is started, from five to six fighters or interceptors, or from three to four Vultee bombers, can be manufactured a week. At this rate all 163 planes should be completed by the end of 1941. This tentative schedule is based upon the assumption that the facilities of the factory will be concentrated upon the production of only one type at a time. If, however, the Chinese authorities desire the delivery of planes of several types during a stated period, a change-over of machinery involved will result in delays.

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These aircraft materials, which are to be transported to Loiwing as expeditiously as possible, are to be used in the manufacture of 165 military planes contracted for by the Chinese Government. These planes are to consist of 55 Curtiss fighters of the 75A type, 33 Curtiss interceptors of the C.W.21 type, and 75 long-range Vultee light bombers. In addition to the 700 tons of materials already in Burma, from 300 to 400 tons more are to be imported during the next four or five months for use in the manufacture

-2-

of aircraft called for under the terms of the aforementioned contract.

It is estimated that, when production is started, from five to six fighters or interceptors, or from three to four Vultee bombers, can be manufactured a week. At this rate all 163 planes should be completed by the end of 1941. This tentative schedule is based upon the assumption that the facilities of the factory will be concentrated upon the production of only one type at a time. If, however, the Chinese authorities desire the delivery of planes of several types during a stated period, a change-over of machinery involved will result in delays.

In addition to the manufacture of the 163 planes called for by the contract, the plant at Loiwing will assemble the 50 North American and 50 Ryan training planes mentioned in this Consulate's despatch No. 321 of June 24, 1940. About 25 of each have already arrived in Burma, and they are now being shipped to Loiwing.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

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

SCC
WLE/ep

CONFIDENTIAL

151

Bangkok, Burma, October 22, 1940.

STRICTLY CONFIDENTIAL

SUBJECT: Remission of shipments of aircraft materials and parts from Burma to the factory of the Central Aircraft Manufacturing Company at Loiwing, China.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D.C.

SIR:

I have the honor to refer to this consulate's strictly confidential despatch No. 345 of August 12, 1940, entitled "Street Upon Central Aircraft Manufacturing Company at Loiwing, China, of Prohibition Upon the Re-Exportation from Burma of Airplanes and Parts". When the prohibition referred to therein upon the exportation from Burma to China of airplanes and parts was lifted at midnight on October 17, 1940, the transportation was recommenced of such materials destined for the factory of the Central Aircraft Company at Loiwing, China, where they commenced to arrive by truck on the morning of October 18th. About 30 trucks are now being used for this purpose between Hsiao and Loiwing. At the time these restrictions were removed there were approximately 400 tons of formerly prohibited goods, consisting of airplanes, materials, parts, and engines stored at Hsiao, the river port in Burma on the upper Irrawaddy, as well as about 400 tons of supplies and stores not within the prohibited categories. In addition, there were stored at Rangoon about 300 tons of aircraft materials, together with approximately 100 tons of machine tools, for the factory, awaiting shipment by river to Hsiao and thence by truck to Loiwing. The total value of the materials and supplies stored at both Hsiao and Rangoon is estimated at \$5,500,000, United States currency, of which about \$5,350,000 constitutes the value of the aircraft materials and parts.

These aircraft materials, which are to be transported to Loiwing as expeditiously as possible, are to be used in the manufacture of 165 military planes contracted for by the Chinese Government. These planes are to consist of 50 Curtiss fighters of the 75A type, 33 Curtiss interceptors of the O.R.21 type, and 70 Long-range Vultee light bombers. In addition to the 700 tons of materials already in Burma, from 300 to 400 tons more are to be imported during the next four or five months for use in the manufacture

-2-

of aircraft called for under the terms of the aforementioned contract.

It is estimated that, when production is started, from five to six fighters or interceptors, or from three to four Vultee bombers, can be manufactured a week. At this rate all 165 planes should be completed by the end of 1941. This tentative schedule is based upon the assumption that the facilities of the factory will be concentrated upon the production of only one type at a time. If, however, the Chinese authorities desire the delivery of planes of several types during a stated period, a change-over of machinery involved will result in delays.

In addition to the manufacture of the 165 planes called for by the contract, the plant at Loiving will assemble the 50 North American and 50 Ryan training planes mentioned in this Consulate's despatch No. 321 of June 24, 1940. About 25 of each have already arrived in Burma, and they are now being shipped to Loiving.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

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2. Copy to Embassy, London.
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4. Copy to Consulate, Yunnanfu.

800
WLP/ep

JT

GRAY

BERLIN

Dated October 22, 1940

Rec'd 5:20 p.m.

Secretary of State,
Washington.

4406, October 22, 2 p.m.

My 4094, September 21, 11 a.m. and No. 4119,
September 24, 4 p.m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S
INFORMATION.

According to a statement which has just been published in WIRTSCHAFT UND STATISTIK, the Reich's disclosed indebtedness increased during August by 3,631,000,000 marks to a total of 66,542,000,000 marks. This is the largest amount borrowed in any month since the beginning of the war with the exception of May when the total increase in indebtedness amounted to 5,058,000,000 marks. Of the total increase during August 2,239,000,000 marks was in the form of short term indebtedness and 1,392,000,000 marks represented long term borrowing.

The two major increases in long term debt during August were the fifth series of 4 percent bonds (with 10 year maturity) in the amount of 1,000,000,000 marks
and

-2- No. 4406, October 22, 2 p.m., from Berlin

and additional 4 percent li-loans in the amount of 418,000,000 marks, offset to a slight extent by small maturities of earlier bond issues. It should be noted that whereas the fifth series of 4 percent bonds was introduced in June sales were not included in the June and July debt statements. The issue was closed about August 15. A sixth series (with 20 year maturity) introduced on August 23 was recently closed.

Of the total increase in short term indebtedness during August 2,162,000,000 marks was in the form of treasury bills and certificates and 261,000,000 marks in "short term loans" offset in part by a reduction of 167,000,000 ^{marks} in the utilization of the Reich's operating credit at the Reichsbank and a decline of 17,000,000 marks in tax certificates outstanding. The "short term loans" which since April have increased from 4,000,000 marks to 1,206,000,000 marks outstanding represent chiefly loans by the Reichskreditkassen system to the Reich. As reported in my No. 1443, May 21, 2 p.m. the Reichskreditkassen system has been authorized to loan up to 3,000,000,000 marks to the Reich, these "loans" representing the chief cover for the Reichskreditkassen notes. The amount of Reichskreditkassen notes issued through August

(1.2

-3- No. 4406, October 22, 2 p.m., from Berlin

(1.2 billion marks in four months) was obviously not great enough to cover the expenses of German occupation in all the occupied area. At present the usual practice of Reichs military and civilian authorities in occupied countries is merely to requisition local currency from the central banks of such countries without paying Reichskreditkassen notes in exchange.

MORRIS

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro.

DATE: October 22, 1940, 6 p.m.

NO.: 544.

STRICTLY CONFIDENTIAL.

I have been confidentially informed by the Exchange Director of the Bank of Brazil that the brokerage company which takes care of all the exchange operations of Japan in Brazil approached the Bank of Brazil today and inquired whether it would give its consent to centralization in the bank^{of}/all of the financial operations of the Japanese Government and Japanese interests which are handled in the United States at the present time.

It was stated by the brokerage firm that this inquiry was being made on account of the possibility that the United States may block Japanese funds in that country.

The brokerage firm was told by the Director of Exchange that the bank could not see any objection to such a plan. The Director of Exchange told me that I would be informed of developments in the situation.

BURDETT

EA:MSG

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 23, 1940

to Secretary Morgenthau
from Mr. Kleus

STRICTLY CONFIDENTIAL

On October 9 the Federal Bureau of Investigation reports in the Westrick letter that the source of the information that Westrick had \$5,000,000 in a California bank was traced to former French Trade Commissioner Gerreau-Lombasie, who indicated his information came from French Trade Commissioner Ricard at San Francisco, but Ricard denies the story and the FBI can find no support for it.

October 18th. Axel Wenner-Gren was reported to be negotiating with several individuals, including Oseian Anderson, President of the Puget Sound Pulp and Paper Mill Company of Bellingham, Washington, for the formation of a Pan-American company to control the wood pulp trade in order to raise prices on wood pulp bought by Great Britain.

October 18th. In the last week F. Torre Blanca, who is a son-in-law and handles the business interests of ex-President Calles of Mexico, has withdrawn \$200,000 from savings accounts in San Diego on checks payable to J. Lacand y Ole and Banco Mexico, both of Mexico City; heretofore there have been no withdrawals over \$200 since 1937 in these accounts.

October 18th. The Italian Chamber of Commerce in the United States has suspended publication of its monthly magazine, dismissed three employees, and cut the salaries of others. The Banca Commerciale Italiana has reduced its staff and "typed off" certain clients to withdraw or reduce their balances before the Bank is seized by the United States.

October 19th. "A confidential source" reports the Swiss Bank at Basle is preparing to transfer American securities to the name of Credito Industrial Commerciale Argentina, Buenos Aires, to be shipped to Buenos Aires and held for account of Swiss Bank of Basle.

October 21st. Richard Sam Houston, "Chairman of the Committee Working for the Independence of Canada," from headquarters at 510 West 80th Street, New York City, wrote General Field Marshal Kaitel asking for military help in a plan to overthrow British control of Canada and establish a government friendly to Germany.

October 22nd. German agents in the United States have been instructed to provide daily reports on weather conditions in the United States.

- 2 -

October 21st. "A very confidential source" had an interview last Saturday, October 19, with Dr. Hans Thomsen, who said, among other things, that Drager of the German Consulate had merely organized a Nazi party in this country composed of German citizens numbering not more than 350 and that if the United States demands a withdrawal of German consuls Germany will do the same with regard to American consuls; and that negotiations were going on between Soviet Russia and Japan which in all probability would bring about a settlement of the Chinese problem by Russian influence with China.

hr.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 22, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

STRICTLY CONFIDENTIAL

October 8th. Naval Intelligence reports from Havana, Cuba, that wealthy German nationals have been advised by the Legation that their entire capital must be considered as belonging to the Reich and some Germans have been compelled to sign a bond to this effect as result of which \$3,500,000 are estimated as made available to the Reich.

October 21st. The Federal Bureau of Investigation reports that Chase has transmitted by telegraph \$40,000 to the Riggs National Bank for the account of the German Embassy; practically all of this fund was drawn out the same day for the accounts of the German Consuls in seven cities in the United States.

H.K.

October 22, 1940

Under Secretary Bell

Mr. Cochran

Mr. Mikkela, Secretary of the Finnish Legation, called on me at 10:15 yesterday morning by appointment. We discussed a financial transaction, which I have made the subject of a separate memorandum to Mr. Pehle. During our conversation the question of the Finnish debt payment arose. I let Mr. Mikkela know that the General Counsel's office in the Treasury had been looking into the matter of the applicability of the Vandenberg resolution to the payment made by the Finnish Minister on June 15, 1940, and had found that there was some legal question as to whether the funds already paid into the Treasury could be returned. There had been no final decision, however, and the Solicitor of the Department of State was now studying the matter. I promised to let the Legation know of the decision that may be agreed to by the two Departments of our Government on this point.

WMB

GROUP MEETING

October 23, 1940
9:30 a.m.

Present: Mr. Bell
Mr. Thompson
Mr. Cochran
Mr. Schwarz
Mr. Pehle
Mr. Young
Mr. Haas
Mr. Chamberlain
Mr. Gaston
Mr. White
Mr. Foley
Mr. Sullivan
Mrs Klotz

H.M.Jr: Good morning, everybody.

Philip, why don't you keep me posted? I see here that flat cars at Farmingdale, Republic is loading planes for the Philippine Islands. Is that right?

Young: It is news to me. Republic, for the Philippines? Are you sure they haven't got it mixed up with the Swedes?

H.M.Jr: Well, this is a statement of Republic Aircraft here for Sweden being loaded on railway flat cars destined for the Philippine Islands.

Young: That doesn't make sense.

H.M.Jr: Well, I did hear some talk again that they were going to give some of them to the Philippines. I heard that thing at Cabinet. I am just curious over what has happened to that 200 lot. Aren't some of them going to Canada?

Young: The Republic planes?

- 2 -

H.M.Jr: Vultees.

Young: Are these Vultees or Republics?

H.M.Jr: It says here 110 Republics.

Young: Those are the Swedish planes.

H.M.Jr: Yes.

Young: I don't know whether they are sending any to the Philippines or not.

H.M.Jr: Well, find out where the Republic ones are going and what has happened to the Vultees.

Young: The Vultees aren't produced yet.

H.M.Jr: Where are they going when they are produced?

Young: They are going to Canada.

H.M.Jr: Well, just check it over again, will you please?

Thompson: I have nothing.

H.M.Jr: Dan, I am going to beg off tonight and either you or Mrs. Morgenthau - are you going to speak first?

Bell: I am not going to speak at all. I didn't intend to.

H.M.Jr: Well, do you want to get up - you are going to be there, aren't you?

Bell: Yes.

H.M.Jr: Could you say something, that I had to stay home and work, and wish them success and so

- 3 -

forth and so on? Mrs. Morgenthau definitely will be there.

Bell: I understood she would.

H.M.Jr: But you can say that, and it happens to be the truth.

Bell: Right.

H.M.Jr: Tell them I am very sorry.

Bell: Okay.

H.M.Jr: Now, did you find out about the bond issue?

Bell: Yes. They don't think that that will interfere, and the thing will probably be closed by noon today. You see, it went out last night.

H.M.Jr: Well, it is all right to let it go, then.

Bell: I think so, for tomorrow.

H.M.Jr: When do you want it announced?

Bell: I would like for Chick to announce the preliminary part of it right after this meeting.

H.M.Jr: A hundred million dollars, one year, borrowing new money for United States Housing.

Schwarz: And then the formal announcement for tomorrow morning's paper?

Bell: Yes.

H.M.Jr: What else, Dan?

Bell: I wonder if Viner is coming down soon.

- 4 -

H.M.Jr: No, but he will any time we ask him to.

Bell: I think he might come down Friday.

H.M.Jr: Why?

Bell: I thought he might sit with our group Friday on this inflation.

H.M.Jr: You mean you want him to come just for that?

Bell: Yes. If you have anything else, he can be here all day, but I thought he might be in on that.

H.M.Jr: Will you phone him?

Bell: Yes, if you think it might be worth it.

H.M.Jr: Yes. Which are the things you said you are most worried about, zinc?

Bell: Zinc and steel, and now copper has entered into the picture and one or two others, aren't there, George?

Haas: Yes, there are several of them.

Bell: Hides have gone way up to - there is not much you can do about that.

H.M.Jr: Bring in a few from the Argentine.

Bell: Yes, you can do that.

Gaston: After November 7. (Laughter)

H.M.Jr: I think after Mead gets back and through, I think I will have him come back and advise us again. I see he has finished with Knudsen, George Mead.

- 5 -

Young: He has? He has sent in a report on the Consolidated picture, so I understand.

H.M.Jr: Yes.

Young: It came in yesterday to Lyons, and he seemed very much surprised we hadn't received a copy. Did you get a copy of it?

H.M.Jr: No.

Schwarz: Earl Meigs, Chicago, Hearst publisher, is taking his place.

H.M.Jr: I saw that. I wonder how Frank Knox feels about it.

Schwarz: They got along pretty well.

H.M.Jr: I was just wondering about Mead. I haven't talked to anybody.

Harold?

Graves: I have nothing.

H.M.Jr: Everything okay?

Graves: Everything is all right.

H.M.Jr: Plenty of nickels?

Graves: Not more than enough. We are just holding our own. We are making no gain, but not losing ground.

H.M.Jr: George?

Haas: You received a letter from Forrestal with regard to those airplane reports?

- 6 -

H.M.Jr: Yes.

Haas: Did you read that?

H.M.Jr: No, I didn't read that. I just - he wants to make it twice a month, doesn't he?

Haas: Yes, on the first and the fifteenth. The history of this comes from a somewhat different source than the other. Two of their men, a man named Dillon and another named Belmont, came in to see me - into Phil's shop, and they liked the reports, but they would like to have them on the first and the fifteenth, because the contracts are on a monthly basis. Now, from --

H.M.Jr: It just gives you no - just write them back that I happen to be one of these 52-week, 13 periods of four weeks each year fellows.

Haas: All right.

Now, there is a second point.

H.M.Jr: I wouldn't write the guy. Why don't you ask to go over and see him, on the telephone? It is silly to have correspondence on that sort of thing. Tell him I want to know how much they turn out in a week, not how much they turn out in two monthly periods, because they never are the same.

Haas: That is right. You have got statistical grounds for that.

H.M.Jr: I would just call up and ask if you can't go over and see him.

Haas: Now, the second point, he said he would like to have the spares differentiated from the

- 7 -

complete units. We are doing that, so 50% of it he will get.

H.M.Jr:

Go over and tell him that - if I need any backing, I will go to Don Nelson. He will back me up on it.

Haas:

All right.

And the other point which I asked last week, about that other 150 P-40's, Curtiss says the order hasn't been signed, but they expect it will be and it will be in the next report, so that will be taken care of.

H.M.Jr:

All right.

Haas:

I don't know if you have time to look at this book these days or not.

H.M.Jr:

Oh, yes.

(Mr. Haas handed report to Secretary)

Philip?

Young:

I talked with the British Air people last night on this Consolidated thing, and you will get a - some sort of a note of acceptance on it this morning instead of last night. They couldn't get it out last night. The details of the thing, delivery schedules, deferments, and so on, will have to be worked out at this joint committee meeting which will probably be held tomorrow.

H.M.Jr:

Are you going to this 10:00 o'clock meeting with Knudsen this morning?

Young:

Yes.

- 8 -

H.M.Jr: Well, you can leave any time you want to, and tell Mr. Purvis that before Morris Wilson leaves town, I would like to see him.

Young: We are also meeting with Lewis and Vance after this meeting this morning to wind up the convention yesterday morning on the Ordnance program. There seems to be some - it is not clear as to just what is included in this Army deal with the British, I mean going back to the planes, and that will be worked out at this meeting on Thursday.

H.M.Jr: How do you mean, going back to the planes?

Young: I mean as to just what is what, type of planes, what is included in the planes, and that sort of thing.

H.M.Jr: And tell Arthur Purvis I think that I can do a better job for him, because I want to say some nice things about him, if I saw Morris Wilson alone.

Young: Sometime today?

H.M.Jr: Yes.

Young: Any special time?

H.M.Jr: I can't tell from hour to hour.

Young: This afternoon?

H.M.Jr: It would be around - I could hold 4:00 o'clock.

Young: All right.

H.M.Jr: I could hold 4:00 o'clock. But I want to see him alone, because I am going to talk to him

- 9 -

like a Dutch uncle.

Young: Forrestal is having a conference this morning with Work on the Brewster situation at 11:00.

H.M.Jr: Now, is our Superintendent of Public Works and Sewers doing something for Glenn Martin.

Foley: Well, there isn't an awful lot --
(Laughter)

H.M.Jr: No names were mentioned. That is strike one for me. I wasn't thinking of Chicago.

Where were we?

Foley: Well, there isn't an awful lot that can be done, Mr. Secretary. He wants some sewers and he has already made application to the city for them. He wants the money for some roads and he has already made application to the Maryland State Roads Commission and they have taken the matter up with the Bureau of Public Roads, and the thing is - it is a matter that has to be handled locally in the first instance and he seems to be doing that.

H.M.Jr: We can do something on houses.

Foley: Well, he wants FHA houses.

H.M.Jr: Well, we can do that. Why don't you get hold of Stewart McDonald? Will you?

Foley: Yes.

H.M.Jr: I would like to be able to do something for him.

Foley: All right.

- 10 -

H.M.Jr: You (Young) can go any time you feel like it.

(Mr. Young left the conference)

Professor Chamberlain?

Chamberlain: I wanted to ask whether Mr. Pehle and I could - had an appointment with you this afternoon?

H.M.Jr: Yes, at 3:00.

Chamberlain: All right.

H.M.Jr: Pehle?

Pehle: I just wanted to mention the French thing. It is still in the same situation. We were to hear from Alphand further as to how much of the million seven, roughly, he thought he would need for a year was necessary for distribution for that news service, and he hasn't got in touch with us, so we are just waiting.

H.M.Jr: That is all right.

Harry?

White: The Cuban delegation was here, I think I mentioned, and they submitted a rather lengthy report, only a small part of which relates to Treasury matters. Mr. Welles had indicated that he wanted us to cooperate with the Cuban technical man, which we have. Since then he has sent us a message saying that he wants to broaden the scope of our survey into a Cuban monetary and banking and exchange affairs and not confine ourselves to what was contained in the Cuban report, I think with a view to making a condition of any assistance

- 11 -

probably some improvement or modifications in the monetary and banking system, so we are going ahead with that.

H.M.Jr:

Good.

White:

You will be interested to know also that there has been prepared for consideration a plan envisaging settlement of the whole Mexican problem on many fronts. A part of it involves the Treasury very directly and in an important aspect of it with regard to stabilization and so on. They have asked us to go ahead, and what we are doing is making a survey of the problem and we will have a report ready sometime in November, I take it, at which time we will be ready, probably, to go forward with it.

Leon Henderson called up and asked me to communicate to you that he had submitted a report, I believe, recommending that all ferrous materials, semi-manufactured as well as raw materials, and ores be added to the list requiring licenses, in an effort to reduce the exports to Japan. He didn't think it would be acted upon within the next few weeks, if at all.

H.M.Jr:

Did he ask you where Pearson and Allen got that story?

White:

No, he didn't mention it. I didn't know they got the story.

You may be interested in the figure that there have been as many imports of gasoline to Japan since the embargo as there were in the whole year of 1939 and very heavy shipments. That is all.

H.M.Jr:

Okay.

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Schwarz: The New Republic magazine, assuming that the Administration is to remain the same, is planning a series of articles called "The Next Four Years." I have a letter to you from the editor asking for an article on Government financing preparedness.

H.M.Jr: I have never done it.

Schwarz: I just wanted to be able to tell him that I presented it to you. You don't know him personally, do you?

H.M.Jr: I don't think I do.

Schwarz: I wondered whether you wanted it for your signature or not.

H.M.Jr: No.

Schwarz: I can write it.

H.M.Jr: When would it appear?

Schwarz: They have got it listed about the 6th or 7th of a series they propose. It would probably be in January. It would be one of those things, if we had anything under financing that we wanted to get across --

H.M.Jr: Tell him I will take it under consideration.

Schwarz: If we did, I think we would want to arrange it with them that when we publish it, we will make it available to everybody. I will tell him that.

H.M.Jr: Just say I have got it under consideration, will you?

Schwarz: Yes.

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H.M.Jr: Please.

Schwarz: That is all.

Cochran: The State Department is beginning to bring home some of the men from London in groups, and they are paying their expenses and letting them stay here 60 days, and Butterworth sent in a cable yesterday.

H.M.Jr: Yes. I said okay, but the thing that surprises me was that since '35 he has had no home leave.

Cochran: Well, he has been home several times.

H.M.Jr: He has been home at least once a year, but I said yes.

Who sees the oil man up at the British Embassy?

Cochran: I have seen him only once. He was in here at one meeting and then he came in to see me the other day.

Gaston: Who is the oil man?

Cochran: Morris is the oil man.

Gaston: I see Stopford and Hill.

White: The last time he was in to see us was about three weeks ago or a month.

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

Cochran: Morris, M-o-r-r-i-s.

H.M.Jr: Have you got that, Harry?

White: I have got the name that he just spoke of.

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H.M.Jr: I want you to send for him and tell him I would like to have an explanation of what has been going on in the Dutch East Indies. Tell him over the telephone that if he hasn't got it, would he get it, and then come down and see me.

White: All right.

H.M.Jr: Will you?

White: Yes.

Cochran: You got that last memorandum that he brought in?

H.M.Jr: Yes. What did I do with that?

Cochran: It came about Friday.

H.M.Jr: Oh, I gave it to Philip Young. It was in a lot of papers. When you speak to him, tell him I got that memorandum on Portugal, but what does he want me to do about it. You haven't seen that, have you?

Would you (Mrs. Klotz) make a note that it should have gone to Harry White?

White: Come in prepared to discuss Portugal?

H.M.Jr: Give Harry a photostat of the one on oil. It is economic.

When he comes in, I want to talk about both - whatever he has in his mind on the Portugal one and on the Dutch East Indies.

Now, the president of the Texas Oil Company's office called up yesterday, could he see me, and I said if he called up again today that I would see him. He is in town. Who knows

- 15 -

about what has been going on with the Texas Oil Company?

Gaston: Well, we have had quite a bit of negotiation with them, principally through Cairns. They have asked us about these different Spanish cargoes.

H.M.Jr: He wants to know the position of the Treasury in regard to Spain, and so forth. Who has been following that?

Gaston: Cairns and I.

H.M.Jr: Cairns and you?

Gaston: Yes.

H.M.Jr: Well, his name is Rogers. I said 3:30. Would you and Cairns be here at 3:25? Is that agreeable to you, Ed?

Foley: Surely.

H.M.Jr: Will you (Gaston) take care of Cairns? Between you (Gaston and Foley) deliver him at 3:25.

Haas: Mr. Secretary, Rogers is one of the men that sent you the confidential reports in your book.

H.M.Jr: Oh.

Cochran: There is one other point. You may have noticed from some of my memos in the last few days that that agreement with Brazil in 1939 is now operative in the second phase. That is, reports on the milreis from them.

H.M.Jr: What else?

- 16 -

Cochran: That is all.

White: There is one other matter of interest. Pardon me, was he through?

There is supposed to be an important meeting of the Executive Committee on Commercial Policy this morning at which a rather extended report on what shall be the commercial policy of the United States is going to be discussed and probably some decision made. With your permission - although they consider it important, I don't. In the first place, I don't think anything they will agree on will have any effect on the policy that will be pursued and they are in no position to determine the policy now, so if it is all right with you, I will just send somebody else.

H.M.Jr: Yes. Well, you and Gaston have got a job to do this morning. You be around and on call from 2:00 o'clock on, Chick.

Schwarz: All right.

Sullivan: The entire form of contract for emergency plant facilities was published last Saturday.

H.M.Jr: Your man sent it in to me.

Sullivan: And I think the other summaries of contracts are starting today and tomorrow.

H.M.Jr: But you are following through on it?

Sullivan: Oh, yes.

H.M.Jr: Good. And then you are going to do a little work on that speech?

Sullivan: Yes.

- 17 -

H.M.Jr: You (Foley) be back at 2:00.

Foley: Yes.

Gaston: The President turned us down on the building of the three cutters out of his authority, but said we should go to Congress, but he said we could either go on the deficiency bill or on the '42 budget. We will go under a deficiency.

You may have noticed a little item about a collision between the Atlantic Clipper and - they gave out statements saying that was entirely their fault. The cutter was anchored at a spot assigned by them and they accidentally let the plane drift into it.

We had a ship that we called the Bougainville that we released last night. She runs to Indo-China and the islands in the East. She just stopped in at San Pedro, but we found it was perfectly satisfactory all around to let her go. The British said she was carrying a lot of wine for Indo-China, and they said that was a good thing.

H.M.Jr: Who said so?

Gaston: The British. She is a passenger ship. She runs that regular trade, islands in Indo-China, French lines.

H.M.Jr: Okay, thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

In the envelope which I sent to the Secretary last night, I included a copy of cablegram No. 3499 from London in which Butterworth inquired whether the Secretary of the Treasury would concur in the approval of the State Department of home leave for him.

Early this morning I telephoned the State Department and learned from Mr. Harry Havens that several officers from the London Embassy, including Butterworth, have been ordered home for sixty days' leave of absence. The State Department will pay their travel expenses and full salary for transit and leave time. Upon the termination of the leave of absence of this group, a second group will come from London. Included in the second group is Mr. Alan Steyne, an officer who has had much experience, both practical and in Government Service, in financial and exchange matters. I hope that we may see Steyne in the Treasury while he is on leave.

At the 9:30 Staff Meeting I told the Secretary of my conversation with the State Department. The Secretary told me that he had indicated his approval on the cablegram.

When I returned to my office Mr. Livesey was calling me. He stated that Dr. Feis was anxious that a prompt message should go to London approving Butterworth's request. I told him that the Secretary had already agreed to this and I dictated the following message:

"American Embassy, London. For Butterworth from the Secretary of the Treasury.

Reference your 3499, October 22. Treasury approves leave of absence as requested."



TELEGRAM SENT

PLAIN

JT

October 23, 1940

AMERICAN EMBASSY

LONDON

3217, twenty-third.

FOR BUTTERWORTH FROM SECRETARY OF THE TREASURY.

Reference your 3499, October 22.

Treasury approves leave of absence as requested.

HULL
(HF)

EA:FL:MSG

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In a conversation by telephone this forenoon Mr. Knoke mentioned that the Federal Reserve Bank of New York had received a letter from Minister Morgenstierne of Norway requesting the opening of three new accounts, one in the name of the King of Norway, a second for the Crown Prince, and a third for the Norwegian Government. It was agreed that a copy of this letter would be sent to us, since I was not familiar with any proposal of the above character. Since the Federal Reserve Bank would only consider accepting a Government account as fiscal agent of the Treasury the usual procedure would have to be followed through, namely, with respect to the State Department and Treasury, and the Norwegian Legation in this city. In the absence of further details, I would share Mr. Knoke's idea that only one official Norwegian account should be set up. It should be possible to have funds for the King and Crown Prince come through this account. If this cannot be arranged, it would seem preferable to suggest that these two accounts be carried with private and commercial banks, rather than a precedent be established of opening individual accounts for European monarchs.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

Secretary Morgenthau

Mr. Cochran

STRICTLY CONFIDENTIAL

In conversation by telephone with Mr. Knoke yesterday evening and this forenoon I have discussed the accounts of the Javasche Bank with the Federal Reserve Bank at New York. Payments from this account are made by the Federal upon telegraphic instructions from the Javasche Bank in Batavia. No one in the United States has authority to draw directly on this account. The payments out of the Federal under cable instructions are comparatively few and show no details as to the purpose thereof. The most important payments are transfers to the Guaranty Trust Company, from which institution it would appear that payments are made directly for purchases contracted for in this country by the authorized Dutch officials. If we desire full information on the funds spent in this country for war purchases by the Government of the Netherlands Indies, as well as by the Government of Continental Netherlands, with present headquarters in London, it is recommended that we take this matter up directly with the Minister of the Netherlands in Washington. We could either suggest the setting up of two special war purchase accounts in the Federal, one for the Netherlands and one for the Netherlands East Indies, with someone in this country having authority to sign in each case, or, if we do not think that the transactions involved are sufficient to warrant such a complete setup, we could request the Netherlands Minister to arrange that we have full reports of such expenditures from the Guaranty Trust or other banks making payments. It will be recalled that there are various groups purchasing in this country for Netherlands official account. Mr. Young and Mr. Haas have been in contact with them, I understand, in regard to statistics. Does the Secretary desire that the Treasury contact the Minister of the Netherlands directly on the financial side of their purchase operations with the view to our receiving full details thereof? It is true that under our license system we have a method for controlling practically all purchases for the Netherlands and it would be possible perhaps to compile data from the license applications. On the other hand, the Secretary may prefer that a system analogous to the British be followed, or that the Minister make some other arrangement to see that we are given all of the desired data.

J. M. R.

* COPY

October 23, 1940

182

MEMORANDUM

TO: Mr. Pehle
FROM: H. P. Davis

The attached memorandum was sent to me by a mutual acquaintance of ours who wishes to remain anonymous. I am sending it to you for such attention as you think it merits.

October 19, 1940

183

A friend of mine, a citizen of Dutch origin, who has been naturalized many years, yesterday told me the following story:

He and his brother are Trustees of a fund, the assets of which, I believe, consist mostly of Royal Dutch Shell securities. The income from this fund is transferred from time to time to their father who remained in Holland. My friend received a letter some weeks ago and again another this morning, this last one dated September 18th, in which his father says he is in no need of funds and will not require any, at least until next year. These letters were not opened by the censor. Yesterday he received a cable reading as follows:

AMSTERDAM OCTOBER 15, 1940

REFERRING LETTERS 18 SEPTEMBER 2 AND 7 OCTOBER BERGON URGENTLY AWAITING YOUR REMITTANCE ONE YEAR'S REQUIREMENTS THROUGH AMEXCO FULLSTOP IF COMPLICATIONS COMMUNICATE WATJEN BROAD STREET TO OBTAIN APPROVAL FOR TEMPORAL AND LIMITED ADVANCINGS PLEASE TELEGRAPH

HAMCOPLATA

Bergen is where his father lives in Holland. Investigation in Dutch circles here revealed that HAMCOPLATA is the cable address of the Handelscompagnie, La Plata, a German-controlled Dutch Company with South American interests. Watjen is Louis Watjen. The "Directory of Directors" gives the following information about him:

WATJEN, LOUIS, Pres., Treas. and Dir. of
Louis Watjen, Inc., 89 Broad St.
Res. Greenwich, Conn.
Antony Gibbs & Co., Inc., Dir.
Central Savings Bank in the City of N. Y.
Trustee
Glensel Products Inc., Dir.
Fleithmann Textile Corp., Assistant Treas.
and Dir.
Guardian Life Insurance Co. of America,
The, Dir.
Union Buffalo Mills Co., (Union, S. C.), Dir.

And, according to the same Dutch sources here, my friend learned that Watjen during the last War looked after German interests in Holland and was told that Watjen is now supposed to be active in the transmission of funds to Germany from this country.

My friend is not replying to the cable, which he considers obviously fraudulent. His explanation of its origin is that a periodic statement of the assets in the Trust Fund was mailed to his father some time ago and evidently fell into German hands.

Whether Mr. Watjen's activities are of more interest to the Federal Authorities or to the Rice Committee I do not know, but they obviously should be looked into.

(The following entry in the Telephone Book might also be of interest:
Watjen Louis F Travel Service 18 E 53 St 3-2122)

NEW AIRCRAFT ORDERSENGINE REQUIREMENTS AND AVAILABILITIES
(INCLUDING 20% SPARE ENGINES)

Type	Nos. of Engines Required	Availabilities	Total Further Requirements	Monthly Peak Capacity to be created			Remarks
				Engines	15% Spare Parts	Total	
ALLISON	3,840	-	3,840	640	95	735	Situation might be eased by part allocation of Merlins
P. & W. 1340	1,800	-	1,800	300	45	345	
P. & W. 1830	240	240	-	-	-	-	
P. & W. 2800	3,600	1,200	2,400	400	60	460	The availabilities may be less than assumed if U.K. airframe production increases
WRIGHT 2600	7,920	-	10,800	1,800	270	2,070	
do. (for Canada)	2,880						
TOTALS	20,280	1,440	18,840	3,140	470	3,610	

Note: Delay in starting up compensated by allowing spare engines to be delivered after June 1943.

B. A. C.
Oct 23 1940

LIST OF AIRCRAFT ORDERS PROPOSED
FOR DELIVERY BETWEEN JULY, 1941 AND JUNE, 1942 INCLUSIVE

TYPE	Monthly Peak Rate (including 20% spares)	Total Order (excluding spares)	Airframe availabilities in sight (excluding spares)	Airframe capacity to be created		Engines required		REMARKS
				Monthly Rate (including spares)	Total Airframes (excluding spares)	Type	Number (including 20% spare engines)	
wards	300	1500	-	300	1500	P.&W.1340	1800	-
ak 87 [P40-D]	180	1200	600	120	600	Allison	1440	To be supplemented by later scheme for Typhoon production
akheed 322 [P-38]	200	1000	500	100	500	Allison	2400	-
ewater Dive Bomber	120	600	-	120	600	Wright 2600	720	-
stons [Douglas A-20]	120	600	-	120	600	Wright 2600	1440	-
akheed 37 [advanced Hudson]	75	750	750	-	-	P.&W.2800	1800	-
artin B.26	120	600	-	120	600	P.&W.2800	1440	-
irlings [British Type]	240	1200	-	240	1200	Wright 2600	5760	British type. Supplementary production proposed on half this scale in Canada.
artin PRM3	30	150	-	30	150	P.&W.2800	360	-
solidated PB2Y	10	50	-	10	50	P.&W.1830	240	-
TOTALS	1395	7650	1850	1160	5800	-	17,400*	-

* NOTE:- In addition 2880 Wright 2600 type engines would be required for Stirling production in Canada.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In conversation by telephone with Mr. Knoke today I reminded him of our interest in the account which the Bank of Canada carries for the Canadian Government with the Federal Reserve Bank at New York. Knoke is to remind Governor Towers of our discussions on the setting up of this new account and suggest that appropriate instructions are given with the view to our receiving complete transcripts of the account from the date of its inauguration.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

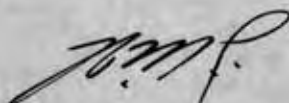
TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
October 14	3,095	118,075	N11	N11
15	2,760	128,845	N11	N11
16	6,010	268,198	12,500	9,453
17	6,200	290,615	N11	N11
18	5,102	245,739	N11	N11
19	3,110	99,243	N11	N11
	26,277	1,150,715	12,500	9,453
Sales from February 22 to October 12	1,620,237	56,073,110	5,089,000	3,974,281
TOTAL FEBRUARY 22 TO OCTOBER 19	1,646,514	57,223,825	5,101,500	3,983,734



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenstern

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pilsent, Financial Counselor of the British Embassy, telephoned me at 11:30 this morning. He stated that the British Embassy had been approached by Mr. Bovenak (Vice President of the Chase Bank) under instructions from Mr. Nelson Rockefeller, in whose organization in Washington Mr. Bovenak is now serving. Mr. Bovenak had advanced practically the same idea as that discussed in the confidential meeting of Messrs. Purvis and Pilsent with the Secretary last week, namely, that of Argentine making funds available to Great Britain against securities now owned by the British and issued against Argentine assets, and of Argentina, in turn, hypothecating such securities with the United States against dollar credits. Pilsent treated this as an original idea, without mentioning to Bovenak that a proposition along somewhat similar lines had already been discussed with the Secretary of the Treasury. Bovenak was advised by the British, however, to have Mr. Rockefeller get an "all clear" signal from Secretary Morgenstern, in the absence of which the British did not feel that they could proceed.

Pilsent stated that after the recent discussion with Secretary Morgenstern on the above subject, he had cabled London in regard thereto. He has not sent any message to London as a result of Bovenak's approach. Pilsent stated that Bovenak had substantially the same idea as the Treasury, but was able to go a little further into details than we had. In answer to my inquiry as to whether it was envisaged that private American capital would be involved Pilsent said this point was not mentioned. As it stands now, Pilsent does not want to discourage Bovenak, but is exceedingly anxious that the Secretary should not have any feeling that the British have gone behind his back in accepting the approach from Rockefeller's assistant. Pilsent will do nothing further until he may have some word from us directly, or through Rockefeller.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Cameron of the Federal Reserve Bank of New York gave us the following information regarding the transaction listed below in the account of the National Bank of Bulgaria, Sofia, maintained with the Federal Reserve Bank of New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
October 23	\$500,000	Central Hanover Bank and Trust Company, New York in favor of Banco de la Nacion, Argentina, Buenos Aires



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Cameron of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from German and Italian accounts maintained with the Chase National Bank.

German

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 23	\$250,000	Reichsbank, Berlin	Chase National Bank, N.Y. for account of Swiss Bank Corp., Zurich
	32,040	Deutsche Gold Discount Bank, Berlin	Irving Trust Co., N.Y. for account of Vongibara

Italian

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 23	\$100,000	Banca Commerciale Italiano, New York	Check to the order of the Guaranty Trust Co., New York.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

With reference to my memorandum of October 16, the Federal Reserve Bank of New York gave us the following information regarding the balances of the State Bank of the U.S.S.R. and the Amtorg Trading Corporation, with the Chase National Bank on October 16.

	<u>State Bank of the U.S.S.R.</u>	<u>Amtorg Trading Corporation</u>
Cash Balance	\$10,295,400	\$ 796,100
Cash commercial Letters of Credit Account	9,654,200	1,921,000
Time deposits	<u>10,300</u>	<u>-0-</u>
Total	\$19,959,900	\$2,717,100



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Cameron of the Federal Reserve Bank of New York gave us the following information regarding transactions in Russian accounts maintained with the Chase National Bank.

Principal changes in the State Bank of Russia's dollar account during the period October 17 to October 23, inclusive, were as follows:

Date	Amount Credited	Received From	Amount Debited	Paid To
Oct. 17			\$150,000	Guaranty Trust Co., N.Y. by order of Reichsbank, Berlin
			229,503	Commercial Letters of Credit Account
			109,335	Mellon National Bank, Pittsburg, Pa.
Oct. 18	\$235,485	Chase National Bank, N.Y., by order of A/B Jordbrukar-banken, Stockholm		
	196,900	Chase National Bank, N.Y., by order of Banque Nationale Suisse, Zurich		
Oct. 19	2,763,000	U. S. Mint, San Francisco, Calif. Advance on gold shipment	250,000	Amorg Trading Corp.
			56,595	Chase National Bank, N.Y. for account of Chase National Bank, London (Exchange Contract)
			1,342,480	Commercial Letters of Credit Account
Oct. 21	150,000	Chase National Bank, N.Y. by order of Central Bank of China, Shanghai	81,228	" " "
Oct. 22			1,399,395	" " "
Oct. 23	54,538	Swiss Bank Corp., N.Y. by order of Societe de Banque Suisse, Zurich	2,072,831	" " "
			350,000	Amorg Trading Corp.

- 2 -

On October 23 the balances of the State Bank and the Amtorg Trading Corporation were as follows:

	<u>State Bank of the U.S.S.R.</u>	<u>Amtorg Trading Corporation</u>
Cash Balance	\$ 7,628,000	\$ 882,500
Cash Commercial Letters of Credit Account	12,054,100	2,139,800
Time deposits	<u>10,300</u>	<u>-0-</u>
Total	\$19,692,400	\$3,022,300

P.M.F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£ 47,000
Purchased from commercial concerns	-0-

The Federal Reserve Bank purchased £6,000 in registered sterling from a non-reporting bank.

Open market sterling remained at 4.02-1/2 throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 17,000
Purchased from commercial concerns	£ 43,000

The other currencies closed as follows:

Swiss franc	.2312-1/2
Canadian dollar	13-3/8% discount
Swedish krona	.2386
Reichsmark	.4005
Mexican peso	.2070
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Cuban peso	8-3/4% discount
Lira	.0505

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the National Bank of India, Bombay, shipped \$527,000 in gold from India for its own account to the Guaranty Trust Company, New York, for sale to the U.S. Assay office.

The State Department forwarded cables to us stating that the following gold shipments were made:

\$14,529,000 from Australia, shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco, for sale to the U.S. Mint.
157,000 from India, shipped by a French bank in Bombay to the Chase National Bank, New York, for sale to the U.S. Assay office.
96,000 from Australia, shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco, for sale to the U.S. Mint.
\$14,782,000 Total

The Bombay gold price was 5# lower at the equivalent of \$33.87. 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 1/16d lower, at 23-7/16d and 23-3/8d respectively. The dollar equivalents were 42.56# and 42.44#.

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

We made three purchases of silver totaling 250,000 ounces under the Silver Purchase Act. Of this amount, 150,000 ounces represented a sale from inventory, and the remaining 100,000 ounces consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

October 23, 1940
3:20 p.m.

H.M.Jr: Hello.

Henry L.
Stimson: Hello, Henry.

H.M.Jr: How are you?

S: Oh, so-so.

H.M.Jr: Good.

S: Can you think of any way by which we can get hold of those Siamese planes and send them to China? (Laughs).

H.M.Jr: (Laughs).

S: I, being a lawyer, I've got some morals left.

H.M.Jr: Well, now, wait a minute that sounds - what does that make me as a farmer?

S: (Laughs). Well, you're a low-moraled industrialist.

H.M.Jr: Oh, oh, oh!

S: Well, what I mean is - you remember there were some planes addressed to Thailand lying out in the Philippines.

H.M.Jr: Oh, yes. There were ten or eleven of them.

S: Yes, and you told me the other day they had no engines.

H.M.Jr: That's right.

S: You were mistaken - they've got all their engines.

H.M.Jr: In the planes?

S: Yeah, they're all equipped.

H.M.Jr: Well, I don't know

- 2 -

S: Now, this morning I had a talk with Mr. Hull and for once - he suggested that, or rather that he was anxious to help China which I thought would be right down your alley as well as mine.

H.M.Jr: That's right.

S: The Swedish planes we've already appropriated and I'm sending them to the Philippines and I couldn't get a certificate from the Chief of Staff if I wasn't because they are planes which we could use.

H.M.Jr: You mean he wouldn't give you a certificate to send them to the Philippines?

S: Oh, yes, give it to send them to the Philippines but not to send to China.

H.M.Jr: I get you.

S: The Philippines is us. See?

H.M.Jr: I understand.

S: Now, there are two things. I'm trying to help out Mr. Hull's predicament. One thing that we could - with these planes that are going to the Philippines - we could release some old junk and send that over, but that wouldn't be much of a good service to the Chinks and it would probably kill off some of their pilots.

H.M.Jr: Well, you want me to

S: And I wondered whether there was any way by which we could get hold either - I'm just speaking to a man who is an expert on handling questions of statute law which to a less intelligent man would be prohibitory.

H.M.Jr: What you mean is you're talking to

S: There are some planes - of course, there are 60 or 80 more planes of the Swedish planes but if we put our finger on them they're ours and then we can't turn them over to anybody.

- 3 -

H.M.Jr: Well, I thought that some of those Swedish planes were going to Canada.

S: Perhaps they are - I don't know where they're going but 10 of these - the best of all are the Siamese planes that are right out on the docks in the Philippines.

H.M.Jr: Well, let me go to work on it.

S: Just put your astute mind on that and see whether you think of any way by which those - of course, which we have not taken possession of

H.M.Jr: I understand.

S: They are there lying on the docks consigned to Siam.

H.M.Jr: We'll find a way.

S: And is there any way by which they could be sent to Burma instead and over the Burma Road, or else put together and flown over?

H.M.Jr: We'll find a way.

S: I thought you'd rise to it.

H.M.Jr: Oh, sure.

S: Well, that's all to the good. I'm glad I called you up.

H.M.Jr: Oh, I'd love to go to work on it.

S: Well, that's fine.

H.M.Jr: Thanks for the opportunity.

S: How are you? Everything all right?

H.M.Jr: Oh, pretty good. As soon as Jesse Jones gets back I want to sit down with him and you and Knudsen on this new request from the English on the plane thing, you know.

S: On the planes.

- 4 -

H.M.Jr: Yeah.

S: Well, that hasn't come to me yet. I've had headaches enough on the other. I spent two days on it and I want you to thank me.

H.M.Jr: I thank you

S: Didn't Philip Young report that I did well?

H.M.Jr: He gave me a very glowing report that you gave them two and a half hours yesterday and were most patient and effective.

S: Yeah. Well, I think that they were satisfied. I mean, I think Layton felt that he'd been treated all right.

H.M.Jr: This is 9,000 planes more and I sent them to Knudsen to let him - he'd been working on that for some time and he says he'll have the lay-out ready Monday, but on the financing he wanted me to work it out with you and Jesse Jones.

S: This was - Knudsen said this.

H.M.Jr: Yeah.

S: Yeah.

H.M.Jr: So Jesse is out of town, but as soon as he comes back I'm going to ask for a chance to sit down with you and Jesse and Knudsen.

S: Well, now, incidentally the President has signed the priority clause and I just heard it this afternoon and I assume it was - Patterson passed it over here, but I've wondered a little bit whether the Army and the Navy oughtn't to have been given some representation there. I think those fellows will use it all right but we can work it out - but there's that question and there's the question also of the British. I don't see how these fellows are going to interfere with your and my jurisdiction in regard to the British.

H.M.Jr: I don't think they want to.

- 5 -

S: I don't think they'll want to but you can't tell when a fellow gets going what he'll do.

H.M.Jr: That's right. Well, let me go to work on the Siamese twins and I'll see what I can produce.

S: (Laughs). All right. Well, cut them apart from that dock, that's all.

H.M.Jr: Well, who has the facts in your office?

S: What?

H.M.Jr: Who knows most about them over there?

S: Wait just a second. (Talks aside). Well, I can't tell you right off hand - I mean, they all know a little about it.

H.M.Jr: Well, we'll find out.

S: Now the Chief of Staff would tell you who.

H.M.Jr: Well, through the Chief of Staff. Well, I know how - I get to him through

S: I'll find out and I'll send word to you. I have Palmer right here and he can do it and he'll telephone over to Philip Young.

H.M.Jr: Thank you.

S: That'll settle it all right.

H.M.Jr: Thank you.

S: All right.

H.M.Jr: Good-bye.

S: Good-bye.

CONFIDENTIAL

PARAPHRASE

The following is the substance of a telegram (no. 19) dated October 23, 1940, from the American Consul assigned to Saigon but temporarily at Hanoi:

The Government General has ordered the revocation of permits for reexportation to Rangoon, according to information I have received. The opening of the Burma Road and Japanese pressure to prevent as far as possible the transfer to Rangoon of supplies for the Government of China seem to be direct causes of this action. The arrival at Hanoi of the Japanese Economic Mission was followed closely, it is remarked, by the foregoing decision and by yesterday's action against the cargo of the United States Far Eastern Trading Corporation.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

640 OCT 22 PM 2 17

THE SECRETARY DEPARTMENT
RECEIVED

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 23, 1940

TO Mr. White

FROM Mr. Wilmann

Subject: Export Control — Shipments to Japan

1. Since the President's Proclamation of July 26, which placed petroleum products and No. 1 scrap under export control, the following quantities of controlled products have been shipped to Japan:

<u>Week ended</u>	<u>High Grade Gasoline</u>	<u>High Octane Crude</u>	<u>No. 1 Scrap</u>
August 10	-	-	450 tons
17	-	-	2,341 "
24	3,155 bbl.	-	4,448 "
31	18,875 "	106,529 bbl.	12,168 "
Sept. 7	37,875 "	253,538 "	1,404 "
14	122,033 "	268,438 "	11,677 "
21	159,229 "	175,118 "	7,576 "
28	222,989 "	205,802 "	6,238 "
Oct. 5	166,831 "	243,808 "	19,700 "
12	216,921 "	87,523 "	16,691 "
19	91,907 "	340,688 "	22,876 "
Total	1,039,815 bbl.	1,681,444 bbl.	105,569 "

Source: Treasury, Office of Merchant Ship Control

2. Apparently the first notice of the Proclamation was interpreted as an embargo, but subsequent shipments indicate that the information has spread that no embargo was intended.
3. Shipments of all types of gasoline to Japan since the Proclamation of July 26:

High grade gasoline (licensed for export):	1,040,000 bbl.	83%
Other gasoline (not controlled):	218,000 "	17%
	1,258,000 bbl.	100%

Gasoline shipments to Japan in whole
year 1939 (all types):

1,198,000 bbl.

4. Shipments of gasoline (all types) in the four weeks ending October 19 were 60 percent of gasoline exports to Japan in the whole year 1939.

Of the high grade gasoline shipped since the Proclamation, almost 70 percent was shipped in the last four weeks. All of these most recent exports were of high grade gasoline, subject to license.

5. Crude: Our exports of all types of crude petroleum to Japan in the last four weeks amounted to over 1.5 million barrels — about one-tenth of our total 1939 crude exports to Japan. However, of the recent exports, more than 60 percent were high octane crude, which can be refined into aviation gasoline and which could be embargoed under export control.

6. Scrap: Exports of scrap (all types) to Japan in the last four weeks amounted to over 163 thousand tons — or about one-twelfth of the 1939 exports of scrap to Japan (which were a record high for scrap exports).

Of the recent shipments, however, 40 percent was No. 1 heavy melting scrap, subject to export control — in contrast with the general opinion that only 15 to 25 percent of all scrap sales is composed of the No. 1 grade.

Oct 13, 1940 202

Harry White gave me the following message. He said that T. V. Soong had received a cable this morning from Chiang Kai-shek giving the following information.

1. At Moscow the Russian government notified the Chinese Ambassador that they can anticipate that the technical relations between Russia and Japan have undergone some change and they want the Chinese to know about it ahead of time. That those technical relations will not interfere in any way with the relations between Russia and China and they may even find it possible to give more assistance to China. (Harry White said that he suspects this may be a forewarning of a non-aggression pact with Japan).

2. Germany has put pressure on Russia to permit transport of airplane motors across Siberia to Japan but that Russia has agreed to permit motors that have a maximum horsepower of only 500 which presumably is of use only for non-military purposes.

3. The trade relations with Germany have been going on with increasing difficulty and since the Balkan developments their trade with Germany has met with still additional obstacles and is still further diminishing.

ASB



TREASURY DEPARTMENT

WASHINGTON

October 23, 1940.

OFFICE OF THE ADMINISTRATIVE
ASSISTANT TO THE SECRETARYMEMORANDUM FOR THE SECRETARY:

Honorable George B. Cortelyou entered the Federal service as a stenographer serving President Cleveland in that capacity. Later he was Assistant Secretary to President McKinley and served in that capacity under President Theodore Roosevelt.

On February 16, 1903, he was appointed as the first Secretary of the Department of Commerce and Labor upon the establishment of that Department. He transferred from that Department to the Post Office as Postmaster General on March 7, 1905, and on March 4, 1907, he was appointed Secretary of the Treasury serving the remaining two years in that capacity as a Member of President Roosevelt's cabinet.

Perhaps the high light of Secretary Cortelyou's administration was his response to the call for Federal aid in the panic of 1907, which started in New York City in October, 1907, and gradually extended over the entire country. Public deposits were made at that time by the Treasury to the banks approximating \$260,000,000.

During his term of office the famous Saint Gaudens eagle and double eagle pieces were put into circulation.

A handwritten signature, likely of the Secretary, in dark ink, consisting of a stylized 'G' followed by a flourish.



THE SECRETARY OF THE INTERIOR
WASHINGTON

October 23, 1940.

My dear Henry:

For your information I am sending you a photostatic copy of a letter that I have just received from Jay Allen.

Sincerely yours,

Harold I. Rhodes
Secretary of the Interior.

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

Enc.

21 WASHINGTON SQUARE NORTH

New York, New York,
October 21, 1940.

Hon. Harold L. Ickes,
Secretary of the Interior,
Washington, D. C.

Dear Mr. Secretary:

It was with pained surprise that I learned in Washington Saturday of the project to send wheat to Franco's Spain. As you doubtless know, the Red Cross is being used as a front for this deal which is appeasement at its most grotesque and its most criminal. I found no one in the Department except Brock Long who was willing to defend it and Mr. Long, whom I have known for many years, was not terribly convincing in his defense, to say the least. From men I trust I learn that the British (for which read Halifax) want us to do it. I saw Mr. Norman Davis and did not get the impression that he was entirely sold on the plan.

I would be the last to want to see food kept from the Spanish people. But wheat sent to them now will not reach the people who need it most and will strengthen Franco's position. Mr. Long seems to think that Franco does not want to go along with the Axis. Mr. Welles seems to be of the same opinion. Let me remind you that both Mr. Welles and Mr. Long thought that Mussolini could be "kept out of the war." And so we sent him oil and scrap and, in other words, kept him alive until the time when he could enter the war on Germany's side with comparative safety. Franco now is in a position comparable to that maintained by Mussolini from September 1939 to June 1940. As a "non-belligerent" he is less of a liability to his allies than if he were an actual belligerent. Like Mussolini until the very day that he openly entered the war, Franco

has his hand out and there are plenty of able propagandists to convince us, or some of us, that he can be had. Assuming that Mr. Welles is as right about Franco as he was wrong about Mussolini, the picture is in no way changed, for whenever the Germans and the Italians think it is safe for Franco to enter the war as a belligerent they can impose their will. They invented Franco; they can liquidate him.

But what worries me most, believe me, is the effect that this proposed gesture of ours on Franco will have on the true friends of the President in this country, not to mention the effect on our potential allies - allies without whose eventual support we cannot win this war - in the concentration camps of France, Germany, Italy and Spain.

I have heard rumblings. I know that if this thing goes through there will be people to recall what happened in 1939, in January and February to be exact, when the President appointed George MacDonald and a committee to distribute wheat. This was to be our contribution to the Loyalist cause. But an appearance of partiality was to be preserved. Franco himself and his friends in this country screamed to high Heaven: to send wheat would merely "prolong the war," would be slyly to contribute to Loyalist resistance, etc. Mr. Merwin K. Hart took a leading part in the campaign. The activities of the George MacDonald committee were stymied until Franco took Barcelona, when suddenly we learned that to send wheat would be a wonderfully charitable deed. On this issue as on so many others, the President's good intentions were sent into reverse. When Wheat finally did go, at four cents a bushel, some forty to forty-five thousand dollars worth was purchased by funds contributed by Mr. Thorwald Rieber of Texaco. For confirmation of this detail you

have only to ask Mr. Pickett of the Quakers. I am quite sure that both Mr. Hart and Mr. Rieber are fully in accord with the present intentions of the State Department to send wheat to strengthen the position of General Franco. I do not think that either gentleman shares Mr. Sumner Welles' illusions that General Franco will be made safe for democracy. I am not sure that either gentleman wants him made safe.

We have picked a wonderful time to support the Generalissimo! The Gestapo is sending back to Spain from occupied France scores of distinguished Republicans. Luis Companys, president of the Autonomous State of Catalonia, a man about as radical as the late William Howard Taft, was trapped by the Gestapo in Brussels, sent to Barcelona and there garrotted, as the New York Times reported on Thursday (October 17, 1940) and as confirmed by the official Spanish news agency yesterday. Alvarez del Vayo has received reliable information that there have been more than a thousand executions within the last four weeks.

In Collier's Magazine for October 26, 1940, Mr. Frank Gervasi, a correspondent never noted for his sympathy with or understanding of the Spanish Republic, reports that there are between 250,000 and 500,000 "reds" in jails and concentration camps and that every day twenty or thirty of them are shot. In the 1830's when the Holy Alliance of then branded Spain and reestablished the despotic principle, Ferdinand VII fell to shooting his enemies. The Society of the Avenging Angel was his right hand. They shot between six and seven thousand, very few compared to the tens of thousands shot by Franco, but so gentle was the age that the Czar of all the Russias withdrew his Ambassador after a brutal pro-

test and the Bourbon King of France ordered the Duc d'Angoulême to leave Spain lest by his presence he seem to condone these judicial murders. Time change and, as the poet said, not for the better. Our Ambassador, Mr. Meddell, does not even report the executions, as far as I can discover. We give Franco a cotton credit; now we send him wheat. In logic the next step would be - - - I won't say what I have on my mind.

We've done absolutely nothing for the Spanish Republican refugees. If we are too deep in this wheat deal to withdraw gracefully, we might at least send a few tins of condensed milk to the refugee camps or ask Franco to allow a Red Cross train from Southern France to cross Spain to Portugal. To finish with what I have to say, this thing is stupid, terribly disheartening, and to my mind political dynamite on the eve of the elections. Maybe I'm wrong; I sincerely hope so - if as I fear, it is going through.

Sincerely yours,

Jay Allen.

If we send this wheat to Spain to feed the population of a non-belligerent axis satellite, who has many times over declared his enmity for us, how can we possibly resist the pressure of those who want us to feed the unhappy French and Belgian peoples who, whatever arguments may be advanced against feeding them, are our friends? We are helping Hitler more by strengthening Franco than we would by sending food to France and Belgium.

October 23, 1940
4:35 p.m.

H.M.Jr: Hello.

Operator: Mr. Pearson.

H.M.Jr: Hello.

Drew
Pearson: Sorry to bother you - Drew Pearson - I've written a story panning hell out of the State Department on that proposed credit to Franco.

H.M.Jr: Uh-oh. That's news to me.

P: Really?

H.M.Jr: Honest.

P: Well, I got word today from some friends of ours - I think as a matter of fact, The Louisville Courier Journal, Barry Bigham, got wind of it - that the State Department had sent this over - or was going to send it over to you.

H.M.Jr: No.

P: Jesse Jones is going to oppose it I understand.

H.M.Jr: Well, it's absolutely the first I've heard of it, Drew.

P: Well, the credit has been O. K'd in the State Department. I know that for a definite fact.

H.M.Jr: Well, it would come up in the Export-Import Bank, wouldn't it?

P: Yeah.

H.M.Jr: And Harry White is a director and he'd know about it.

P: Yeah. I know that inside the State Department they admit it. They've admitted it to me that they're planning a wheat credit and they sort of intimated that it might be held up by you or Jesse.

- 2 -

H.M.Jr: It might be held up.

P: Yeah.

H.M.Jr: What do they want to do - send some wheat down there to feed the German army in Spain?

P: Yeah.

H.M.Jr: What?

P: Yes. What they say is - which is foolish in my opinion - but they say they think they can keep Franco neutral. Why that's just hog-wash.

H.M.Jr: Well, he's left town tonight but when he comes back talk to Kirk recalled from Berlin.....

P: Yeah.

H.M.Jr: along that line of keeping these fellows neutral. He's a breath of fresh air.

P: Good.

H.M.Jr: Oh, he's - say I don't know why they've kept him hid so long.

P: Well, I'll tell you some time.

H.M.Jr: Oh, he's a breath of fresh air.

P: Oh, I know him intimately. He's a swell guy.

H.M.Jr: Don't you agree with me?

P: Oh, you bet. I've known him for years.

H.M.Jr: But I cannot understand why he - so to speak, has been kept in Siberia.

P: Well, he's got some enemies in the State Department. That's the reason.

H.M.Jr: Well, I can believe it after listening to him this morning.

- 3 -

P: Yeah. But they've recognized his worth more recently, I think. Well, I just wanted to

H.M.Jr: No, it has not come over here.

P: I just wanted to tip you off to that.

H.M.Jr: Well, I'll be looking for it.

P: All right, swell.

H.M.Jr: Thank you.

P: Thank you. Good-bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Madrid.

DATE: October 23, 1940, 6 p.m.

NO.: 580.

I would appreciate it if the Department would inform me as to whether money which is now sent to the U.S. to be deposited from non-belligerent nations by citizens of countries which Germany has invaded or occupied would automatically be blocked; we have had numerous requests for information regarding the above and we would like to be able to answer them. Nationals of Denmark, Holland, France and Belgium have inquired specifically.

WEDDELL

EA:MSG

COPY

DEPARTMENT OF STATE

Washington

In reply refer to
EU

October 23, 1940

My dear Mr. Secretary:

May I bring to your attention the following situation involving American property interests in Europe:

The Department of State, through its officers abroad, has sought, since the outbreak of hostilities, to afford to American real and personal property abroad such protection as has been found to be appropriate and feasible under existing circumstances. Certificates under the seal of the diplomatic or consular office stating that the property is American-owned are affixed to American property, and local and military authorities are informed of the American ownership where such action appears advisable. By and large such action by the offices of the Department of State has proved effective in protecting American property abroad from interference by civil or military authorities.

The officers of the Department are not, however, in a position to protect such American property from attachment because of failure on the part of the owner to make payment

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

of taxes, rentals, storage charges, et cetera. The Department is now receiving from American citizens owning property abroad inquiries regarding the measures which should be taken in order to meet such obligations. Many inquirers do not know the amounts due, but express their desire to meet the obligations. At present the Department of State replies to such inquiries by citing the provisions of the Executive Order of April 10, 1940 as amended, and suggesting that application be made through the Federal Reserve Bank for the requisite license. It is understood that the Treasury Department is not at present granting licenses for such transactions.

In reply to an inquiry which the Department of State made of the Embassy in France, where a preponderance of the individual property appears to be situated, the Embassy stated on September 6:

"While strictly speaking special wartime legislation governing relations between tenant, whose situation has been changed by wartime conditions, and landlord, does not apply in the case of foreigners owing no military obligation, the best legal opinion available here holds that the present situation of force majeure would be considered controlling by the local courts.

"Legal counsel advises, however, that American tenants should attempt to explain in writing to landlords and tax collectors why payment cannot be made and should at the same time undertake to make payment as soon as existing restrictions are removed."

- 3 -

This opinion would appear to indicate that there may not be any immediate danger to American property in France because of failure of owners to meet their obligations with regard to such property. It cannot be anticipated, however, that the competent French authorities will continue to condone the failure of American citizens to meet such obligations when such failure is due to action of the American Government. Nor is it likely that the authorities of any other country covered by the Executive Order of April 10, 1940, as amended, will continue indefinitely to permit American owners of property to avoid payment of just obligations arising out of their ownership of the property.

Undoubtedly, many of the individual Americans who own real property in Europe will wish to liquidate their holdings, and those who own personal and household effects will wish to remove them to the United States.

The Department would be glad to have your views on this subject. You will readily appreciate the dilemma. The only funds from which these taxes and charges can be paid are, commonly, American balances belonging to the American owners. If they cannot effect remittances to cover such dues as taxes, rentals, storage charges and the like, until such time as they

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can liquidate their holdings, clear up their leases, or remove their properties, as the case may be, they stand a very fair chance of losing the property outright. In some cases, remittances are needed for caretakers and maintenance. To license such remittances plainly means a movement of American funds in some degree into the areas in question. Failure to do so means leaving American property and interests unprotected.

Sincerely yours,

(Signed) A. A. Berle, Jr.

Adolf A. Berle, Jr.
Assistant Secretary

copy

G-2/2657-220

RESTRICTED

No. 227

SITUATION REPORTM.I.D., W.D.
October 23, 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.

On October 22 two British planes attacked German supply vessels in the Channel. Unfavorable weather prevented night operations. A strong force of German planes crossed the coast at Dungeness and continued attacks on London, Birmingham, Coventry and Liverpool. In the ensuing interception the British announced the loss of six of their fighters and three German bombers.

II. Mediterranean and African Theaters of War.

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

British attacks on Italian bases in the Libyan desert continued. The Italian Air Force announced an air attack on Alexandria which caused considerable damage; also minor raids on Port Said and on British airdromes in Kenya.

3. Naval Operations.

Reports of the naval battle which took place the night of October 20-21 in the Red Sea continue to be conflicting. The British Admiralty announced the destruction of a 1058-ton Italian destroyer, the Francesco Nullo, which in company with another destroyer had attacked a British convoy. In this action the destroyer Kimberly was slightly damaged by fire of shore batteries.

The British communique states that no other vessels either escorting or in convoy were damaged. This statement is in direct refutation of the Italian statement of yesterday that six vessels of the convoy were sunk and a cruiser of the Sydney class, 6800 tons, was severely damaged.

RESTRICTED

BRITISH EMBASSY,
WASHINGTON, D.C.

October 23rd, 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 21st, 1940.

1. Naval. A British motor torpedo boat was sunk off Ostend during the night of October 20th/21st. There were no casualties.

Dover was shelled between 11 a.m. and 1.15 p.m. on October 20th. There was no naval or military damage.

The French cruiser "Jeanne d'Arc" and the aircraft carrier "Bearn" sailed from Martinique on afternoon of October 18th destination unknown.

2. Royal Air Force.

Night of October 20th/21st. Aircraft attacked targets as follows.

Docks and shipping at Antwerp, Rotterdam, Flushing, Dunkirk and Ostend, at Antwerp and Flushing fires seen in target areas; aerodromes at Minge, Foret de Guines, St. Omer, Wesel, Eindhoven, Buer, Schipol and two unidentified, bursts seen in target areas "Bismarck" at Hamburg fires and large explosions seen from reported position of the battleship; "Tirpitz" at Wilhelmshaven, ship not seen but fires and explosions observed in target area; aluminium works at Grevenbroich, many large fires; Koln aluminium works synthetic oil plant and electric power station explosions and fires; factories at Bottrop and Essen; synthetic oil plant and railway junction at Gelsenkirchen several fires and explosions; warehouses at Duisberg and lighted building at Hatigen fires resulting; Pirelli works at Milan and Pini and

subsidiary/

Regraded Unclassified

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subsidiary factory at Turin; steel works at Aosta attacked by single aircraft; no detailed reports yet available but preliminary reports indicate that attack at Berlin was successful. One of our aircraft missing one crashed.

3. German Air Force.

Night of October 19th/20th (further reports). Approximate casualties in London area were 170 killed and 300 seriously injured; at Coventry casualties at present reported are nine killed and 23 seriously injured.

Daylight of October 20th. Enemy activity consisted of five major raids over South East England each consisting of about 50 fighter aircraft; elements of four of these raids penetrated to Central London area. Our fighter squadrons intercepted and seven enemy aircraft were destroyed.

Bombs dropped in Paddington, Westminster and West Ham districts causing casualties and a pumping station some flats and two small factories were hit.

Outside London an oil cistern in Essex was ignited but fire was extinguished. Two other cisterns were punctured. Several towns on the South East Coast were bombed but no serious damage is reported.

Night of October 20th/21st. Enemy bombing started at night fall with attacks on London and on a smaller scale the Midlands; Coventry was the chief objective in this area. The number of aircraft operating over London was considerably smaller than on the previous night although activity was steadily maintained until 1 a.m. The London area was clear of aircraft/

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aircraft at 3.30 but raiding in the Midlands continued until 5.30. There was an increase in enemy mine-laying operations off the East Coast.

In the London area fires were caused in Poplar district and at a cold storage plant in the docks and a certain amount of temporary dislocation to suburban railway services was caused.

At Coventry the scale of the attack was fairly heavy and several large fires were started. Damage, the extent of which is not yet known, was caused at two engineering works and at an ordnance factory. Casualties are estimated at 23 killed and 16 injured.

4. Summary of air casualties. Figures for the period covering this summary are as follows:

<u>Enemy</u>	<u>Day.</u>			
	<u>By fighters</u>	Destroyed	Probable	Damaged
	Bombers	7	5	1
	Fighters			5
	<u>Night</u>			
	<u>By anti-aircraft fire</u>			
	Types unknown	1	2	-
	Cause unknown	1	=	=
	<u>Totals</u>	9	7	6

British: Three fighters (all pilots safe).

5. Shipping casualties. As the result of an attack by U-boat on a homeward bound convoy from West Atlantic during the night of October 19th/20th in North Western approaches eleven ships British, Allied and neutral of a total approximate tonnage of 63,800 tons were either damaged or sunk. Three ships were tankers and other cargoes included chiefly steel and lumber. Three

-4-

hundred and sixty survivors have been landed.

In addition attacks in the same area on a slow convoy homeward bound from Canada during the night of October 18th/19th resulted in casualties to 15 British, Allied and neutral ships aggregating about 47,300 tons. It is feared that the majority of these ships have sunk cargoes were mainly steel and lumber.

6. Middle East. Libya. During an air attack on Bardia on October 19th barracks and a large concentration of mechanical transport were hit.

Abyssinia. On the night of October 18th/19th our medium bombers made four attacks on aerodromes where direct hits were registered on a hangar and a workshop.

7. It is thought that aeroplanes which bombed Bahrain were of the latest type of Italian long range bomber and that they started from the Dodecanese and landed at an aerodrome in Eritrea or Ethiopia. Although little damage was caused this incident is noteworthy since it would mean a flight of about 2600 miles.

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Paraphrase of Code Radiogram
Received at the War Department
at 18:17, October 23, 1940.

London, filed 18:30, October 23, 1940.

1. On Tuesday, October 23, the Bomber Command carried out but one daylight attack on Amsterdam. That night all operations, except for 23 planes, were cancelled on account of the weather. Of these planes, two crashed on landing and one failed to return. The daylight photographic missions and attacks on the Coast of the Coastal Command were hindered by the weather, and the total activity consisted of 19 patrol missions, 50 sorties, and 14 convoy escorts. No planes were lost. That night this Command cancelled or postponed all operations on account of the weather. The Fighter Command dispatched 70 fighters during the day.

2. The daylight operations of the German Air Force during October 23 were limited in extent, with about 70 planes conducting reconnaissances and two sweeps by fighters. That night the German raids were much fewer than usual and for almost the first time in weeks the "All Clear" signal was sounded by 11:30 P.M.

3. German plane losses were three confirmed, one probable and one damaged. The Royal Air Force lost six planes and four pilots. The planes lost by both sides were all fighters. There were no plane losses in overseas theaters.

CONFIDENTIAL

CONFIDENTIAL

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4. There was quite a bit of damage in Coventry which was subjected to a two-hour raid. The persons trapped yesterday are all alive and the automobile factory that was bombed is again in full production. The attacks resulted in about 150 fires, but they were all under control within an hour after the raid stopped. Some 200 residents are homeless. Four airdromes were attacked, with two persons killed and three wounded, but the fields were not rendered unserviceable. The parachute mine is becoming a serious annoyance. Yesterday two of these injured 70 persons, completely demolished 10 homes, and damaged about 400 others.

5. There is no further information of a possible invasion.

6. The morale of the residents of London is rising since there has been little damage here of late and the Army Pioneers have managed to clear the debris and permit the opening of the streets.

LEE

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.

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RE FOREIGN FUNDS CONTROL

October 23, 1940
3:00 p.m.Present: Mr. Pehle
Mr. Chamberlain

Pehle: The only problem we have is the old one of the Brussels branch of the National City.

Chamberlain: It has been really some time. I don't think it is going to be through in a minute.

H.M.Jr: What happened to those belgas that they were going to send through Spain?

Pehle: They applied for 500,000.

H.M.Jr: Dollars or belgas?

Pehle: Belgian francs in Spain, and we granted them a license, but it fell through because the Spanish wanted to give them actual currency, and they couldn't get the currency up into Belgium, or they didn't feel they wanted to take the chance. Then they applied for a million Belgian francs to be acquired in Switzerland, which we granted. Then they applied for their old application for 50 million in Switzerland, and we didn't feel that they had made out a satisfactory case as needing that much, and we went back at them for some more information, which after considerable delay they furnished. We have a lot of figures from them, all of which don't square exactly with the figures we got before. The thing has been discussed in detail in committee many times. I think the committee feels on the whole now that as far as making out a case for actually needing as much as this, 50 million francs, at this time for paying obligations there, that they haven't made it out, but - and Ward, of National City, who is down here, admitted as much. However, what they say now, and this is much more

- 2 -

difficult to handle, they are trying to get out, that they want to liquidate, that they want to reduce their assets and their liabilities down as low as possible and then try to get a Belgian bank to take them over. They say if they are going to do that they have to be allowed to pay out these Belgian francs. I think the majority of the committee feels sympathetic. In other words, they feel that if we would just as soon see them liquidate, that this is the way we will have to do it. In other words, they have to pay off their obligations because no bank over there is going to take over a lot of liabilities with the corresponding assets being blocked in this country. That wouldn't be good sense on their part. The total amount, if we should grant this application, is about a million and a half dollars. That would be spent for Belgian francs in Switzerland. That admit that that is next to the same thing as buying them directly from the Germans.

In other words, War says that they know --

Chamberlain: They admit that.

Pehle: They know the Belgian francs would come directly from Germany. Mr. Bell feels that we have spent an awful lot of time on this case and we might as well grant it. Mr. White feels that he isn't quite satisfied, even on the liquidation point, that they need to send these over in order to sell out. Mr. Bernstein isn't very satisfied with it, and Mr. Upham and Mr. Cochran believe we ought to grant it.

H.M.Jr: What do you think?

Chamberlain: I think we had probably better grant it.

- 3 -

I am not convinced that they need this much money, but I don't think they will send over any more money than they do need. I don't think they want to send any good money after bad. The advantage of getting them out would be to put through the plan that you originally thought of, of trying to protect them, and it would be one big headache left after the things settled down.

H.M.Jr: What do you think?

Pehle: I think they have a case only on the liquidation point.

Chamberlain: That is all.

Pehle: And if they are really going to liquidate and they are not doing this now, the application has been handled all the way through by their foreign exchange trader.

H.M.Jr: Well, have we any assurances?

Pehle: That they are going to liquidate? No.

H.M.Jr: Well, I would ask for a letter from the Board of Directors.

Pehle: Of course, they say this has to be done very --

H.M.Jr: Well, we can get a letter --

Chamberlain: I think we can get - of course, as a matter of fact they have been consistent throughout on that. Mr. Rentschler has been consistent.

Pehle: The only word I have got on liquidation was the conversation which I understood that Mr. Rentschler had with you (H.M.Jr.) a long time ago.

- 4 -

Chamberlain: And with Mr. Bell.

Pehle: And with Mr. Bell, which I don't know about, and Ward when he was in here told me that they wanted to get out, and then he called yesterday and said a representative of the Guaranty Trust Company in Amsterdam had had difficulty with the Germans and was now in jail and that that heightened their anxiety to get their people out of Belgium.

H.M.Jr: Supposing I call up Gordon Rentschler, whom I know very well, and ask him to give me his word.

Pehle: I think it would be excellent.

H.M.Jr: Simply say that I want his personal assurance that they are going to promptly wind up --

Chamberlain: Yes, wind up and liquidate and get their people out.

H.M.Jr: And get their people out?

Chamberlain: Yes.

H.M.Jr: Is that branch under the examination of the Comptroller of the Currency?

Pehle: I don't think so, Mr. Secretary. I think Mr. Upham indicated that their connection with it was very remote.

Chamberlain: They must have some control, because it is merely a branch, it isn't an independent bank.

Pehle: I don't think it is.

H.M.Jr: If we ask them that....

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Pehle: On the point you were raising, Mr. Secretary, I am not suggesting we tell them to close down, but only if we knew that was actually what they were going to do and not to do any more new business, then I don't think --

H.M.Jr: I will tell you, I will put it this way. "Will you please tell me, Mr. Rentschler, what are your plans?"

Chamberlain: In respect to the Belgian bank.

Pehle: Yes.

H.M.Jr: How is that?

Pehle: That is fine.

H.M.Jr: Betting on Roosevelt is unchanged since yesterday.

Chamberlain: I thought you were - you were quoted the other day as saying you didn't bet on a sure thing.

H.M.Jr: I did say that. I thought it was a good wise crack.

(The operator reported Mr. Rentschler out of town. The Secretary then placed a call for Mr. Burgess)

Chamberlain: I haven't heard anything else yet.

H.M.Jr: What else have you got, while we are waiting?

Pehle: That is all I have.

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

Pehle: Yes, sir.

Chamberlain: Things are going pretty smoothly.

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H.M.Jr: Are things going pretty well downstairs?

Chamberlain: I think very well. The only difficulty, we are going to perhaps have to get some more space if we take in any more countries, Mr. Secretary.

H.M.Jr: Don't you think Mr. Hitler ought to supply the space?

Chamberlain: Well, I will tell you, if you will accept the space he will offer to use, I am afraid you will have some difficulties.

(Telephone conversation with Mr. Burgess follows:)

October 23, 1940
3:14 p.m.

H.M.Jr: Hello.

Randolph
Burgess: Hello, Henry.

H.M.Jr: Randolph, can you tell me officially what
your plans are for your branch in Brussels?

B: In Brussels?

H.M.Jr: Yeah.

B: Well, we are proposing to liquidate it down,
Henry.

H.M.Jr: Well, now is that definite?

B: Yeah.

H.M.Jr: Are you going to bring your people home?

B: As soon as we can. You notice the manager
of the Guaranty in Antwerp got arrested the
other day by the Germans.

H.M.Jr: Yeah, but what I'm asking for is some personal
assurances that that is the plan.

B: That is the definite plan, yes. That's been
approved by our directors and everybody.

H.M.Jr: Well, why didn't your fellow tell us that?

B: Well, I thought he did.

H.M.Jr: Not that the directors had approved it.

B: Well, I don't know as he did say that. I think
he said it was the plan of the bank. I think
he assumed that we wouldn't say that unless we
had discussed it with our directors.

H.M.Jr: But your directors have passed on this and
you're going to liquidate it as fast as
possible?

B: That's right, yeah.

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H.M.Jr: And bring the people home.

B: That's right, yeah.

H.M.Jr: Well, now, just a minute. (Pause). Well, Randolph, on that basis we'll give you a license on the 50 million Belgian francs.

B: I'm very delighted to hear that, Henry, because we're very anxious to get ahead with that.

H.M.Jr: And I'm counting on your word that you will do what you said.

B: Yes, we haven't said anything publicly about it because the minute you go into a formal liquidating status there'd be a lot of their rules and regulations and things that would begin to apply, so we're doing it quietly just as rapidly as we can.

H.M.Jr: Well, we're going to give you that license.

B: Thank you very much, Henry.

H.M.Jr: O. K., Randolph.

B: Good.

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Chamberlain: I think that is quite satisfactory, Mr. Secretary. It has been a headache all the way through.

Pehle: Thank you very much.

H.M.Jr: Again, thanks for coming down.

Chamberlain: After all, as many headaches as you must have --

H.M.Jr: Well, what surprises me is how few we have.

Chamberlain: In this instance, I have been surprised at how few we have had, very much surprised.

October 23, 1940

(Dictated October 24, 1940)

Purvis came to my house last night at 8:30. I told him what Jay Crane had told me about the Hungarian oil wells, and he then repeated it to Sir Arthur Salter in London over the telephone from my house.

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FROM: MR. GASTON'S OFFICE

TO: Secretary Morgenthau

October 24, 1940.

I talked to Tamm at F.B.I. this morning and he readily agreed that the procedure followed by their Agent McGuire in Connecticut in mimeographing to banks a request for highly confidential information was a mistake. He said: "I will step on that right away."

A handwritten signature, possibly "W.B.", enclosed in a large, loopy oval.

See Mr George Harrison's
phone conversation with
Hogg on 10/23.

October 23, 1940.
11:55 a.m.

H.M.Jr: Hello.

George
Harrison: Hello, Henry.

H.M.Jr: Yes, George.

H: I'm looking into that matter about which you spoke to me but I haven't got anything to report right now.

H.M.Jr: Right.

H: However, in the meantime, there has just come to my attention a letter dated October 18th from a man by the name of Maguire who is Special Agent in Charge of the FBI in New Haven, Connecticut, and it's addressed to all Connecticut Commercial Banks. It's a mimeographed thing that obviously went to everybody in the Connecticut Bankers Association and that's the reason we got it because we happen to be a member of that association.

It says - "In accordance with investigative work performed by this Bureau in connection with National Defense it has become of paramount importance to ascertain details regarding funds available to and deposited by various armed governments, particularly German, Italian, Japanese, Russian and French governments and all individuals and organizations possibly connected with these governments. In this category would fall all groups such as so-called Front Organizations and agencies which are acting in behalf of a foreign government, individuals of known strong foreign sympathies and any other persons who might have accounts in your banks which, from your particular knowledge, you feel might be of interest to the Bureau and so on" It goes on two more paragraphs.

H.M.Jr: Yes.

H: Now it seems to me - then they say this is very confidential.

H.M.Jr: (Laughs).

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H: This mimeographed thing is just sent to the bank; not to any officer in the bank.

H.M.Jr: Well I'll be damned.

H: Now I think it's a dreadful way to handle it.

H.M.Jr: Well I think it's about as stupid.....

H: What?

H.M.Jr: It's just about as stupid a piece of business I've heard.

H: I don't know whether that's being done all over the country or whether they're trying to find out something in Connecticut or whether this man Maguire, who's Special Agent in New Haven, just went off on a frolick of his own.

H.M.Jr: I imagine that's it. Let me look into it George.

H: It's dated October 18th to all Connecticut Commercial banks signed by J. J. Maguire, Special Agent in Charge, and its on the letterhead of the Federal Bureau of Investigation, U. S. Department of Justice.

H.M.Jr: Well I appreciate your bringing it to my attention. Let me look at it.

H: But if you want - if the government wants stuff like that you ought to get it through the Federal Reserve Banks I should think.....

H.M.Jr: I should think so.

H:and the Treasury but this - this business - I - of all the stupid things I think this is the worst that I ever saw.

H.M.Jr: Well, look, you couldn't have it photostated and send it down to me.

H: You bet I can.

H.M.Jr: Do that will you George.

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H: Yes.
H.M.Jr: Please.
H: All right I'll do it right away.
H.M.Jr: Thank you - I'll get on it right away.
H: First rate.
H.M.Jr: Thank you George.

October 24, 1940
2:15 p.m.

Present: Mr. Purvis
Mrs. Klotz

Purvis: (Handing memorandum to HM Jr) I had a telephone conversation this morning which I have epitomized in that memorandum as to the general trend of thought that they had there.

HM Jr: Well, let me see. (Reading from memorandum furnished by Mr. Purvis) "If, on the other hand, the Germans would have parted with U. S. dollars which they could not in any case have used effectively . . ."

Purvis: For instance, if you had in contemplation in the relatively early future something that would prevent them from using these dollars here, then nothing is gained. The properties pass and the possible source of friction which naturally - to be very frank - naturally a source of friction between such a company and Germany wouldn't worry us at all.

HM Jr: You mean if that added friction?

Purvis: Yes, if it added friction. And if the properties were being taken and, therefore, if the Germans, as I see it, would have only parted with something which was going to be frozen anyway . . .

HM Jr: They haven't got \$30,000,000 here.

Purvis: Well, that's something that interests us, but I had understood that was very much larger than the sums they had here. The assumption, of course, is that they have some under cover - maybe through Swedish or Swiss sources - and are not giving the true information here. That might very well be. I think that sum is extremely large if the information they have been reporting is true.

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HM Jr: Well, I think that this is so boiled down.

Purvis: Yes. Perhaps it is boiled down a little bit too much.

HM Jr: (Again reading from document furnished by Mr. Purvis) "... would not part with U.S. dollars which they could have in any case used effectively . . . "

Purvis: Otherwise . . .

HM Jr: I don't get it.

Purvis: It is a little inverted but it is an inverted situation, but what it really comes to is this - let's assume if the Germans have dollars here which either are frozen because - I don't know how it would work opposite Rumania.

HM Jr: I still don't get it.

Purvis: Well, the assumption is there might be some freezing; in other words, the freezing would apply against Standard Oil of New Jersey. Otherwise if Rumanian property passed to Germany, and Standard Oil received German funds, the freezing would presumably take place in connection with Standard Oil of New Jersey.

HM Jr: Not if they were U.S. dollars.

Purvis: Well, that brings us to point number one. Does this include Rumania because I understand any freezing of resources applies to Rumania but not to Hungary.

HM Jr: Rumanian assets are frozen - yes.

Purvis: All resources of Rumania but not of Hungary.

Now that figure of \$30,000,000 - London's guess is that is such a high price for the Hungarian alone that

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it may not be true. Now if it is true that it is a straight Hungarian deal and does not include any Rumanian properties then the freezing would not enter into it at all.

HM Jr: Rumania is frozen but not Hungary.

Purvis: Rumania is frozen but not Hungary, and immediately, therefore, it affects the third point.

The second point - if Germany has \$30,000,000 available here and spends it for something, which, from a practical viewpoint, they can get at any moment any way, we are so much better off from U.K. view. You see it has gone into something - they have paid \$30,000,000 for something they could take for nothing. Therefore, there would be no obstacle from our view.

HM Jr: Yes. I see now.

Purvis: Now the third point is being given in reverse. The Germans - if it was your intention, for instance, tomorrow morning to freeze German dollars, Germany's U.S. dollar resources, then all the Germans are doing, are hoping to do is to get title to something in Rumania, which is better than nothing.

HM Jr: Well, you mean they would be taking that money out of here for fear it is going to be frozen?

Purvis: That's right - getting it into Rumania and Hungary. You see it gives them legal title to the property. Our people are a little surprised they are willing to put up \$30,000,000 for something which, from a practical stand, they ought to be able to take out of there for nothing.

But assuming that if you were going to freeze the dollars here, well then \$30,000,000 will become useless to Germany. So if you were going to freeze the dollar resources here - I'm being perfectly frank - then we would rather see the deal fail because every advantage from the war view would be Germany's.

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HM Jr: You would want to see it fail if we were going to freeze German assets?

Purvis: Yes. If before the transaction went through the dollars here were . . .

HM Jr: Yes.

Purvis: In other words, if their resources can be rendered useless to them without their getting title to these properties, all the better because - and then there will be more chance of friction and, therefore, it would be better for us.

HM Jr: I understand. I get it now.

Purvis: I didn't like to be too lucid about that last point in the memorandum. Right?

HM Jr: That's all right.

Purvis: So that really what it boils down to in their mind - well, to be frank, as to what your attitude might be on the possibility of freezing their resources in such a way as to affect the transaction. I think the Treasury - I think your attitude along that line would be of a great deal of influence.

HM Jr: But your people don't think that Hungarian oil wells are worth anything.

Purvis: Well, you said something last night. Now on the telephone this morning the first question that was put to me - "Are we quite clear you said 30 and not 13?" And then 27 - 28 - 29 - 30 - twice that was repeated so that evidently 13 would have looked like a more sensible figure for Hungary alone. You see these Hungarian properties are recognized as being something fantastic in richness. That I learned quite independently and by chance. There was nothing of this which came into the picture. I learned that quite accidentally.

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(At this point HM Jr spoke to Mr. White on the telephone and asked him to get together all the material he had on Hungarian oil wells and HM Jr would see him in 10 or 15 minutes.)

Purvis: One other thing I picked up. I gather that this Hungarian property is undeveloped, but it is property of such richness and such easy accessibility that the development period would be relatively short. Now the Germans might be willing to pay something in order to start the development period earlier than they would be able to if they were to rely on seizure. This indicates that they are not thinking of immediate seizure because if they were why then they wouldn't want to pay money for them. This struck me as one of the most interesting examples of the importance of what you might call an economic warfare internal viewpoint on the situation.

HM Jr: I was just thinking that if they would give it to you and me we would get somewhere.

Purvis: That's right.

I was shown a very confidential series of cablegrams which I was not supposed to have seen, and I tried to get a resume, and when I tried to get the resume arranged I could not do it. This is something which concerns another department of this government. I don't think it is yet but it will be. (Handing several papers to HM Jr) Could you just - I'm sorry it is so long but I don't think anything would do it except reading them. Let me see if I have the right one on top - that is important.

see called immediately following date 10/24/40 no. 2329

HM Jr: I told you last night I thought this thing was important.

Purvis: I don't think you can read those now. They are very lengthy but they have a lot in them. They are very meaty - I mean there is so much to check and so much to go into. If you will just stick them into your pocket, and please remember - I mean - well, they are very confidential. They have the nucleus of a really good idea,

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and the great thing is to get them into the right hands. What I am so afraid of is that it would be a dreadful mess if it got into the wrong hands. We have four men who represent bits of this whole idea. If we can ever get them together, as I am now charged by the Ambassador with doing, if we can ever get them into a central view, we can reconstruct the whole thing. It's terrific.

Given me by A. Purvis

Oct 24, 1940

2.15 P.M.

MEMORANDUM

\$30,000,000 is a big figure if it includes Standard Oil of N. J. properties in Hungary only and not in adjacent country (presumably Rumania), Does it include Rumania?

If the real effect of the transaction would be to deprive Germany of U. S. dollar resources which otherwise would be available, the U. K. would not wish to interpose an obstacle to the deal.

If, on the other hand, the Germans would have parted with U. S. dollars which they could not in any case have used effectively (i.e. U. S. could and would prevent their so using them), then the U. K. would prefer to see the deal fail as there would be no war advantage and a possible source of friction for Germany would have been removed.

This boils down to the point as to whether there is a real prospect of measures being taken by the U. S. to freeze Germany's currency resources.

2389

IMPORTANT

K

Mr. Butler

Foreign Office

2.35 a.m. October 24th

Your telegram No. 2719.

We fully realize that it is desirable in order to achieve the result mentioned in the first sentence of paragraph 7 that the U.S. Government, H.M.G., the Dominions and the Dutch, should consult together to consider the economic aspects of a common defense policy in the Pacific.

2. The U.S. Government is moreover itself becoming conscious of the need of a common economic policy in regard to Japan, on both points mentioned in your paragraph 2. Partly because Mr. Hull had referred to the need for the two countries to keep in step as regards economic policy towards Japan, the Ambassador recently arranged with him that a discussion should take place between the head of the Division of Controls of the State Department concerned with the administration of the U. S. licensing system, and Mr. Marris.

3. This discussion took place last week before the receipt of your telegram under reference. The procedure adopted was (a) an examination item by item of the reasons for which licenses are issued or refused for all the commodities and products on the U.S. Government list, and including every destination; (b) a similar examination of the items on the British Empire and U.K. lists, but with particular reference to Japan.

4. I am telegraphing you separately in regard to various points which arose out of 3 (a) and (b) above.

5. This examination of the basis upon which licenses were issued or withheld by both Governments revealed certain important qualitative and quantitative differences as a result of which the State Department were asked to include in their list the following commodities - nickel, nickel scrap, copper, lead, zinc, cobalt, carbon black, titanium, cadmium, and rubber scrap. To this extent therefore the action which you suggest in paragraph 6 of your telegram under reference has already been taken so far as minerals are concerned. Phosphates were not mentioned.

6. I feel confident(a) that the policy mentioned in paragraph 5 of your telegram under

/reference
Regraded Unclassified

reference of a limitation of their exports to Japan to normal quantities which you are now asking of the Dominion Governments will be welcomed by the U.S. Government; (b) that in view of the appreciation of the U.S.G. attitude in the first sentence of paragraph 4 of your telegram under reference, which I believe to be correct, your decision not to enforce a complete embargo except when this can be justified on the grounds of our own needs will be thoroughly understood by them. I would also expect that in view of the manner in which the U.S. Export Licensing System is now being operated your decision to include China and Manchuria within the scope of your limitations will be similarly understood.

7. I am however, certain that despite the need for rapid action if the Japanese are to be prevented from acquiring substantial stocks, it will be extremely difficult now to get the U.S. Government to take an active part in the conversations which you envisage in paragraph 7, particularly if these are to be held in London. This is partly because of the imminence of the Election, and partly because the Division of Controls in the State Department, the organisation established there under Feis, the Defence Commission, the R.F.C., the Treasury, the group under Nelson Rockefeller, and an Economic Warfare Section of the Army Intelligence have all been concerned with problems which are those of Economic Defence; and as a result it is not now possible for 2 or 3 individuals to represent properly in London a United States policy for Economic Defence.

8. On the other hand many, including Mr. Morgenthau, realise that their Defence policy calls for the co-ordination of the various activities which fall within the scope of economic warfare. These so far have been confined in the sphere of action to the withholding of their own supplies from export though serious consideration has also been given to other forms of action, such as the preemptive purchase of Mexican scrap and New Caledonian Nickel ores, etc.

Some progress has been made towards co-ordination of the activities of the bodies mentioned above and when the elections are out of the way it is quite likely that some economic defence

/organization

organisation will be established. An indication from us now that we shall be proposing co-operative economic defence consultations with the U.S.G. in Washington in the near future might do much to bring it about. The importance to us of the establishment of such an organisation needs no emphasis. Without it, it will be very hard for either country to tackle the difficult problems of paragraph 9 of your telegram under reference; with it those problems would be much simplified, as would the problems of the disposal of South American surpluses which we well know to be related to the problems of Economic Defence, but which the U.S.G. has so far been less disposed to believe to be so connected.

9. In all the circumstances I am doubtful whether U.S.G. would send representatives to London and I feel clear that in this growing stage we should get better value if talks could be held here. I believe H.M. Ambassador would share these views. As regards procedure my impression is, based partly on the fact that the State Department actually handed back the memorandum in which H.M. Ambassador suggested staff talks about the Pacific, that they would rather not have formal proposals in writing until after the Election. An informal sounding of the ground may show that this impression is wrong, but for the moment I am asking Mr. Marris to explain informally to Mr. Green and Mr. Feis what we have in mind and consult them as to the appropriate time for submitting proposals in writing. (These might be conveyed in an Airmail Memoire addressed to the President via Mr. Hull with copies to him, Mr. Jones, and Mr. Morgenthau), I will also speak to Mr. Hornbeck. This will not, of course, debar us from asking that early and favourable consideration be given to requests mentioned in paragraph 5 above.

In the meantime I would be glad of your further views, particularly as regards place for the conversations.

I am telegraphing separately about the Philippines and your telegram No. 2718.

FROM: Foreign Office.

TO: Mr. Butler.

IMPORTANT

d. 1.05. p.m. October 19th, 1940.

r. 10.45. a.m. do

October 18th, 1940.

It is desirable that the United States, the Dominions, the Dutch and ourselves should consult as soon as possible as to general attitude to be adopted towards Japanese trade in light of conclusion of pact with Germany. Technical conversations on defence problems in the Pacific are we hope about to take place and the need to consider the co-ordination of economic measures is an obvious corollary, since much of our joint strength lies in economic sphere. U.S. Government have indeed indicated that a blockade would be their immediate policy in the event of war.

2. The question falls into two parts;

- (a) exports to Japan and
- (b) imports from Japan.

3. (a) Up to now the Commonwealth countries have, generally speaking, limited exports of key commodities to Japan to normal proportions though there has not been complete consistency. In addition, certain commodities largely controlled in the Empire, particularly nickel, jute and mica, have been more drastically restricted. The United States on the other hand have imposed a moral embargo on a smaller range of exports and have entirely prohibited exports of aviation spirit and scrap iron under the Defence Act; but other exports, namely copper, are completely unrestricted. It is not easy to fit these two different systems together, and we hope that the United States will co-operate with us by controlling a wider range of commodities. In any case we feel that consultation on the whole question is urgently needed.

4. We entirely agree with the view which we understand to be held by the U.S. Government that we should avoid provoking Japan into war if possible but that any sign of weakness at this stage would be dangerous. Moreover we have been considering evidence to show that the Japanese Government are buying on a large scale for immediate shipment. It therefore seems most important: firstly, to take steps immediately to guard against the accumulation of stocks of raw materials in Japan which might make her invulnerable to blockade in future; and secondly, to consider any measures which weaken Japan and make her feel the effects of ranging herself against the Democracies but will not compel her to violent reactions.

5. As regards (1) we are asking the Dominion Government to extend the existing licensing system to cover at any rate all essential exports to Japan, including all raw materials. In the first instance we are suggesting that exports should be limited to the level of normal trade; and this is being done in the United Kingdom and Colonial Empire. More drastic restrictions on most important key commodities would be maintained where already in force and could be extended as circumstances require; but we should not enforce anything like a complete embargo on any fresh commodity (except scrap iron) without further consultation with United States authorities except where this can be justified on supply grounds. In order to prevent transshipments and evasion we are suggesting to the Dominions that exports to China and Manchuria should also be limited to normal figures except where stricter embargoes are in force.

6. Any policy of restriction however could only be reasonably effective if U.S. Government felt able to adopt similar system and N.E.I. could be induced to come into line from the political standpoint. Moreover, it would be unwise for the British Empire and impossible for N.E.I. to appear to be

taking the lead in imposing restrictions and the Dominions Governments will probably, and H.E.I. will certainly, be anxious not to go ahead of United States. We would therefore strongly press U.S. Government to co-operate by immediately extending the list of commodities requiring export licences to include all essential goods so far as they consider it practicable and at least to cover all minerals and fertilizers and to limit exports of these to Japan to normal figures where more stringent embargoes are not already in force. Moreover, for the reasons given above, we would suggest that this system should be applied to exports to China and Manchuria as well as to Japan. You may point out to the State Department that to make the restrictions apply generally to these territories may be less provocative to Japan. Exceptions could be made for exports to free China as required.

7. If such a system could be immediately adopted it would prevent Japan building up stocks and the restriction could thereafter be extended and tightened up by agreement between the Governments concerned as was found advisable. For this purpose we would suggest joint discussion with ourselves, the Dominions and the Dutch as soon as possible. We should like the conversations to be held in London where discussions with the Dominions and the Dutch representatives on contraband questions are being co-ordinated. We should do all we can to keep them secret.

8. The question of the Philippines also demands consideration. Clearly it should be included amongst countries imposing restrictions if a serious gap is to be avoided. For example I am informed that Japan has already imported 18,500 tons of chrome ore from the Philippines this year as against about 13,500 last year and negligible quantities in the 3 previous years. The Japanese have just enquired for 5,000 tons of chrome ore from India but any restriction imposed by India would be of no avail as long as Japan is able to meet her requirements from the Philippines.

9. It is patently clear that even if United States and Netherlands co-operation is assured there will be a gap in any restrictive measures as long as we can do nothing about South and Central America. This is one of the questions we should hope to discuss with the U.S. authorities with special reference to the problem of transshipment in United States and the possibility of controlling shipping in the Pacific. But our first object is to induce the United States to take some immediate steps to co-operate and we do not wish to prejudice this by multiplying complications at this stage.

10. As regards (b) the restriction of imports from Japan is of less immediate urgency but presents one of the most effective long range means of pressure on Japan and one to which the Japanese Government, which already practices maximum restrictions on unessential imports, could not object. Precise co-ordination in this field between the different governments concerned is less necessary and different considerations must apply to different importing countries according to the need for imports from Japan, requirements of native populations, treaty obligations, etc. Possibilities in this direction are being explored here and we should like to deal with it during the proposed conversations without prejudice to any separate action which the U.S. Government may see fit to take in the meantime, e.g. as regards raw silk. It will be realized that the importation of raw silk is at present essential for parachutes and that we obtain our requirements through the United States. But it may be possible to limit imports to quantities required for that purpose.

11. Please approach State Department immediately and report.

October 24, 1940
3:00 p.m.

RE HUNGARIAN HOLDINGS OF STANDARD OIL

Present: Mr. White
Mr. Cochran
Mr. Crane

H.M.Jr: Let me tell you people in strict confidence what I have done, see. Jay Crane called me up yesterday and said he had a very confidential matter he wanted to come down and see me about, that the Germans had offered them \$30,000,000 to buy their wells in Hungary. I said, "Why don't you see the State Department first?" "No, we don't want to see the State Department first, we want to see you first." So I said, "Well, that is all right." He said, "We want to get your advice." Well, after all, whatever my advice is, it is based on, is it good for us, is it bad for us, is it good for England, is it bad for England, so I got hold of Purvis last night and he told Sir Arthur Salter about this and I asked him to get his reaction, which I did and which he has given me. His reaction was to this, they believe that this is one of the most important things that has been brought to their attention, politically, because this might mean, you see, that Germany is not ready to take Hungary on a military basis but needs its oil and needs it very badly and that therefore she is willing to pay for it, because these exceptionally rich wells are subject to very rapid development. They also believe that the \$30,000,000 must include Romania. Now, he says, if we were going to freeze German assets here quickly, why then from their standpoint they would just as lief we didn't sell it.

White: If we were going to freeze German assets here?

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- H.M.Jr: If we were going to freeze German assets here quickly.
- White: Then they would just as soon we didn't sell it?
- H.M.Jr: Yes.
- White: They have got very little assets here.
- H.M.Jr: I know, but if on the other hand we won't, rather than to have \$30,000,000 floating around the world, they would just as lief have it in the Hungarian oil wells.
- Cochran: Because they can step in and get them any time they want them.
- H.M.Jr: That is the point. They can get them anyway, so unless this is some military - some military strategic thing back of this, that the Germans feel they can't get them. So they are tremendously interested. He said it may have great significance as far as European policies go, so with that introduction I thought I would listen.
- White: I don't understand why the Standard Oil from a monetary point of view would hesitate to sell for whatever they can get at this stage of the game.
- H.M.Jr: Well, he didn't want to say much over the phone.
- White: That must be the new development which he spoke of - not he, but the other man spoke of when they came, because their present known production of what they have been producing is not worth that much, but the new production is supposed to be able to step up to 8 or 10 million dollars a year.
- Cochran: He spoke to me just before he came in and said they were producing 300,000 barrels now and it could be stepped up to a million barrels.
- H.M.Jr: A month or a week?
- Cochran: A year, tons, I mean.

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H.M.Jr: And could go to a million tons.

White: That checks with what the other fellow said, seven or eight million barrels a year.

H.M.Jr: It is interesting.

White: Here is what this map shows. There they are. Now, they are right within easy reach of them, between Austria and Czechoslovakia.

Cochran: May I ask you one question?

H.M.Jr: Surely?

Cochran: Because Mr. Welles is going to see Oumansky at 4:30 and they were talking to us about the draft of that thing this morning and they had a phrase over there. I didn't know whether it came from here or not. They wanted to put it in.

H.M.Jr: I sent it personally to Welles.

Cochran: Oh, is that it?

H.M.Jr: I gave it personally to Welles. You know, that one I read to you.

Cochran: Was that the one you read to me?

H.M.Jr: Verbatim.

Cochran: All right. We have it in here then --

H.M.Jr: I mean it is verbatim.

Cochran: It would fit on here. "The foregoing continued to be the policy of the United States and assurances are given."

H.M.Jr: Well, while Oumansky was here - I said, "Say it slowly," and I wrote it down word for word the way he said it.

Cochran: Oh, that is it. I was trying to get the genesis out of it.

- 4 -

- H.M.Jr: I wrote it down word for word the way Oumansky said it. That was in my longhand and the girls typed it and I gave a copy of what he said verbatim to Welles.
- Cochran: It was on our dark blue typewriter ribbon here and I thought it came from here. I saw it from the State Department. They brought it over.
- H.M.Jr: I gave it personally to Welles.
- Cochran: So that is the language we want?
- H.M.Jr: Well, whatever I gave Welles. Okay? Is he going to use it?
- Cochran: Yes, he will use it. We had that and we had a little different draft following the State Department's first draft, but if this is your language --
- H.M.Jr: It is, the one I gave Welles.
- (Mr. Crane entered the conference.)
- Crane: Sorry I couldn't bring Mr. Saddler with me, but I couldn't get in touch with him, Mr. Secretary. He was away and I couldn't get him. But I brought another fellow down with me, in case you want anything I can't give you.

We had a telephone call from Switzerland day before yesterday from the representative of the I. G. Farven. I think it was the New York I. G. Farven who was in Switzerland meeting the I. G. Farven people from Germany, that is the way I understand it. He said the I. G. Farven wanted to buy our Hungarian properties and we asked him whether they were prepared to pay in dollars for it and he said yes, they were prepared to pay dollars. And we told him that that was a pretty big order and of course we had to think it over, and that we would get in touch with him in a day or two about it. So we got up some figures yesterday as a possible value that we might put on it. It would be in the neighborhood of \$30,000,000. We haven't

- 4 -

replied to the inquiry yet at all, and before we did the directors wanted me to come down and tell you about it because we realize it is a thing which affects Governments and so forth and we think the I. G. really wants this for the German government. The I. G., of course, is very close to the German government and about two months ago we had a very indirect inquiry about these Hungarian properties from one of the minority stockholders who came to us and said that the Deutsche Bank was interested. Well, we didn't do anything about it at that time, and we never heard anything more about it. We never had any direct contact with the Deutsche Bank at all, and this is really the second approach, but this is a much more direct approach than the other one. Now, our properties in Hungary are down in the southwest --

H.M.Jr: This is your map that I have got here before me.

Crane: Oh.

H.M.Jr: That is right, isn't it? This is the map Saddler gave me.

Crane: Yes. Down near the Yugoslav border southwest of the Danube, we have a concession which takes in all of the land south and west of the Danube there, but this one field down there, it is a pretty good field. I think they - the present production is 5,500 barrels a day, which is about 300,000 tons a year.

White: Two million barrels.

Crane: Yes, that is about 300,000 tons. Do you like barrels or tons?

H.M.Jr: I have gotten so I can multiply $7\frac{1}{2}$ times a ton.

Crane: I thought you generally thought in tons.

H.M.Jr: No, I think in barrels but it doesn't matter.

Crane: About 5,500 barrels a day in that field. That

- 5 -

is pretty big production. The production in Romania is about 125,000 barrels a day as compared to this 55. I will make sure I am right about that. Yes, the Romanian production is about 125,000 barrels a day and this is about 5,500 barrels a day, but this field is being produced on a scientific basis. We are not pushing the production at all. We are producing the field in such a way as to save the pressure and get the maximum amount of oil out of the field.

Now, it may be that the Germans want to get in there and push the production and just as a guess, they might be able to double or triple it. That is more or less of a guess. I can't be sure about that.

H.M.Jr: Well now - whenever you are through, I want to ask some questions.

Crane: It was a German commission that went down and visited these fields of ours some time ago, and looked into our production methods and said that they thought we were producing the field in a satisfactory, scientific manner but if they wanted to push the thing, they probably could get quite a little more oil out of this field. They would hurt the field. I mean, their ultimate recovery from the field would be less but they could get it quicker, probably, than we are, and there may be other fields here in Hungary that they could develop. We have had one well that they have brought in. I think it is over near the Yugoslav border. I think a well has just come in. I don't know whether it is on that map or not. It looks fairly promising. It looks as though there might be another field in addition to this little one.

H.M.Jr: That you people have developed?

Crane: Yes. We just brought this well in fairly recently. I don't know whether it is on that map or not. I think that is about what I --

H.M.Jr: Well now, let me ask you a question.

- 6 -

Crane: The main part of my song --

H.M.Jr: Where are they going to get the dollars from to pay you, is the first thing?

Crane: They didn't seem to balk any at the idea of paying in dollars and I don't know whether they have got the dollars here or in Switzerland. I should think perhaps it was more likely in Switzerland or maybe it is here in the name of Swiss banks or what not, I don't know about that. They didn't give us any indication about that. They merely said that they were prepared to pay for the property in dollars.

H.M.Jr: And you haven't told them yet your price?

Crane: We haven't answered the inquiry yet at all. We haven't given them the \$30,000,000 figure that I mentioned. We haven't replied at all on that because we wanted to talk to you before we did that.

H.M.Jr: Wouldn't you normally go to the State Department on a thing like that?

Crane: I don't know.

H.M.Jr: What do you mean, you don't know?

Crane: Well, I won't go to the State Department. I never go to the State Department about anything.

H.M.Jr: Well, your people do, for instance on the stuff there in Central America, South America, don't they?

Crane: I don't know. The directors said they wanted me to come to you about it. I don't know about the State Department. They never have sent me to the State Department. They wouldn't send me there. You raised that question last night on the phone and I verified with one of the directors that they haven't been to the State Department.

H.M.Jr: Would they object to going to them?

- 7 -

Crane: No, I shouldn't think so.

H.M.Jr: It is embarrassing to me if you don't.

Crane: Well, I am sure there is no --

H.M.Jr: Don't you think so, Merle?

Cochran: It is getting into international politics quite a ways. I think they would be much happier to know about it.

Crane: You think we ought to go direct rather than through you?

H.M.Jr: What do you think about that, Merle?

Cochran: I think if it is agreeable to you, you might phone Ray Atherton and see what he thinks about it, whether a matter of this sort should be brought to his attention. It might be he would say no and you could go ahead, it is a business proposition, they are not in the --

Crane: As far as my own feeling, I sort of assumed that you would talk to them. I had no thought of dropping it in your lap and not having you talk to the State Department. I sort of thought you would, but I --

H.M.Jr: Well, this will be my intimation. I will call them up while you are here. It would be for you to kind of feel them out on this thing, see. If you say \$30,000,000, all right, then where are they going to get the money. But looking at it from your standpoint, purely from the company's standpoint, seeing what has happened to you in Romania, they didn't give you anything for that, did they, except a kick in the pants.

Crane: Well, they have got the Romanian properties right in their vest pocket.

White: They have got more than that much gold. They could get the dollars of they wanted the oil

- 8 -

badly enough and could only buy it, they could raise the money without any trouble.

Crane: The way we felt about it, Mr. Secretary, was that it is a - in a way it is a kind of difficult and embarrassing thing for us because we realize that it is the kind of a deal which - well, certainly the British Government wouldn't like it, leaving our Government out of it and the last thing in the world we want to do is to do anything to displease the British Government because everybody knows where our hearts are, as far as that is concerned, but on the other hand, we have such a big investment in Europe today and, of course, in Germany, I suppose, our present investment in Germany is 30 to 35 million dollars anyway. The Romanian investment which is now in jeopardy - that if somebody comes along and offers us good American dollars for a property like this Hungarian thing, we have to take a look at it.

H.M.Jr: Of course, from your standpoint, you would be crazy if you didn't.

White: They are getting your oil anyway, now. I think over 90% of your last month's exports went to - what isn't consumed in Hungary.

Crane: It is practically all consumed in Hungary.

White: They are cutting down, I understand, on your consumption. If they own your oil wells, will they give Hungary any of the oil?

Crane: I suppose they might make the Hungarians ration it some way so they would get more. I don't know about that. But most of the production near Hungary now is refined near Budapest and is consumed in the country.

Cochran: Do Shell and Socony have producing fields there?

Crane: No, I think we are the only producers in Hungary and Shell and Socony are the refiners and marketers, so you see from that angle too we are

- 9 -

unbalanced in Hungary. We have production; we have no refineries and no outlets, you see.

H.M.Jr: It is like an E. Phillips Oppenheim, you know, one of these --

Crane: Most of our things are.

H.M.Jr: Jay, what is the name of this I. G. - as it is called?

Crane: I. G. Farven.

H.M.Jr: Fa --

Crane: --rven.

H.M.Jr: And the I. G. means like incorporated, doesn't it?

Crane: International Gesellschaft Farven Industry.

H.M.Jr: Now, while you are here let me give what's his name a ring.

Cochran: I mentioned Atherton or it might be Jimmy Dunn or if you want to go higher to one of the Secretaries.

White: The State Department at the moment might be interested but when the question comes of suggesting to them that they don't like it and the Standard Oil has got to forego an opportunity of getting \$30,000,000, there must be an opportunity to see whether there can't be some counter proposal there.

H.M.Jr: Oh, I would feel more comfortable if I told them about it and I will tell them that you have come to us because it is a matter of foreign exchange and so forth and so on.

Crane: I think if we could put it on the basis that I do come to you from time to time with problems that we have and this is a problem that is certainly partly in the financial field and that - I mean, I don't want the State Department's

- 10 -

nose to get out of joint on this thing.
That is the last thing I would want.

H.M.Jr: I will take care of that as best I can.

Crane: Yes.

White: Isn't that a pretty heavy price for wells that are producing only about 2,000,000 barrels a year and may produce two or three times that much, or would that be a reasonable price if the wells were located elsewhere.

Crane: Well, that price is based a good deal on the reserves that we figured there and we figured that the reserves in this particular field - \$30,000,000, and just as a rough guess there might be two or three other fields that would have that much, so that --

White: Which is in your concession.

Crane: That is right. We have got - I think we have all of the property south and west of the Danube. That is my recollection. As I say, the new well that has been brought in indicates, I think, a pretty good possibility of another field near this other one. It is a good full price, as far as that goes.

White: It should be.

H.M.Jr: I think the easiest way to do would be to do it by word of mouth, Merle. You could tell them that Mr. Crane came in, it is a matter of foreign exchange, how they are going to get the money out and so forth and so on and I have told them to go ahead and explore it and keep me posted, if that is agreeable to you (Crane).

Crane: Yes, that is exactly the way we wanted it.

White: There may be a possibility that after they get down to it they will want to pay most of it in credit.

H.M.Jr: Yes. Take a look at it, Jay, and turn it inside

- 11 -

out and see what it looks like. Now, does that close that, because I want to ask you something else?

Crane: Yes, I think that is all I have.

H.M.Jr: Take a look at it and Cochran will advise the State Department of that.

Now, what is all this in the paper about the Dutch East Indies, that the Japanese went home and all the rest of this? What is the inside on all of that?

Crane: When that story appeared in the paper because I wanted to keep you advised about it, I called up the Chairman of Standard Vacuum, who has the negotiations right in his hand; and he said there had been no more developments since my memorandum to you. He said that the last thing that happened was that the Standard Vacuum and the Shell made this counter proposal to the Japs, which I am quite sure I outlined in that memorandum.

H.M.Jr: That is right.

Crane: First, the Japs made the proposal. It was a big proposal, I forget the terms of it, and then we came back with a counter proposal and that is about where the matter stands today. I don't think the Minister going home has any particular significance, as I understand. It doesn't indicate -- I don't think it indicates any breakdown in the negotiations but this Standard Vacuum fellow said that that was the situation, that you were informed as to the latest developments and he promised to give me a memorandum the minute anything happened.

H.M.Jr: And nothing has happened?

Crane: And nothing has happened.

H.M.Jr: Did you check before you came down?

Crane: Oh, I talked to him two or three days ago, something like that.

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H.M.Jr: All right.

Crane: I have got that very much in mind.

H.M.Jr: That is a very interesting thing and I would like to be -- as long as you have consulted me I would like to be kept informed.

Crane: Sure.

White: How much of the properties could be destroyed if the proper price was paid?

Crane: What I understand, when it comes to destroying properties like that, you can mess up the wells, you can put concrete and tools and everything under the sun in your wells, but they can always drill another well alongside and it isn't a very big job to drill a new well. I mean, even if these present wells were all plugged up, the Germans could come in there and - I don't know, it takes us 30 to 60 days, I think, in most formations, something like that.

H.M.Jr: I was awfully glad to see you. You got the answer you wanted for a moment.

Crane: Sure. We will send a cable back to them and develop it further. (Mr. Crane left the conference.)

H.M.Jr: Yes. When you go over there, see, I would tell them that I have very, very secretly advised the British through Purvis of this.

Cochran: Yes.

H.M.Jr: See, just so that they know.

White: I think you ought to mention it to the President when you get a chance. Standard Oil selling oil wells to Germany --

H.M.Jr: There is nothing to tell him right now. I mean, where is the money and what are the conditions and all the rest.

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Cochran: It would be interesting to see where the money is coming from.

White: The fact that they are willing to pay that much in cash --

H.M.Jr: Now, wait a minute. They don't know the price. All they said is in dollars. When they say \$30,000,000 - the English said, "Didn't you mean \$13,000,000?"

White: I say this is a stiff price. He admitted it.

H.M.Jr: The English said, "Don't you mean \$13,000,000?"

White: That is a good price, but as long as they are going to sell it --

Cochran: They could --

White: It will help to pay for something in Romania.

H.M.Jr: It is a very curious thing but I it is much better to tell the State Department, you see.

Cochran: Surely.

White: I think, too, you might want to tell either the Army or the Navy Intelligence, because of its military implications, that they seem to be dickering to purchase instead of taking it over. They might like to have that information.

H.M.Jr: Yes, I can do that.

October 24, 1940
4:11 p.m.

H.M.Jr: have you got a pencil?

J. Edgar
Hoover's
Secretary:

Yes, I have.

H.M.Jr:

There's a concern that does business here by the name of I. G. - I mean, the first name is I., G. is the second - Farbern - F-a-r-b-e-r-n - Industry.

S:

All right.

H.M.Jr:

It's the German Dye Trust.
They have offices somewhere here in the United States. Hello?

S:

Yes.

H.M.Jr:

And I have very good reason to believe they've got a big deal on with the parent Company of Germany and I'd like Mr. Hoover to have his people find out all they can about the American Company.

S:

All right.

H.M.Jr:

It's I. G. Farbern - F-a-r-b-e-r-n Industry.

S:

Yes.

H.M.Jr:

And if he could find out all about the people and their connections - it's an enormous deal if it should go through.

S:

Yes. Now, I'll get the word to him just the minute he comes in and do you want him to call you too?

H.M.Jr:

No, no, just get it started.

S:

I'll just get him started on it.

H.M.Jr:

Thank you.

S:

All right.

DEPARTMENT OF STATE

WASHINGTON

October 24, 1940

reply refer to
840.51 Frozen Credits/726

My dear Mr. Secretary:

I enclose herewith a copy of a communication from the Australian Legation, dated October 16, 1940, stating that the Legation has been instructed by His Majesty's Government in the Commonwealth of Australia to request that the exemptions under the provisions of General Ruling No. 5, issued under Executive Order No. 8389 of April 10, 1940, as amended, now accorded in respect of securities imported from Great Britain, Canada, Newfoundland and Bermuda, be extended to include the Commonwealth of Australia.

Unless the Treasury Department perceives objection thereto, this Department would favor the granting of this request.

Sincerely yours,

(s) Cordell Hull

Enclosure:

From Australian Legation,
October 16, 1940.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

BFN

COPY

COPY

October 16th, 1940

Sir,

I have the honour, under instructions from His Majesty's Government in the Commonwealth of Australia, to refer to restrictions placed upon dealings in securities from certain foreign countries under General Ruling No. 5, issued under United States Executive Order No. 8389 of 10th April 1940 as amended, as a result of which considerable delay has been caused to Australian citizens and business organizations in completing share transactions.

General Ruling No. 5 prohibits, inter alia, the sending into the United States from any foreign country of any securities, except on condition that these securities are delivered for examination to a Federal Reserve Bank. The securities are thereupon to be held by the Bank until the Treasury Department is satisfied as to whether or not any of the countries named in the Order, or any national thereof, has since the dates specified in the Order had any interest in such securities.

On 7th June 1940 the Secretary of the Treasury announced that, until further notice, securities coming to the United States from Great Britain, France, Canada, Newfoundland or Bermuda need not be forwarded to a Federal Reserve Bank for examination. The exemption as regards France was subsequently rescinded as from 17th June 1940.

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In view of the delay caused to Australian citizens and business organizations under the provisions of General Ruling No. 5, and the announcement of exemptions from the operation to this Ruling in respect of Great Britain, Canada, Newfoundland and Bermuda, I have the honour to request, under instructions from my Government, that the exemptions from the operation of General Ruling No. 5 already granted be extended to include the Commonwealth of Australia.

I have the honour to be,

With the highest consideration,

Sir,

Your obedient servant,

(SGD) R. G. Casey

The Honourable

Cordell Hull,

Secretary of State of the United States,

Washington, D. C.

bfn

FEDERAL RESERVE BANK
OF NEW YORK

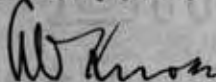
October 24, 1940.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

Pursuant to Mr. Cochran's request, I enclose our weekly compilation, showing dollar disbursements out of the British and French accounts at this bank and the means by which these expenditures were financed. An explanation of the procedure used in compiling these data was given in our letter of October 1, 1940. Similar tabulations will, in the future, be forwarded each week.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosure

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Strictly
Week Ended **October 16, 1940** Confidential

PERIOD	BANK OF ENGLAND									BANK OF FRANCE						
	C R E D I T S					D E B I T S				C R E D I T S				D E B I T S		
	Total	Proceeds of Sales of			Other (incl. adjust-ments)	Total	Gov't Expend-itures(c)	Other	Net Incr. (+) or Decr. (-) in Balance	Total	Proceeds		Total	Gov't Expend-itures(d)	Other	Net Incr. (+) or Decr. (-) in Balance
		Gold	Securities Registered								Gold Sales	Other				
			(Est.)(a)	Sterling(b)												
1939																
Aug. 31 - Sept. 27	207.8	185.4	33.6	-	-11.2(e)	94.3	3.6	90.7	+113.5	11.3	-	11.3	19.4	6.0	13.4	- 8.1
Sept. 28 - Nov. 1	142.0	3.2	82.6	-	86.2(f)	106.7	5.8	100.9	+ 35.3	76.2	35.0	41.2	88.6	61.6	105.4	- 12.4
Nov. 2 - 29	105.8	57.8	25.0	-	23.0	191.7	8.9	182.8	- 85.9	82.9	55.1	27.8	78.6			+ 4.5
Nov. 30 - Jan. 3	75.2	50.6	14.2	-	10.4	97.7	8.7	89.0	- 22.5	109.2	93.9	15.3	86.6	28.1	58.7	+ 22.4
1940																
Jan. 4 - 31	43.4	20.6	17.8	-	5.0(g)	54.6	16.8	38.0	- 11.4	55.9	50.1	5.8	61.5	31.6	30.0	- 5.6
Feb. 1 - 28	108.3	56.7	17.9	-	33.7	124.2	15.4	108.8	- 15.2	71.5	54.8	16.7	72.7	32.8	39.9	- 1.2
Feb. 29 - Apr. 3	94.0	60.9	21.5	-	11.6(h)	115.5	14.5	101.0	- 21.5	105.0	75.4	29.6	99.6	35.9	63.7	- 5.4
Apr. 4 - May 1	86.4	46.8	13.4	-	26.2(i)	113.4	26.1	87.3	- 27.0	78.7	60.7	18.0	84.8	29.4	55.4	- 6.1
May 2 - 29	126.2	93.2	7.1	-	25.9	100.9	23.6	77.3	+ 25.3	145.4	126.2	19.2	101.4	57.0	44.4	+ 44.0
May 30 - July 3	319.3	301.3	5.1	-	12.9	283.2	145.3	137.9	+ 36.1	345.1(j)	335.6	9.5(j)	156.7(j)	127.3(j)	29.4	+188.4
July 5 - 31	225.0	212.2	2.0	2.8	8.0	249.7	156.7	93.0	- 24.7	3.2	3.0	0.2	7.3	6.3	1.0	- 4.1
Aug. 1 - 28	294.8	267.4	1.0	2.4	24.0(k)	261.1	180.2	80.9	+ 33.7	10.9	10.4	0.5	8.9	0.5	8.4	+ 2.0
First year of war	1,828.2	1,356.1	211.2	5.2	255.7	1,793.2	605.6	1,187.6	+ 35.0	1,095.3	900.2	195.1	866.3	416.6	449.7	+229.0
Aug. 29 - Oct. 2	308.9	271.5	6.0	1.1	30.3(l)	316.8	244.3	72.5	- 7.9	1.3	-	1.3	8.6	4.4	4.2	- 7.3
Oct. 3 - 30																
Oct. 31 - Nov. 27																
Nov. 28 - Dec. 31																
WEEK ENDED:																
Sept. 25	60.2	50.8	2.0	0.1	7.3	98.0	86.1	11.9	- 37.8	0.3	-	0.3	0.4	0.2	0.2	- 0.1
Oct. 2	58.6	52.1	-	0.2	6.3	62.2	50.5	11.7	- 3.6	0.6	-	0.6	4.0	3.8	0.2	- 3.4
9	59.2	48.9	2.0	0.2	8.1	52.4	44.1	8.3	+ 6.8	0.2	-	0.2	0.2	0.1	0.1	-
16	20.0	9.4	-	-	10.6(m)	45.4	41.3	4.1	- 25.4	0.2	-	0.2	0.2	0.1	0.1	-

Average weekly expenditures since outbreak of war:
 France (through June 19) \$19.6 million
 England (through June 19) \$27.6 million
 England (since June 19) 61.6 million

Transfers from British Purchasing Commission to
 Bank of Canada for French account:

Week ended \$ 0.1 million
 Cumulation from July 26 65.1 million

(See footnotes on reverse side.)

- (a) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (b) Includes proceeds of sales of "registered" sterling in this market only.
- (c) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Includes adjustment for (a) above.
- (f) About \$85 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$8 million transferred from accounts of British authorized banks with New York banks.
- (i) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (j) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (m) Includes \$7 million received from account of Commonwealth Bank of Australia, which in turn acquired \$6.3 million through sale of gold.

OFFICE OF THE
TECHNICAL ASSISTANT
TO THE SECRETARY

840 OCT 25 AM 11 07

RECEIVED
TREASURY DEPARTMENT

COPY

271

BRITISH EMBASSY,
WASHINGTON.

24th October 1940.

Dear Merle,

I enclose an extract from the minutes of a meeting which took place at our Treasury in London on the 1st October. I am not sending you this on instructions but on my own initiative in order to keep you au courant, and I would be glad therefore if you would regard this as quite unofficial.

I will leave it to you to judge whether the Secretary would be interested in seeing this.

Yours ever,

(Signed) Jerry Pinsent

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

Extract from Minutes of a meeting at the Treasury, London,
on the 1st October 1940.

Present: Sir Frederick Phillips (Treasury),
 Lord Catto. (Treasury).
 Mr. Bernard. (Bank of England)
 Mr. Carlyle Gifford.
 Mr. Rowe-Dutton. (Treasury)
 Mr. fforde.

The question of substituting securities for the large cash deposits made in the United States by certain Insurance Companies was considered. It was thought that these deposits were of the order of £13 - £14 mn. and that they were in addition to the deposits required by Law in the United States as a condition of carrying on Insurance business. The details of the conditions under which the deposits were made were not clear. Mr. Rowe-Dutton said that it would be helpful to know what securities would be accepted, what steps should be taken to provide them, and with whom the negotiation should be conducted. Lord Catto suggested that even if short-dated Bonds were normally required, it might be possible to arrange the deposit of equities, if an adequate margin were offered. Mr. Bernard agreed to discuss the question with the Deputy-Governor of the Bank of England.

On the subject of South American investments, which was under consideration with the Bank of England, Lord Catto mentioned that, while the Americans had expressed interest in general, they had not studied the question closely, and, when they did so, might prove less anxious to acquire the holdings. Mr. Gifford asked what the reaction of the South American Governments would be to a sale to the U.S.A., particularly in relation to the effect on Exports from the countries concerned to the United Kingdom. Lord Catto thought the reaction would be hostile to the proposal. Sir Frederick Phillips said that the attitude of these Governments would be very much affected by the possibility of credits from the United States: there would be opposition to and dislike of the sale; and for this and other reasons it was doubtful if the Americans would buy. As Lord Catto indicated, and Mr. Gifford agreed, it would be necessary to sell the assets, not the securities. There would in many cases be concessional difficulties. What was needed was a detailed study of the position, which would probably show that, with three or four exceptions, - for example the Forestal Company - the sale was not a practical possibility. Lord Catto and Mr. Bernard agreed to arrange for the preparation of a full report on this question.

- 2 -

Mr. Rowe-Dutton reported on the following points:-

- (a) The Indian Government proposed a vesting order. Mr. Gifford would co-operate in cabling prices. The total registered was about \$6¹/₂ million, but vesting would only apply to securities which we were prepared to take over and resell.
- (b) The date of the next U. S. security vesting was not fixed. There was no immediate urgency. It would, however, be difficult in present conditions, to deal with two vestings within a month.
- (c) We proposed to make a particular vesting order to deal with certain Canadian Dollar Securities:
- (d) As also with securities which, being registered subsequently to the existing U. S. vesting orders, had not been brought in by those orders:
- (e) And, if required to enable the Insurance Companies' Dollar deposits to be released, a vesting order for the Bonds or Shares selected for that purpose.

Mr. Bernard agreed that the Bank of England would have no difficulty in dealing with the last three subjects. The number of accounts involved was comparatively small.

copy

pf

October 24, 1940

My dear Mr. Secretary:

I have received the attached memorandum and covering letter from the British Purchasing Commission, concerning the deferment of certain Consolidated airplanes on the part of the United States Army and Navy and the deferment of certain aircraft engines which are on order for the account of the British Government.

It is my understanding that detailed delivery schedules will be discussed and agreed upon at the next meeting of the Joint Aircraft Standardization Committee.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy.

Enc.
FI:bj

P.Y.

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Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable William S. Knudsen,
Member, The Advisory Commission to
the Council of National Defense,
Federal Reserve Building,
Washington, D. C.

bnc.
PT:bj

24-

October 24, 1940

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Federal Reserve Building,
Washington, D. C.

PY:bj

COPY

Willard Hotel, Washington, D. C. Telephone Republic 7860

BRITISH PURCHASING COMMISSION

October 23, 1940

Philip Young, Esq.
President's Liaison Committee
Treasury Department
Washington, D. C.

Dear Mr. Young,

In accordance with the request of the Secretary to Mr. Purvis yesterday, I am sending you herewith a memorandum covering our acceptance of a recent proposal by the U. S. Army for an exchange of deferred deliveries of B24 aircraft and 1820 engines.

Very truly yours,

(Signed) C. T. Ballantyne

Charles T. Ballantyne

COPY

AIDE MEMOIRE

To meet urgent war needs for large bombers, it had previously been arranged to grant the British deliveries of one for one with the United States on B-24 bombers made by CONSOLIDATED, which, according to production schedules then presented, was expected to result in their obtaining 26 of such aircraft by May 1, 1941. In return, the British authorized WRIGHT to defer delivery of 120 Wright 1820 engines and divert said engines to the United States Army. Ten engines have already been delivered.

It was later found that, owing to the state of production at the Consolidated plant, the ratio of one to one would not result in the British receiving the expected number of machines by the date given, and arising from this, the United States Army has offered to authorize Consolidated to deliver to the British the first 26 B24 aircraft, complete with engines, guns and military equipment. This, it is expected, will result in a delivery to the British of 6 by January 10th and the total of 26 by May 1st, 1941. In return, the British are asked to instruct Wright to defer delivery to them of a further 154 1820 engines which are to be diverted to the United States Army. The schedule of these engine deliveries is to be agreed at the meeting of the Engine Allocation Committee on Thursday next, and it is understood that this schedule will be so arranged as to cause a minimum dislocation to the British effort to get the maximum number of combat planes in the air at the earliest possible moment.

- 2 -

Following the Allocation meeting, a detailed statement will be filed, giving:-

- (1) A schedule of the deliveries of the 274 engines to the United States Army;
- (2) A schedule of the return of the engines by the United States Army to the British, at later dates;
- (3) A schedule of deliveries of the B-24 aircraft to the British;
- (4) Proposed deliveries by the British to the United States Army of an equal number of equivalent type planes at a later date, to replace the B-24's;
- (5) The number of British aircraft that will in consequence of the deferment of engine deliveries to the British be held up for lack of engines.

The British Purchasing Commission accepts this proposal.

WASHINGTON
October 23
1940

October 24, 1940

My dear Mr. President:

To keep you posted on the latest moves between the Army, Navy and the English Purchasing Mission, I am sending you a copy of the Aide Memoire furnished me by Arthur Purvis, head of the Mission.

Yours sincerely,

The President,
The White House.

Enclosure.

October 24, 1940

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Enclosure.

Hamp. Lamm
 sec. - alt. copy
 PL
 10/23/40

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WASHINGTON
 October 23
 1940

WILLARD HOTEL, WASHINGTON, D. C.



TELEPHONE REPUBLIC 7860

BRITISH PURCHASING COMMISSION

*sent to Pres by letter
10/24/40*

October 23, 1940

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President's Liaison Committee
Treasury Department
Washington, D.C.

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Very truly yours,

C.T. Ballantyne

Charles T. Ballantyne

RECEIVED

OCT 23 1940

Office of Philip Young
Treasury Department

October 24, 1940

My dear Mr. Secretary:

Last July several conferences were held in my office in order to discuss and consider a request by the British for an aircraft capacity in the United States of 3000 planes per month. This request was referred to Mr. William S. Knudsen of the Advisory Commission to the Council of National Defense for detailed study.

Shortly thereafter, Mr. Knudsen submitted to the British two plans for the creation of additional aircraft production capacity, one based upon a rate of 3000 planes per month, and another based upon a rate of 1250 planes per month. It was thought that, although the 3000 plane per month program might be possible in the future, the 1250 plane per month program was more practical from an immediate point of view.

These two plans were carefully studied by the British Purchasing Commission, and the attached memorandum, which was submitted by Sir Walter Layton, not only discusses the plans in detail, but also outlines certain modifications which the Government of the United Kingdom would like to suggest.

After you have had the time to go over this material, I would greatly appreciate it if we could have an informal discussion concerning this matter.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of War.

Enc.
FY:bj

24

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The Honorable,

The Secretary of War.

PF:bj

October 24, 1940

My dear Mr. Secretary:

Last July several conferences were held in my office in order to discuss and consider a request by the British for an aircraft capacity in the United States of 2000 planes per month. This request was referred to Mr. William S. Knudsen of the Advisory Commission to the Council of National Defense for detailed study.

Shortly thereafter, Mr. Knudsen submitted to the British two plans for the creation of additional aircraft production capacity, one based upon a rate of 2000 planes per month, and another based upon a rate of 1250 planes per month. It was thought that, although the 2000 planes per month program might be possible in the future, the 1250 planes per month program was more practical from an immediate point of view.

These two plans were carefully studied by the British Purchasing Commission, and the attached memorandum, which was submitted by Sir Walter Layton, not only discusses the plans in detail, but also outlines certain modifications which the Government of the United Kingdom would like to suggest.

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of Commerce.

P.H.
6-10
PT:63

October 34, 1940

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Sincerely,

(Signed) H. Morgenthau, Jr

The Honorable,

The Secretary of Commerce.

PY:bj

*Original Handwritten
Lec. Knudsen by H.M.F.
11:16 AM, 10/24/40
Dy.*

October 24, 1940

291

My dear Mr. Secretary:

Last July several conferences were held in my office in order to discuss and consider a request by the British for an aircraft capacity in the United States of 3000 planes per month. This request was referred to Mr. William S. Knudsen of the Advisory Commission to the Council of National Defense for detailed study.

Shortly thereafter, Mr. Knudsen submitted to the British two plans for the creation of additional aircraft production capacity, one based upon a rate of 3000 planes per month, and another based upon a rate of 1200 planes per month. It was thought that, although the 3000 planes per month program might be possible in the future, the 1200 plane per month program was more practical from an immediate point of view.

These two plans were carefully studied by the British Purchasing Commission, and the attached memorandum, which was submitted by Sir Walter Layton, not only discusses the plans in detail, but also outlines certain modifications which the Government of the United Kingdom would like to suggest.

After you have had the time to go over this material, I would greatly appreciate it if we could have an informal discussion concerning this matter.

Sincerely yours,

The Honorable,

The Secretary of the Navy.

77(b)j
Dy.

292
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The Honorable,

The Secretary of the Navy.

PT:bj

213

**ENHANCED JOINT ANGLO AMERICAN SCHEME FOR CREATION OF
FURTHER AIRCRAFT PRODUCTION CAPACITY.**

I. INTRODUCTION.

During the course of July 1940, it became clear that aircraft programmes already in train in the United States of America would not yield a sufficient complement to aircraft production in the United Kingdom to re-ensure the growth of U.K. air strength on the scale necessary to guarantee the successful conclusion of the war with Germany. Arising out of a meeting held by Secretary Morgenthau on Tuesday, July 23rd, representations were accordingly made to the U.S. Administration as to the possibility of creating further capacity in the U.S.A. which would yield a programme of additional deliveries during the course of 1941 and work up to a production peak during the course of 1942. The situation was further reviewed in consultation with Secretaries Morgenthau, Knox, and Stimson, and with the President's Liaison Committee, on Wednesday, July 24th 1940, and specific application was made for allocation of additional capacity for an output of 3,000 aircraft per month. The possibility of such a scheme was welcomed and Mr. Knudsen, of the National Advisory Council on Defence, was requested to prepare a scheme to give effect to the proposal.

II THE NEW PLAN

1. Mr. Knudsen accordingly prepared the plan reviewed in Annexure I to this paper, basing it upon a provisional distribution of the total of 3,000 aircraft given by the U.K. representatives at the meeting in question.

In preparing these proposals, Mr. Knudsen indicated that he would prefer to approach the problem in two stages, and he accordingly formulated a smaller scheme for 1,250 aircraft per month, which he deemed practicable of execution by the end of 1941, leaving the expansion of such a scheme into one for the larger total of 3,000 aircraft per month for subsequent initiation and development as progress with the first instalment might warrant.

2. In examining the proposals, the U.K. Government consider that there are certain modifications which it is desirable to make, such as -

- (a) Sufficient capacity is not included for provision of spare parts and spare engines and they would propose to increase the capacity allocated to such production so as to ensure the availability of 20% airframe parts, 20% spare engines and 15% spare engine parts, with corresponding provision for spares for ancillary equipment.
- (b) They desire to revise the number of aircraft in each category with principal reference to a possible reduction in the number of Flying Boats and an increase in the number of heavy bombers. The precise determination of these revisions would seem to be a matter for joint technical discussion, in the first place. Meanwhile, it is suggested that the framework of Mr. Knudsen's proposals adequately covers the situation in terms of financial cost since any adjustments of types or increased allocation of capacity under sub-paragraph (a) above would be by way of substitution within the existing cost estimates.

- 3 -

- (c) Mr. Knudsen's initial scheme does not include provision for trainers, whereas the larger scheme includes 300 twin engine trainers per month and 200 single engine trainers per month. The U.K. Government are prepared to rely upon U.K. and British Commonwealth production of current British twin engine trainer types during the initial scheme, but they desire to include provision for 250 single engine Harvard trainers in the initial scheme, thus making the total of aircraft envisaged by that scheme 1,500 per month.
- (d) The plan does not cover the cost of provision for additional capacity for armament, ammunition, bombs, radios and special equipment which would be needed to balance up such a scheme. It is suggested that allowance for these items would involve an additional capital expenditure of roughly \$60,000,000 to the initial scheme and a similar sum as and when the second half of the 3,000 per month scheme is implemented.

III INITIATION OF NEW PLAN

1. The U.K. Government are anxious that the proposed scheme should be initiated as soon as possible in two stages as contemplated by Mr. Knudsen.
2. If the initial scheme for 1,500 per month (including 250 Harvard trainers) were started forthwith, it might permit production deliveries to commence in the summer of 1941, and work to the peak of 1,500 aircraft per month by the spring of 1942.
3. It is suggested that a time programme of this order would involve initial production orders equivalent to 9,000 aircraft complete with all equipment and associated

- 4 -

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supplies. This production programme would cover deliveries to be achieved by the end of June 1942, and in total would be equal to half the total output which would thereafter be achieved from the capacity so created, working at peak production over a period of 12 months. It is suggested that such an initial order would be adequate for implementing the scheme, provided it could be coupled with suitable options to cover subsequent production.

4. Subsequent maintenance of production of this initial capacity would involve orders for 18,000 aircraft per annum.

5. It is no doubt premature to attempt any forecast of the stage when the fuller scheme might be implemented, but it might be practicable to release the second half of the scheme about the middle of 1941, with a view to production deliveries starting in the spring of 1942, working up to peak output by the end of that year. In that event, the second half of the scheme would involve capital expenditure and initial production orders approximately eight months later than those for the first half.

6. Annexure II attached hereto attempts a speculative forecast of the delivery schedules envisaged under the programmes discussed above.

IV

JOINT PLANNING AND TECHNICAL COMMITTEES

1. To facilitate progress with the scheme it is suggested that joint planning and technical committees should be established analogous to those already functioning in connection with current programmes.

2. The Joint Planning Committee will be actively concerned -

- 5-
- (a) with the planning of the scheme in co-ordination with arrangements already in train on behalf of the two Governments under their respective air programmes; and
- (b) to crystallize out the phases of the scheme in their order of urgency for implementation.
- 297

3. The Joint Technical Committee would be especially concerned with standardisation of aircraft and equipment types so as to ensure the full advantages of production on common types as well as the employment of the new capacity upon the production of aircraft not only competent for employment under war conditions in Europe but also fully efficient for purposes of U.S. defence.

V. ELIMINATION OF BOTTLE-NECKS

1. If Joint Committees could be brought into being as indicated in the previous section, it is thought that they would quickly reveal the fundamental need for clearing certain bottlenecks which are extremely urgent under the time programme. These especially concern -

- (a) the production of raw materials and their fabrication;
- (b) the manufacture of machine tools; and
- (c) the production of engines and guns.

2. The problems under paragraph 1(a) above are of the first importance. For example, U.K. experience since 1934 has demonstrated the urgent necessity for ensuring adequate supplies of aluminium and their fabrication into light alloys. The necessity for this is recognised in Mr. Knudsen's proposals which cover, inter alia, the creation of new capacity for light alloy fabrication. It is assumed that, as no proposals were included in his plan for creation

of new capacity for the production of the virgin metal, U.S.A. capacity in that direction will be adequate for the scheme. But the creation of fabricating capacity has been found, in England, to be a lengthy process with special reference to the time required for manufacture of heavy extrusion presses. Until this fabricating capacity is in existence the supply of materials to the aircraft manufacturing firms cannot commence. The construction of new aircraft factories can thus follow some months after the initiation of the creation of new fabricating capacity for those materials. It is probable that U.S. technique will improve, for example, upon the period of nine months found necessary in England for the manufacture of extrusion presses, but even so the time factor will be governed by the speed with which capacity can be brought into operation for supply of light alloys and other materials to the aircraft plants.

3. Mr. Knudsen's initial scheme envisages an expenditure of \$310,000,000 on machine tools. The total will be increased to roughly \$350,000,000 by the inclusion of machine tools for guns and ancillary equipment. A corresponding figure would be involved as and when the initiation of the second half of the full 3,000 per month scheme becomes practicable. It would seem that these schemes will involve a serious drain upon the resources of the machine tool industry in the U.S.A. and thus call for special action to expand the capacity of the machine tool manufacturers. If this proves to be the case, the time factor again is seriously affected and the elimination of this battle-neck on the provision of machine tools for the aircraft factories becomes a matter of first importance.

4. The third bottle-neck is the creation of new capacity for engine and gun production. In general, the time required for bringing new engine and gun factories into production is found to be roughly three months longer than that required for airframe factories. It would thus be of real advantage to the scheme if a first authority could be given for the creation of new capacity for engines, guns and other similar supplies which require longer periods before they can come into production, as compared with airframe production.

5. It is suggested that the Joint Planning Committee should address themselves actively to these bottle-necks in the first instance, realising that the products from such capacity are common to whatever types of aircraft may ultimately be adopted under the scheme. If action could be taken to clear these bottle-necks first, it would leave a breathing space for starting up the rest of the scheme as and when the technical problems are cleared.

VI

INITIAL BLOCK OF ORDERS FOR U.K. GOVERNMENT

1. In U.K. experience, it is always difficult to forecast accurately the date of introduction of new aircraft types. Unforeseen design difficulties have almost invariably involved substantial delays in the entry of these types into full production.

2. It is realised that very promising new types of U.S. design are now emerging and that they are expected to come into production during 1942. Normally the scheme under discussion herein would most appropriately be related

to such new types. The U.K. Government nevertheless desires the initial block of orders for 9,000 aircraft, discussed in Section III(3) above to be ordered to 1941 types, seeing that it is hoped to achieve delivery between July 1941, and June 1942. In this way they would secure a substantial contribution to their war effort during the critical period, whereas postponement of production to achieve 1942 types would not only involve loss on initial deliveries but also serious risk of not obtaining actual deliveries of the new types until the second half of 1942.

3. Apart from the impracticability of accepting this risk as also of waiving the possibility of deliveries before the end of 1941, the U.K. Government represent that it is impracticable to bring new capacity into existence for full-scale production of new types without the organisation being built up and new labour effectively trained on preliminary orders for current standardised types. They thus submit that the placing of the proposed initial block of orders for 1941 types would enable the training of labour and the building up of the new capacity to be effectively achieved with subsequent real advantage to the production of 1942 types. The U.K. Government request that the Joint Committees may be guided in their activities by this fundamental desideratum.

VII

CONCLUSION.

The U.K. Government seek the approval of the U.S. Government for the setting up of Joint Committees as proposed above with a view to the immediate prosecution of the proposed scheme on the lines indicated.

October 14th 1940.

Regraded Unclassified

MR. KNUDSEN'S ESTIMATES

301

FOR THE

1,000 PLANES PER MONTH PROGRAM

1. REQUIREMENTS

Type	No. of Engines per Plane	No. of Planes per Mo.	No. of Engines per Mo.
a. Heavy Bombers	4	250	1,000
b. Medium Bombers	2	600	1,200
c. Patrol Boats	2	250	500
d. Dive Bombers	1	400	400
e. Pursuit	2	400	800
f. Pursuit	1	600	600
g. Trainers - Adv.	2	300	600
h. Trainers - Adv.	1	200	200
TOTALS		3,000	5,300
Spare Parts (10%) in terms of complete units		300	530
TOTAL		3,300	5,830

2. FACILITIES

	Delivery Units per Month	No. of Plants	Total Floor Area - Million sq.ft.	Total Em- ployees - Thous- ands	Total Cost of Facilities in \$1,000,000		
					Build- ings	Machine Tools	Total
a. Airframes	3,300	15	33.2	332	116	266	382.
b. Engines	5,830	6	15.0	75	52.5	240	292.5
c. Propellers	5,830	2	1.8	14.4	6.3	27.0	33.3
d. Miscellaneous	-	23	18.6	130.6	58.5	113.8	172.3
TOTAL		46	68.6	552.0	233.3	646.8	880.1

3. FACILITY COST

Airframes	\$382,000,000
Engines	292,500,000
Propellers	33,300,000
Miscellaneous Parts	172,300,000
GRAND TOTAL	\$880,100,000

Prepared by Aeronautical Section,
National Defense Advisory Commission, T.P.W., A.E.L.
July 25, 1940.

	Delivery Units per Month	No. of Plants	Total Floor Area sq.ft. Mill.	Total em- ployees Thous- ands	Cost of Facilities Millions of Dollars		
					Build- ings	Machine Tools	TOTAL
A. Airframes							
1. Heavy Bomber	4 eng.	275	2	8	80.	64.	92.0
2. Medium "	2 eng.	660	3	9	90.	72.	103.4
3. Flying Boats		275	2	6	60.	48.	69.0
4. Dive Bombers		440	2	2.7	27.	22.	31.4
5. Pursuit Planes	2 eng.	440	2	3.6	36.	29.	41.5
6. Pursuit Planes	1 eng.	660	2	2.4	24.	19.	27.4
7. Adv. Trainers	2 eng.	330	1	1.	10.	8.	11.5
8. " "	1 eng.	220	1	0.5	5.	4.	5.8
Total Airframes	3,300	15	33.2	332.	116.	266.	382.0
B. Engines							
1. Wright Aero.		2,090	2	6.	30.	96.0	117.0
2. Pratt & Whitney		2,420	2	6.	30.	96.0	117.0
3. Allison		660	1	2.	10.	32.0	39.0
4. Lycoming		660	1	1.	5.	16.0	19.5
Total Engines	5,830	6	15.	75.	52.5	240.	292.5
C. Propellers							
1. Hamilton-Standard		3,200	1	0.9	7.2	13.5	16.7
2. Curtiss-Wright		2,630	1	0.9	7.2	13.5	16.6
Total Propellers	5,830	2	1.8	14.4	6.3	27.	33.3
D. Miscellaneous							
1. Aluminum Sheet	12,000 tons	1)	10.0	30.0	30.0	50.0	80.0
2. " Cast. & Forg.	3,000	2)	"	"	"	"	"
3. Magnesium Castings	"	"	"	"	"	"	"
4. Steel Forg. (Rods, Shafts, Gears)		2	0.6	3.5	3.5	8.5	12.0
5. " Forg. (Cylinders)	88,000	**	**	**	**	**	**
6. Propeller Hub Forg.	-	1	0.2	0.9	1.0	2.0	3.0
7. Bearings C/L	-	1	0.2	3.0	0.6	1.1	1.7
8. Valves	5,000 sets	1	0.3	4.5	1.2	3.8	5.0
9. Carburetors	5,830)						
10. Magnetos	11,860)	2	2.	27.0	6.0	14.	20.0
11. Starter & Generator	5,830)						
12. Shielding Harness	5,200	1	0.4	5.3	1.2	1.6	2.8
13. Exhaust Manifolds	4,600	2	0.6	4.0	2.1	3.0	5.1
14. Radiators & Oil Coolers	3,300	1	0.2	2.0	0.6	0.8	1.4
15. Hydraulic pumps, etc.	12,000	2	0.2	2.7	0.6	1.4	2.0
16. Turbo Superchargers	2,000	2	1.0	13.5	3.0	7.0	10.0
17. Landing Gear Struts	3,300 prs	2	0.8	6.4	2.4	6.4	8.8
18. Wheels & Brakes	6,600	1	0.1	0.8	0.3	0.2	0.5
19. Instruments & Auto Pilots	3,000 sets	4	2.0	27.0	6.0	14.0	20.0
Total Misc.		25	18.6	130.6	58.5	113.8	172.3
GRAND TOTAL		48	68.6	552.0	233.3	646.8	880.1

* No data available. Use of magnesium insignificant.
 ** Cost of facilities (approx. \$5,000,000) not included in totals.
 Prepared by Aeronautical Section, National Defense Advisory Commission,
 T.P.W.A.E.L.

MR. KNUDSEN'S ESTIMATES FOR AN
INITIAL SCHEME COVERING A
1,250 PLANES PER MONTH PROGRAM

1. REQUIREMENTS

Type	No. of Engines per plane	No. of Planes per mo.	No. of Engines per mo.
a. Heavy Bombers	4	125	500
b. Medium Bombers	2	300	600
c. Patrol Boats	2	125	250
d. Dive Bombers	1	200	200
e. Pursuit	2	200	400
f. Pursuit	1	300	300
Totals		1,250	2,250
Spare Parts (10%) in terms of complete units		125	225
TOTAL		1,375	2,475

2. SUMMARY OF FACILITIES

	De- livery Units per Month	Total Floor Area Mill. sq.ft.	Total Em- ployees Thous- ands	Cost of Facilities Millions of Dollars		
				Build- ings	Machine Tools	TOTAL
a. Airframes	1,375	15.9	159.0	47.7	127.0	174.7
b. Engines	2,475	7.0	35.0	24.5	112.0	136.5
c. Propellers	2,475	1.0	7.0	3.4	15.0	18.4
d. Miscellaneous	-	9.4	57.3	28.9	56.5	85.4
TOTAL		33.3	258.3	104.5	310.	415.0

July 29, 1940.

1,250 PLANES PER MONTH PROGRAM

3. DETAILS OF FACILITIES

	De- livery Units per Month	Total Floor Area Mill. sq.ft.	Total Em- ployees Thous- ands	Cost of Facilities Millions of Dollars		
				Build- ings	Machine Tools	TOTAL
A. Airframes						
1. Heavy Bomber 4 eng.	138	4.0	40.	12.0	32.0	44.0
2. Medium " 2 eng.	330	4.5	45.	13.5	36.0	49.5
3. Flying Boats	137	3.0	30.	9.0	24.0	33.0
4. Dive Bombers	220	1.4	14.	4.2	11.0	15.2
5. Pursuit Planes 2 eng.	220	1.8	18.	5.4	14.5	19.9
6. " " 1 eng.	330	1.2	12.	3.6	9.5	13.1
Total Airframes	1,375	15.9	159.	47.7	127.0	174.7
B. Engines						
1. Wright Aero.	1,045	3.0	15.0	10.5	48.0	58.5
2. Pratt & Whitney	1,100	3.0	15.0	10.5	48.0	58.5
3. Allison	330	1.0	5.0	3.5	16.0	19.5
Total Engines	2,475	7.0	35.0	24.5	112.0	136.5
C. Propellers						
1. Hamilton Standard	1,275	0.4	3.0	1.4	6.0	7.4
2. Curtiss-Wright	1,200	0.6	4.0	2.0	9.0	11.0
Total Propellers	2,475	1.0	7.0	3.4	15.0	18.4
D. Miscellaneous						
1. Aluminum Sheet	6,000 tons	5.0	15.0	15.0	25.0	40.0
2. " Cast. & Forg.	1,500 "	)				
3. Magnesium Castings	60	0.1	0.3	0.3	0.5	0.8
4. Steel Forg. (Rods, Shafts, Gears)		0.3	1.8	1.7	4.3	6.0
5. Steel Forg. (Cylinders)	40,000	0.2	0.3	0.7	1.4	2.1
6. Propeller Hub Forg	-	0.1	0.4	0.5	1.0	1.5
7. Bearings C/L	-	0.1	1.5	0.3	0.5	0.8
8. Valves	2,500 sets	0.2	2.2	0.6	1.9	2.5
9. Carburetors	2,500)					
10. Magnetes	5,000)	1.0	13.5	3.0	7.0	10.0
11. Starter & Generator	2,500)					
12. Shielding Harness	2,500	0.2	2.5	0.6	0.8	1.4
13. Exhaust Manifolds	2,500	0.2	1.8	0.8	1.2	2.0
14. Oil Coolers & Radiators	2,500	0.1	1.0	0.3	0.4	0.7
15. Hydraulic pumps, etc.	6,000	0.1	1.3	0.3	0.7	1.0
16. Turbo Superchargers	1,000	0.5	3.0	1.5	3.5	5.0
17. Landing Gear Struts	1,375 prs	0.4	3.2	1.2	3.2	4.4
18. Wheels & Brakes	2,750	0.1	0.5	0.1	0.1	0.2
19. Instruments & Auto Pilots	1,375 sets	0.8	9.0	2.0	5.0	7.0
Total Miscellaneous		9.4	57.3	28.9	56.5	85.4
GRAND TOTAL		33.3	258.3	104.5	310.5	415.0

ANNEXURE IITENTATIVE FORECAST OF AIRCRAFT DELIVERIES
FROM THE U.S.A. FOR THE U.K. GOVERNMENT

MONTH	CURRENT PROGRAMMES	NEW SCHEME (1ST INSTALMENT)	TOTAL
July 1941	750	50	800
Aug. "	750	100	850
Sept. "	750	200	950
Oct. "	750	300	1,050
Nov. "	750	400	1,150
Dec. "	750	550	1,300
Jan. 1942	750	750	1,500
Feb. "	750	950	1,700
Mar. "	750	1,200	1,950
Apr. "	750	1,500	2,250

NOTES: (1) Deliveries under the First Instalment of the New Scheme would total 9,000 aircraft by end of June 1942, and this would represent the first production order to be placed.

(2) In addition to the aircraft deliveries shown above, engines would be exported to the U.K. at a rate of 400 per month rising to 950 by the end of 1941 and possibly to 1500 by the middle of 1942.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

STRICTLY CONFIDENTIAL

October 23. The Federal Bureau of Investigation reports that "information" has been received that the French Ambassador has received instructions to start collecting immediately all possible information on de Gaulle's sympathizers in the United States "in order to begin a merciless persecution of their families in France."

SK

October 24, 1940.

Dear Mr. Douglas:

Thank you for your letter of October 22nd, with the enclosed copy of a communication addressed to members of the Advisory Commission to the Council of National Defense. I have been interested in reading this.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Louis W. Douglas,
President, The Mutual Life Insurance
Company of New York,
34 Nassau Street,
New York, New York.

GHF/abs

October 24, 1940.

Dear Mr. Douglas:

Thank you for your letter of October 22nd,
with the enclosed copy of a communication addressed
to members of the Advisory Commission to the
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President, The Mutual Life Insurance
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24 Nassau Street,
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GHF/lbs

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(Signed) H. Morgenthau, Jr.

Mr. Louis V. Douglas,
President, The Mutual Life Insurance
Company of New York,
24 Nassau Street,
New York, New York.

OMF/abs

THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK

34 NASSAU STREET

NEW YORK

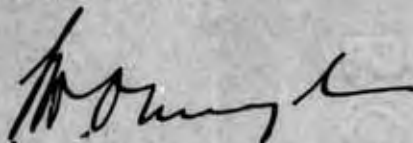
LEWIS W. DOUGLAS
PRESIDENT

October 22, 1940

Dear Mr. Secretary:

I am enclosing copy of a self-explanatory letter which I am today mailing to the members of the Advisory Commission to the Council of National Defense.

Very truly yours,



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

OFFICE
SECRETARY OF TREASURY

1940 OCT 23 AM 11 24

11:40

TREASURY DEPARTMENT

COPY OF LETTER ADDRESSED TO MEMBERS
OF THE ADVISORY COMMISSION TO THE
COUNCIL OF NATIONAL DEFENSE

311

October 22, 1940

Dear Mr. _____

The government has launched a program to provide this country with adequate armament and facilities for armament production. The speedy fulfillment of this program constitutes America's immediate and pressing need. The Mutual Life Insurance Company of New York wishes to offer to you and to those associated with you all cooperation in efforts to help the country fulfill this need in the shortest possible time.

The armament program entails extensive construction of plants and facilities, and of housing accommodations for those who are to be employed in them. The utilization of private capital for all these requirements is, in so far as it is practicable, a desirable national objective. The government and its agencies will also have large financial needs. In the development of financial techniques, particularly in the form of long term obligations by which this objective can be achieved, we may be able and are anxious to be helpful.

This company desires to be of all possible service, and to cooperate with the appropriate agencies of the government, in these important matters affecting the public interest.

Very truly yours,

CONFIDENTIAL

312

Paraphrase of Code Radiogram Received at the
War Department at 9:13 A. M., October 25, 1940.

Admcom, Filed 19:39, October 24, 1940.

Because of wet weather now beginning, the danger of attack before spring at the focal points—Thrace and the Straits—has been greatly reduced, according to the Turkish General Staff. However, no reduction in Turkish forces is contemplated.

It is believed that the present strength of the Italian Army in Albania is insufficient for the invasion of Greece. It is expected that pressure and political inducements will be used on Turks and Greeks. There is much concern in the Turkish General Staff over a possible German-French alignment which, through Syria, would effect the encirclement of Turkey and eventually prevent assistance from England. The Turkish Government maintains that aggression will meet with resistance.

There are 28 identified Turkish Divisions concentrated in the area of Thrace and the Dardanelles. This is the main concentration of the Turkish forces, estimated at a total of 800,000.

KLAUS.

Distributions:

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

CONFIDENTIAL

312-A

Paraphrase of Code Radiogram Received at the
War Department at 2:56 P.M., October 24, 1940.

Rome, Filed 16:25, October 23, 1940.

In round numbers, Italian forces in Albania are estimated at approximately 180,000. These figures are same as those reported in #4992 Military Attache Yugoslavia, September 23, 1940, less the 17th Division, but augmented by the 3rd Granatieri regiment and two Cavalry regiments.

There have been reported concentrations of Italian troops at Brindisi, Bari, and Ancona, but their movement to Albania has not been confirmed. The Italian occupation of Corfu, the Military Attache from Greece states, could be made easily, but strong resistance from Greek forces would result in any Italian operation from Albania. He added that, due to difficult terrain, the number of Italian troops now in Albania would probably have little success. An attack on Greece by Italy at the present time would be a strategical blunder. It is possible but not probable. This is my opinion and that of the Military Attache from Greece.

PAINE.

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 Radiogram Received at the
War Department at 23:59, October 25, 1940.

London, Filed 17:00, October 25, 1940.

1. The Bomber Command carried out a few small daylight attacks during Thursday, October 24. This Command planned to dispatch 135 planes that night against the usual targets. On the preceding night extensive bombing attacks on Channel ports were attempted. These were considerably interfered with by weather conditions and one plane missing and another crashed on landing. On October 24 the Coastal Command dispatched 75 sorties, 22 coastal attacks, escorted 45 convoys and sent out one Empire flying boat. One plane was lost. The Fighter Command operated 443 planes on 119 patrols.

2. The daylight activities of the German Air Force were slight, being confined to about 30 planes on reconnaissance missions. That night there were moderate attacks on London and Birmingham, while mines were laid in the estuaries of rivers on the east and west coast. When German planes reached the London suburb most of them seemed to turn back.

3. The British lost no fighters. German plane losses were two confirmed and two damaged. In the Egyptian theatre the British lost one plane and the Italians none.

4. Damages were centered mostly on the city of Birmingham where there were some 90 fires, about a dozen stores were destroyed and a railroad station and a rubber factory were bombed. Casualties were 28

injured and five killed. Elsewhere an aircraft factory was bombed, set afire, and its production was affected temporarily. A new type bomb which weighed about 4,000 lbs. was dropped on a small town where an American-British hospital unit is located.

5. During the night of October 19-20, 170 persons were killed and 300 wounded in number, with five killed and 23 wounded in Coventry. During the night of the 20-21st, 70 were killed and 300 wounded in London. The following night 25 were killed and 60 wounded in that city.

6. British intelligence sources indicate that there is a great deal of discontent in the Foreign Legion at Marrakech, French Morocco, where this unit is being demobilized and converted into a labor corps.

7. During the night of October 18-19, a British inbound convoy was intercepted by German submarines and torpedoes accounted for 13 ships, totalling about 47,000 tons, sunk or damaged. On the following night a second convoy headed in the same direction suffered a similar fate with 11 ships totalling about 64,000 tons, sunk or damaged. The cargoes lost consisted mainly of steel, oil, and lumber.

THE.

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

TO: Mrs. Klotz 315

○ The Secretary might
be interested in the
attached memorandum
from Mr. Gray's office

From: MR. GRAVES

10/25



OFFICE OF
CHIEF, INTELLIGENCE UNIT
BUREAU OF INTERNAL REVENUE
SI-16854-F

TREASURY DEPARTMENT
WASHINGTON

October 24, 1940.

MEMORANDUM:

In re: William R. Johnson,
Chicago, Illinois.

William R. Johnson who was convicted October 12, 1940, on all counts in the indictment charging evasion of income taxes for the years 1936 to 1939, inclusive, and conspiracy, was sentenced October 23, to serve five years and pay a fine of \$10,000. Jack Sommers, William P. Kelly and John M. Flanagan, were each sentenced to serve four years and to pay a fine of \$8,000. James A. Hartigan was sentenced to serve three years and to pay a fine of \$6,000, and Stuart S. Brown was sentenced to serve two years and to pay a fine of \$4,000.

Johnson was a partner of William R. Skidmore in the organization and operation of a large number of gambling places in and around Chicago.

G-2/2657-220

RESTRICTED

No. 228

SITUATION REPORTM.I.D., W.D.
October 24, 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.

London and Berlin were again attacked, but with greatly lessened intensity, probably due to unfavorable weather. A severe raid on the west coast of Scotland, probably the Glasgow area, was reported.

II. Mediterranean and African Theaters of War.

1. Ground Operations.

Minor patrol action in Libya.

2. No Air Force operations.
3. Naval Operations.

The Italian communiques officially reported the loss of the destroyer Francesco Nullo, 1680 tons, in the naval action of October 21.

RESTRICTED

RESTRICTED

TENTATIVE LESSONS BULLETIN
No. 62
G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, October 24, 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.

ADDITIONAL NOTES ON GERMAN ANTIAIRCRAFT TACTICSSOURCE

This bulletin is based upon information compiled by an official American observer in early September, 1940. Previous notes on German antiaircraft tactics are to be found in TL9-18, TL12, TL47, TL50-3.

CONTENTS

1. BASE FRAGMENTS FROM ANTIAIRCRAFT PROJECTILES
2. SEARCHLIGHTS
3. AIRCRAFT WARNING SERVICE
4. DUAL USE OF ANTIAIRCRAFT MATERIEL
5. DISPOSITION OF WEAPONS
6. FIRE CONTROL FOR HEAVY GUNS
7. DEFENSE OF GREATER BERLIN
8. REDUCTION IN USE OF 20-mm. AND 30-mm. CANNON
9. BALLOON BARRAGES
10. CONCLUSIONS OF OFFICIAL OBSERVERS

RESTRICTED

RESTRICTED1. BASE FRAGMENTS FROM ANTI-AIRCRAFT PROJECTILES

One of the revelations of aircraft raids over Germany has been the seriousness of the problem of falling fragments from anti-aircraft artillery.

The projectiles of the smaller anti-aircraft cannon - 20-mm. and 37-mm. - automatically explode after a certain time of flight, and several base fragments of these projectiles have been found in Berlin. If one of them, in falling, should strike an individual, it would certainly cause injury and possibly death.

Since a large number of people have been killed or injured by falling fragments, Germans are being required to go into cellars during raids. Several times at Frankfurt and Cologne when British planes were caught in beams, all anti-aircraft artillery opened fire. Fragments fell like rain, and damage to property was so great that the practice of opening up with all weapons has been discontinued in some localities. In the West, extensive damage to roofs has made it necessary that work details systematically cover the cities to make repairs. The streets are swept early in the morning for the purpose of clearing away sharp-edged debris. From this it can be deduced that all troops in an area defended by anti-aircraft should have overhead cover.

2. SEARCHLIGHTS

Almost all German authorities agree that their anti-aircraft searchlights have failed to fulfill their mission. This has been confirmed by conversation with observers in many parts of Germany, by observation of searchlight drills, and by performance of searchlights in action. The standard of performance in German anti-aircraft searchlight batteries is believed to be lower than that in regular units of the United States Army. On some occasions, although planes have been distinctly heard at such ideal altitudes as 1500 to 2500 feet under better than average conditions, neither pickups nor even flicks have been seen. Bombers have been seen flying out of beams after having been illuminated by several lights. Lights go in and out of action intermittently, no light staying in action more than 20 or 30 seconds at a time unless the target is picked up. Lights are disposed in rings around the objective, but thus far only two rings have been observed around Berlin, and no lights have been noted in the city proper. However, anti-aircraft dispositions change after every raid, and this condition may not exist in the future. Searchlights, by far the weakest link in the German anti-aircraft defense, are too inefficient and unreliable for adequate defense of important objectives against night aerial attacks to be based upon them.

RESTRICTED

RESTRICTED3. AIRCRAFT WARNING SERVICE

The German Aircraft Warning Service (AWS) has functioned about as well as could be expected. On a number of occasions bombs have fallen or antiaircraft artillery has opened fire before the siren signal was sounded, but general performance has been good.

From what little can be learned, it appears that the Aircraft Warning Service is organized into areas, a series of which can be formed into a belt or zone normal to the line of flight. As enemy planes penetrate deeper into the country, successive areas and belts are alerted in preparation for attack. The fact that the antiaircraft artillery has on several occasions opened fire before a general warning has sounded indicates that it has a separate intelligence service (AAAIS), independent of the Aircraft Warning Service.

The problem of the Aircraft Warning Service has thus far been rather simple, for the British have bombed almost every night at about the same time. With the increase in hours of darkness, the time of bombardment has gradually become earlier.

The principle reason the Aircraft Warning Service did not work in Belgium and Holland was that there was not enough distance between the coast and the objectives to be attacked to afford timely warning.*

4. DUAL USE OF ANTI-AIRCRAFT MATERIEL

Antiaircraft materiel has been used against mechanized targets with good effect, but this use is only possible when friendly aviation has complete control of the air, as in the case of the German invasion of Holland, Belgium, Luxemburg, and France. (It has also been used effectively against fixed fortifications in many instances. G-2).

5. DISPOSITION OF WEAPONS

A report from Spain in 1937 regarding gun dispositions within the larger caliber (88-mm.) battery stated that the Germans were disposing their weapons on a square with sides from 200 to 300 yards long. That is not true in Germany today. Guns are disposed at corners of a square or lozenge with about 60 yards on a side. These principles are not unlike our own.

* If this is correct, the German intercept system is less efficient than the British, since the latter is believed to function well in the same distance. G-2.

RESTRICTED

RESTRICTED6. FIRE CONTROL FOR HEAVY GUNS

Although searchlights are ineffective, the heavy anti-aircraft artillery nevertheless fires at night. On some nights when the ceiling is low, flights do not even go into action. It appears that heavy batteries are resorting to barrage fire, and data for the barrages is believed to be precalculated. British fliers have stated that the Germans are apparently firing by sound. It may be true that the barrage is selected from data based on sound, but observation at Berlin indicates that heavy batteries simply hang a curtain of fire in front of the estimated course of the target. Barrages are fired in short bursts, usually about 12 rounds per battery. Apparently, a set forward point is selected, and the battery fires three rounds per gun in quick succession.

Whatever the method of emergency fire control, it is certainly ineffective in direct results obtained. How much it influences the operations of the British fliers is unknown. Apparently none have been forced to abandon their missions.

7. DEFENSE OF GREATER BERLIN

Normally an objective is defended by outlining a critical zone around it and then disposing the antiaircraft artillery so as to provide fire density in the zone according to certain principles. This method is not strictly followed in the defense of Great Berlin where antiaircraft defense consists of a series of defended areas which are generally blended into one large defense. The fire density at certain points - for example, the northwest corner, where the important war industry of Siemens is located - is much heavier than at other places. British air tactics have been quite uniform to date - that is, the same initial point, direction of attack, etc., have been used. Some of the changes in German dispositions are believed to have been made for the purpose of affording a better defense against the standard British aerial tactics.

8. REDUCTION IN USE OF 20-mm. and 30-mm. CANNON

There has been a marked reduction in the use of 20-mm. and 37-mm. cannon during recent night raids. The reasons for this reduction are thought to be as follows:

- a. British planes are flying higher.
- b. Weapons are not under a central control net.
- c. Ammunition is costly and difficult to produce.
- d. No satisfactory emergency fire control system has been set up.

RESTRICTED

-4-

RESTRICTED9. BALLOON BARRAGES

When the war started, a balloon barrage was erected around Hamburg. Since then, the north and northwest sides of the industrial area have been provided with this protection, and recently a balloon barrage was noticed near Halle where a large plant for producing artificial gasoline is located. This extension in the use of balloon barrages can be interpreted to mean that they are successful in achieving their purpose.

10. CONCLUSIONS OF OFFICIAL OBSERVERS

a. German antiaircraft searchlights as a defense auxiliary are obsolete. Other and more reliable means must be found to locate and track targets at night. Even if a better location system than sound were developed and used, the searchlight would be a definite disadvantage to the defense, since it can be used as a directing beacon for air attack.

b. No satisfactory method of night fire control without illumination has yet been devised for heavy antiaircraft artillery. Barrage fire or fire by sound track is not satisfactory.

c. Light (20-mm.) and medium (37-mm.) caliber antiaircraft cannon are unsatisfactory for use against night attack unless the target is illuminated or a satisfactory system of emergency fire control is devised. As yet none has been perfected.

d. Antiaircraft machine guns - caliber .30 or .50 - are not suitable for defense against air attacks, since they are not sufficiently effective. There are not any in the German Air Force. *

e. The balloon barrage is a useful weapon. It should be incorporated in the defense of important objectives, particularly against low flying enemy aviation.

f. The advisability of equipping antiaircraft materiel for a dual purpose role has been demonstrated, but its dual function should never be permitted to affect its primary mission against enemy aircraft.

g. In general, the German antiaircraft defense system as it is organized and equipped at present does not provide satisfactory defense against air attacks at night.

h. There is no evidence available to show that the German

* The German Antiaircraft Artillery is part of the Air Force.

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antiaircraft system has been adequately tested to determine its efficiency against daylight air attacks. It may be very effective under good conditions of visibility.

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SPECIAL BULLETIN
No. 22
G-2/2657-231

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, October 24, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

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RATIONS IN THE GERMAN ARMYSOURCE

Part 1 of this bulletin is the translation of an article, "The Modern Ration of the German Armed Forces," which appeared in the Frankfurter Zeitung of August 29, 1940. Special note should be taken of the fact that it was written by Dr. Wilhelm Ziegelmeier, civil government counselor in the Supreme Command of the Army, and its intended propagandistic effect should not be overlooked. In its present version the article is slightly condensed. Part 2 is the translation of a German newspaper account of the German Army food exhibit at Leipzig in August, 1940. Part 3 consists of discussion by an official American observer.

CLASSIFICATION

Page 1 and all of Part 3 are to be considered RESTRICTED. There is no objection to the publication of Parts 1 and 2, actual translations, in service journals.

CONTENTS

1. "THE MODERN RATION OF THE GERMAN ARMED FORCES"
2. THE GERMAN ARMY FOOD EXHIBIT AT LEIPZIG
3. DISCUSSION

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NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS1. "THE MODERN RATION OF THE GERMAN ARMED FORCES"a. The Importance of Supply

following: "On May 16th, the German News Agency published the

'The excellent fighting and marching performances of the German armed forces during the western offensive have again proved that the correct method was followed in adding vitamin concentrations to their daily rations, and thus assisting considerably in the success achieved by preserving their fighting power. A well known foreign university professor and vitamin specialist recently stated that in his opinion the German soldier's ration is the best in the world.'

"It was more than chance for the writer of this paragraph that, while standing amid the chaos of Dunkirk, he found among the mass of clothing, underwear, guns, tanks, motorcars, and all types of vehicles, an urgently telegraphed army order from the London War Office to the English troops fighting in French and Belgian territory. This telegram listed the measures forced upon wealthy England - measures which 'starving Germany' took neither for her field army nor her reserves. The secret order, dated May 5, 1940, stated:

'It is of great importance, for economy in shipping, as well as for proper disposition of meat supply, that the Army reduce meat consumption as far as possible but at the same time maintain quality and variety of food. The Army Council requests that all unit commanders carefully consider this matter and limit the quantity of meat consumed.'

"Why were the German armed forces not compelled to resort to such methods? Because, in the end, supply is considered one of the most important of factors of warfare. It is never heeded by historians, although history proves that many failures have been caused by inadequate supply systems. The soldier's food is as important as his ammunition. It cannot be provided through the day's improvisation. Only peacetime preparation and long-range scientific planning can place the maximum power at the Army's command in an emergency. Perhaps the layman will consider this preparation and planning unilitary, but it can be done only by a soldier, for he alone knows all the requirements and necessities of the armed forces.

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"A modern general and his staff should not be pictured merely working over maps and ordering attacks at decisive hours. An order to attack is the result of an enormous amount of work of all kinds. Much emphasis is placed upon supply, and not a detail dare be forgotten. If hungry soldiers can win victories, it is only with grave difficulty, for war is a contest of all forces - spiritual, military, and industrial. It is not sufficient to mobilize the military strength of a nation. Every detail of supply, including agriculture and industry, must be organized, developed, and supervised with the same energy that extends to military operations."

b. Research and Experimentation

"The problem of feeding the soldier is not only a question of providing and cooking food, nor is it merely one of weights and measures. Production and storage, industrial and technical questions, and packing and supply problems, as well as scientific research and experimentation, are also of great importance. An organization has been established within the German armed forces especially for handling these problems, and this organization is, in itself, nearly as large as an army. We lacked fats, so a synthetic fat was made from coal. We lacked rice, so a similar product was made from potato starch. We were dependent on importation for peas, so Army soups were made with rye as their base.

"During the World War and in the Army of the 100,000 up to 1935, the basic ration consisted of canned meat and sausage, bread, and hardtack, but the last few years have seen the development of many new kinds of foods as the result of the widespread experimentation carried out in this field.

"In planning to provide the supplies necessary for feeding an army at war, research and developing organizations have for years been building up a wealth of scientific and practical knowledge in the fields of economics, technology, medicine, and public health. Army research institutes and Army experimental kitchens determine the supply necessary for the community; special institutes, such as the Army Institute for conducting scientific experiments on food, develop new kinds of food, and Army scientific laboratories develop still further the results obtained. If medical questions arise incidentally, they are answered by the research institute of the Military Medical Academy, as well as by the laboratories of the military district experimental stations.

"In addition, the Army administration has urged well known provisions firms to establish societies which, working in

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conjunction with the Army, study new methods and later put them to practical use. For example, studies have resulted in the adoption of new methods of handling foodstuffs, including refrigeration for the conservation of foods; of many methods of compressing and pulverizing; of the improved method of cylindrical drying, and of the vacuum drying method.

"Examples of food development in our Army service show that, without systematic research, the proper supply of a modern army is no longer possible. The road to acquirement of this knowledge was a long one. In the beginning, the chief of the Army service of supply, Quartermaster General Privy Councillor Pieszczyk, had to fight against many prejudices, and the author had to call upon many authorities to bring about an understanding of the importance of supply. To quote Frederick the Great, however, 'If you want to organize an army, you must begin with the stomach, for that is the foundation.' Again, 'The greatest of projects will end as a mirage if supply is not guaranteed.' Napoleon expressed the same idea when he said 'An army marches on its stomach.' "

c. Training of Field Cooks

"During the last few years, we have constantly stressed the belief that a future war would be a total war, even in the sphere of supply. A great step forward was taken when the Army administration began systematically to indicate the importance of food preparation and when, in 1936, training of field cooks was begun on a large scale. Just as the soldier who does not know how to shoot cannot use the best of ammunition, the field cook, without a knowledge of cookery, cannot prepare food. In July, 1939, the Fuehrer supplied valuable support for this belief while visiting the West Wall with his generals. 'It is important not only that we cook,' he said, 'but that we cook well and with an eye to health, adding these important substances which are necessary to keep the man healthy.'

"A subsequent decree of the Commander-in-Chief of the Army, General Field Marshal von Brauchitsch, stated:

'The Army ration has been prepared for. It is sufficient, and its composition is suitable and beneficial. Through the training of field cooks, the establishment cookery instruction, and the publication of the field cook book and related pamphlets, the Army administration has made possible the preparation of good and appetizing food. It is the duty of individual troop units to see that

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material received is prepared in such a manner as to obtain best results. The soldier's morale and efficiency are definitely dependent upon this preparation. Therefore, I expect that supply personnel will be carefully selected and trained, and that every officer will see to the physical well-being of his subordinates with tireless zeal and care.' "

d. New Methods and New Foods

(1) The Soy Bean

"The 'soy enthusiasm' was still ridiculed in 1935, and the author was branded as a 'soy monomaniac.' Today it is interesting for him and also for the Frankfurter Zeitung to note that, during the battle in Flanders, the London Times wrote the following in an article on the 'miraculous bean' in the German ration:

'Since the beginning of the war, the press has frequently mentioned the soy bean, chiefly in connection with the German ration. Few of our readers will realize the extent to which Germany uses the soy bean and the extent of its importance in wartime service of supply. It has become vitally important to the Reich from the point of view of food politics as well as from the military point of view. The weakest point in German food economy is the lack of animal food products, for example, meat, milk, and eggs. The Germans have met this deficiency by the development of a soy bean flour called "Edelsoja," which, because of its high protein content, 40-45%, as well as its fat and carbohydrate content, can be used as a substitute for meat and other animal products. This flour is added to dishes such as soups, sauces, bread, pastry, and macaroni in such a way that the flavor remains completely unchanged and each individual receives the balanced daily ration of protein, fat, and mineral salts necessary for human nourishment, without receiving meat.

'Soy bean flour is neither a food substitute nor a nourishment pill, but a new and highly valuable article of food, the nutritive value of which has been attested for centuries by experience in the Orient. We cannot afford to laugh at German attempts to increase soy bean cultivation.

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'The military importance of the soy bean lies in its use as an article of food as well as in the fact that war chemicals are produced from it. Soy bean flour and other products are ideal foods for an army, and already they are considered as the iron ration of the German army. These products are not only important as food for men who perform manual labor, but they have also proved an excellent preventive against rheumatism and trench fever. With a supply of soy bean rations, the German Army can march into foreign countries without needing to trouble about its subsistence. German papers, such as the Frankfurter Zeitung, have often openly pointed out this fact. The German soldier can easily carry in his haversack a three-day ration of soy beans, and reserves of this food can be supplied on short notice upon demand. After the Polish Campaign, official National Socialist circles in Berlin admitted quite frankly that without its soy bean ration, the Army could not possibly have made such rapid marches. We assume that the German Supreme Command learned the value of this article of food during maneuvers and field exercises, and then kept the secret until the Polish Campaign opened.' "

(2) Food in Powder Form

"Cans must be used very sparingly because of the shortness of the tin supply. After preliminary studies had been carried out, the Army administration was able to produce, within a very short time, new foods which could be packed in receptacles other than tin cans. These foods are suitable for military purposes from the supply standpoint. Instead of tomato pulp in tins, there is tomato powder; canned cheese is replaced by powdered cheese, canned applesauce by apple powder, and jam in tin pails by jam powder.

"The layman will undoubtedly understand that powdered food not only facilitates packing, but it also improves the system of supply. When cheese powder is poured into a pail and mixed with cold water, it emerges in a short time as a firm cheese which can be cut as well as Swiss or Tilsiter. The soldier receives for dessert applesauce which was made by mixing apple powder with cold water just before issue. Easy solubility means great saving in transportation."

(3) The Famous Bratling

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"As a result of World War experience and after years of preparation, the Supreme Command of the Army developed bratlings from raw materials at hand in Germany, such as animal and vegetable albumin. Bratlings, substitutes for meat protein, are used to balance the diet on meatless days. If properly prepared - for example, in meat balls, cabbage rolls, or chopped-meat dishes - the bratling has the advantage of tasting like meat and satisfying the appetite. It is not difficult for the mess to provide simply prepared bratlings instead of meat.

"Bratling powder is a mixture of soy bean, grain, and milk albumins, spiced with various herbs. Its taste is so nearly neutral that, if added to other dishes with a definite flavor, it does not change their taste. If different condiments are added, entirely new flavors can be developed. The albumin, fat, and carbohydrate content of bratling powder is so nourishing that it has proved far cheaper than other vegetable and animal foods.

(4) Vitamins in the Soldier's Ration

"Increased knowledge has given rise to new questions for those responsible for the soldier's health, especially the question of food quality. Food supplements, such as vitamins are of the utmost importance, and prevention of disease resulting from insufficient vitamins has been given great consideration in specifying the German Army ration.

"Vitamin C, most important for the soldier's ration, is partially destroyed in canning, but canned foods cannot be entirely dispensed with in provisioning the soldier. A mobile army cannot become independent of the home supply base without some canned foods, even for a short time. If these foods are preserved without proper knowledge of canning, there will be a lack of Vitamin C. Canned goods used by the German Army, including the dried vegetables which are of great importance because of their light weight, are carefully tested, and they are rejected if they lack sufficient vitamins. Whenever possible, raw vegetables or fresh herbs are provided. In addition, pure Vitamin C has been developed and used in 'V candies' as an anti-scorbutic acid. To assure a regulated apportionment, 50 mg. of anti-scorbutic acid is twice worked into candies, taffies and the like, with dextrose, fat and whey.

"Vitamin B, as well as all vitamins of the B group, are next in importance. Good Army bread depends upon sufficient use of this vitamin, as in the case of German Kommissbrot and army Knaecke bread.

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"Illnesses caused by lack of Vitamin A have never occurred in the German Army. There are sufficiencies of blood sausage, liver sausage, and canned goods with proper Vitamin A content, since certain production methods hermetically seal cans during cooking to assure vitamin preservation.

"Preparation of food in the field kitchen is so regulated as to prevent, as far as possible, the waste of vitamins contained in raw foods. The German Army field cook book is published with this point of view.

(5) Germinating Grain as a Vitamin Container

"It has long been known that germinating grain and its juices have a high vitamin content, and during the last few years the vitamin doctrine has always returned to this question. The Army administration was the first to utilize methods of germination for the development of new kinds of foods. Meat has been made to go farther by the addition of germinating grain--especially to sausage. Albumin and vitamins have been added without recognizable change to ordinary foods. Sausages are stretched during grinding by the addition of artificially germinated soy beans and rye grains."

(6) Concentration, Compression, and Refrigeration

"Last winter showed that maintaining a supply of fresh vegetables can be very difficult. By means of concentration and freezing, we have succeeded in obtaining spinach juice, cabbage juice, and the juices of other vegetables rich in vitamins. These can be made into a dough or paste, and, while requiring minimum space, they can readily be served to troops as spinach noodles, cabbage noodles, etc.

"With the aid of new compression and refrigeration methods, the Army administration, assisted by Army food experts, has produced tomato puree, tomato pulp, and tomato powder from the German tomato. This was previously impossible because the variety of tomato raised in Germany during the short ripening period contained too high a water content. The tomato and its products are tasty, nourishing, beneficial, rich in vitamins, appetizing, and economical in that no waste is involved in their preparation.

"Dried vegetables, such as cabbage, carrots, and spinach, compressed into brick form by means of hydraulic presses, are well known to all who have passed by a field kitchen during this war. But the fact that sauerkraut, dried and compressed into cubes, can now be sent to the kitchens deserves

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special mention. Sauerkraut is a very popular item of the Army ration because of its lactic acid content. Its use gives variety to the diet, and it has considerable health-giving properties. It was difficult to develop this vegetable, and the present form, which is not final, was reached only after years of research.

"The introduction of the American Birdseye refrigeration methods in 1939 by the Army administration has produced definite advantages in vitamin preservation, especially in meats, fruits and vegetables. Not only is a saving in tin accomplished by eliminating cans, but foods and vitamins can be kept for years frozen at 35° C. below zero.

"The immense amount of research work done by the chief of the Reichs Institute for Food Preservation is of unusual importance in connection with the practical transport of meat for the Army. Meat is packed already roasted or cooked. Pork hocks and chops are packed in corrugated cardboard boxes, the cartons are compressed to double shoe-box size, and the contents are then frozen gradually. Under favorable transportation conditions, these products will stand journeys of five to six days, even in sunshine, and they can still be kept for years. In addition, a 400% saving in space is made."

(7) Pemmikan

"Concentrated foods play an important role in specialized rations - for example, rations for tank troops, fortress troops, mountain troops, and aviators. One of the best examples of highly concentrated food is Pemmikan, originally used by the American Indian during long migrations. He prepared it from dried game and cranberries. Following our own experiments and those of Nansen, the German Army developed Pemmikan-Landjaeger, which contains all the substances necessary for building up the body, such as carbohydrates, protein, fat, and mineral salts. Pemmikan-Landjaeger contains the following:

Meat, smoked, containing protein (beef and pork);
 Bacon, containing fat;
 Soy bean flour, containing protein, fat and carbohydrates;
 Dried fruits, containing carbohydrates;
 Whey, containing minerals;
 Tomato pulp, containing vitamins;
 Yeast, containing vitamins;
 Green pepper, containing vitamins;
 Cranberries, containing vitamins;
 Lecithin, containing lipoid."

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(8) Cream of Tartar

The new cream of tartar contains dextrose, whey, milk, fat, and Vitamin C. This gives a nutritious vitamin concentration, with the peculiarity that its dextrose content is produced from wood sugar. Cream of tartar is well known to every member of the field army under the designation of 'V-drops.' These, with canned mixed foods, played an important part in the ration of our Narvik fighters as well as of the troops in other parts of Norway."

e. Conclusion

"The soldier's food must be good and healthful, for, after all, the fate of the nation depends upon the efficiency of the individual. The ration is supervised by experts, menus are carefully planned, and proper cooking is taught in Army cooking schools at Munich and Frankfurt am Main, as well as in eighteen district cooking schools. Examples show the extent to which scientific experimentation has been carried out to strengthen our military forces. Their success has been proved by the development of this war, victorious up to the present. The Army ration, developed scientifically, has played in these victories a part which should not be underestimated."

2. THE GERMAN ARMY FOOD EXHIBIT AT LEIPZIG

"The total of 80,000 visitors who viewed the Army exhibit called 'Documents of the Polish War,' at the Leipzig Spring Fair of 1940 has already been greatly exceeded by the number to see the Army exhibit entitled 'Victory at the Western Front' at this year's Fall Fair, August 25 to 29, 1940. The German Army offers in this exhibit a disclosing and comprehensive survey of various military spheres. A special exhibit shows statistics on the food supply of the German Western Army.

"According to these statistics, German troops and animals consumed during the course of the great battle in France - presumably including operations in the Netherlands and Belgium, and covering the period from May 10 to June 21, 1940 - 482,000 metric tons of food-stuffs, luxury foodstuffs, and animal feed. These included 93,000 metric tons of flour and ingredients for bread; 13,500 tons of butter, marmalade, and artificial honey; 9,000 tons of coffee substitutes and tea; 170,344 hogs of an average weight of 100 kilograms, providing for 16,500 tons of pork; 11,900 tons of beef; 100,000 tons of fresh vegetables, potatoes, rice, legumes, etc.; 25,800 tons of fresh sausage, meat, sausage preserves, cheese, etc.; 1,400 tons of candy; 24,500 hectoliters of wine; 3,300 hectoliters of liquor; 800 tons of tobacco; 480,000,000 cigarettes; and

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180,000,000 cigars.

"If these supplies were transported in a single freight train, it would have a length of 358.5 miles. This would mean 953 German freight trains of average length with 30 cars each, or 22 freight trains daily with a total length of about 6.8 miles each. A large model at the exhibition reveals the immense organization necessary to insure such support and illustrates transportation from Army administration to field kitchen. In addition to railway and other means of transportation, special motor columns of a total of 5,000 trucks were used."

The Leipzig newspaper which published this information concludes that the German Army during the French campaign was the world's largest consumer of foodstuffs and feed. Samples of the supplies, says the same source, made their excellent quality apparent.

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Improvement in the content and form of rations in the German Army has been for the following reasons:

- a. Unavailability of supply in time of war;
- b. Conformity to type of operations contemplated;
- c. Reduction of administrative labor in field;
- d. Increased physical performance of personnel;
- e. Decreased amount of transport required;
- f. Facilitation of storage.

The German Army has made tremendous advances in subsistence in recent years. Reports emanating from the front indicate that the soldiers are very well fed. As to the quality of the food, the march performances of the troops in Poland and in France are sufficient evidence.

There has been no complaint about the edibility of special types of food. To the contrary, soldiers seem to take them very well. Examination indicates practically no difference between these foods and raw foods cooked in the conventional manner. Flavor has been retained by the adoption of an improved type of steam pressure field kitchen.

The armies which marched through Holland, Belgium, and Luxembourg in May, 1940, were supplied entirely by motor transport until the end of the first phase at Dunkirk - that is, from May 10 to June 4. It is estimated that there were at least 2,000,000 men, or 100 divisions of 20,000 men each, who had to be fed during these operations. One can readily realize that this problem was greatly facilitated by using foods which were concentrated, dried, or designed to supplement those foods found in the occupied territory.

The amount of labor saved by the use of pre-prepared foods in a force of the size involved in these vast operations is considerable. The saving of personnel can be used to increase the combat power of the units involved.

Foods of the type described in the enclosed translated article can be prepared in much less time than raw foods. Under campaign conditions, especially in a war of movement, the messing of the troops is greatly facilitated by a decrease in time required for food preparation.

Use of this type of subsistence explains how motorized and mechanized units could be - and were - supplied entirely

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by airplane when they were out of contact with normal sources of supply, and explanation of the supply of isolated garrisons in the Norwegian Campaign is also more apparent.

There have been reports of the use of concentrated foods and nutrition tablets in the German Army since the Polish Campaign. It is possible that these reports are ungrounded and that the success of subsistence in the German Army is due to a superior ration and a perfected system of preparation and supply.

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SPECIAL BULLETIN
No. 23
G-2/2657-231

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, October 24, 1940.

NOTICE

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CHARACTERISTICS OF SOVIET TANKS
AND ARMORED CARS

SOURCE

The information contained in this bulletin is based primarily upon the reports of official American observers and secondarily upon handbooks and other publications concerning the Red Army.

NOTE

Specifications marked (?) are doubtful.

CONTENTS

1. TANKS
2. ARMORED CARS

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1. TANKSa. T-27. A&B (Vickers-Carden-Loyd)

Type: Tankette.

Crew: Two.

Armament: Two front 7.62-mm. machine guns.

Ammunition: 3,000 rounds.

Armor thickness:

Upper structure: .16 inches.

Front: .24 inches

Sides: .39 inches.

Turret: One.

Dimensions:

Length: 8 feet, 1 inch.

Width: 5 feet, 8 inches.

Height: 4 feet.

Weight: 1.7 - 2.7 tons.

Motor: Ford or Chevrolet.

Type: 4-cylinder.

Horsepower: 25-60 (?).

Horsepower per ton, 14.7 or 9.3 (35.3 or 22.2 ?).

Speed:

Cross-country: 7 mph.

Road: 10-15 mph.

Maximum 25-30 mph.

Cruising radius: At road (?) speed, 70-100 miles.

Performance:

Climbs 30-45° slopes.

Negotiates vertical obstacle 16 inches high.

Crosses trenches 5 feet, 10 inches wide.

Fords streams 20 inches deep.

Remarks: The main difference between the T-27A and the T-27B is that the top of the latter is not level, the turret on the left being higher than the top of the space occupied by the operator on the right.

b. T-37 (Vickers-Carden-Loyd)

Type: Amphibian Tank.

Crew: Two.

Armament: One 7.62-mm. machine gun.

Ammunition: 3,000 rounds.

Armor thickness:

Upper structure: .275 inches.

Sides: .315 inches.

(The T-37 and the T-38 are said to have .7 inches.)

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Turret: One.

Dimensions:

Length: 14 feet, 2 inches.

Width: 6 feet, 11 inches.

Height: 6 feet, 5 inches.

Weight: 3-5 tons (?).

Motor:

Type: Meadow VI or Ford V.

Horsepower: 56.

Horsepower per ton: 18 - 11.2 (?).

Speed:

Cross-country: 2.5 - 6 mph.

Maximum: 30-37 mph.

Cruising radius: At road (?) speed 80-150 miles.

Performance:

Climbs 45° slopes in water, 15° slopes out of water.

Negotiates vertical obstacles 1 foot, 7 inches high.

Crosses trenches 5 feet, 6 inches wide.

Remarks: The Red Army has at least the following types of small amphibian tanks: MT Morekoi 33 (56 hp.); T-37 Carden-Loyd, and T-38 Carden-Loyd (40-60 hp.).

c. T-26, A&B (Vickers MA/30; Vickers MA/31)

Type: Light Tank.

Crew: Three.

Armament: A. Two 7.62-mm. machine guns;

B. One 7.62-mm. machine gun and one 45-mm. gun.

Ammunition: A. 6,000 rounds for machine guns;

B. 4,000 for machine guns, and 50 for gun.

Armor thickness:

Upper structure:	A.	.19 inches;	B.	.23 inches.
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Front:	A.	.31 inches;	B.	.39 inches.
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Sides:	A.	.51 inches;	B.	.55 inches.
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Turret: A has two; B has one.

Communications: Radio on leading tanks.

Dimensions:

Length: 16 feet.

Width: 7 feet, 11 inches.

Height: 8 feet.

Weight: 7 - 8½ tons.

Motor: Armstrong-Siddaley IV.

Horsepower: 88.

Horsepower per ton: 12.6 or 10.4.

Speed:

Cross-country: 10-12 mph.

Road: 12 mph.

Maximum: 22-25 mph.

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Cruising radius: At road (?) speed 100 miles.
Performance:

Climbs 45° slopes.

Negotiates vertical obstacle 2 feet, 5 inches high.

Crosses trenches 5 feet, 9 inches wide.

Fords streams 3 feet deep.

Remarks: T-26A, sometimes has one 7.63-mm. and one 12.7-mm. machine guns instead of two 7.63-mm. machine guns.

d. BT (Christie) M/31. (BT-M/A, BT-M/B, BT-M/C, BT-M/D)

Type: Light tank.

Date: 1934.

Crew: Two or three.

Armament: One 37-mm. or 45-mm. gun, or more rarely one short 76-mm. gun; one or two 7.62 machine guns. *

Ammunition: 92 shells (37-mm. or 45-mm.) and 2700 rounds of machine gun ammunition.

Armor thickness:

Upper structure: .24 inches.

Front: .5 - .62 inches.

Sides: .39 inches.

Turret: One.

Dimensions:

Length: 19 feet.

Width: 7 feet, 1 inch.

Height: 7 feet, 7 inches.

Weight: 10-11 tons.

Motor: M-34 (Hispano-Suiza XII ?).

Type: V-12.

Horsepower: 350 (500 ?).

Horsepower per ton: 35 or 31.8 (50 or 46.4 ?).

Speed:

Cross-country: 37 mph.

Road: 15-25 mph.

Maximum: 45 mph. with tracks; 65 mph. on wheels.

Cruising radius: At road (?) speed 150-250 miles.

Performance:

Climbs 40° slopes.

Negotiates vertical obstacle 29 inches high.

Crosses trenches 6 feet, 11 inches wide.

Fords streams 39 inches deep.

* The BT-M/D is reported to have one short 76-mm. gun and two machine guns.

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RESTRICTEDe. T-28 (M-1). (Vickers-Armstrong/29)

Type: Heavy tank.

Crew: Six to eight.

Armament: One 76-mm. gun and three or four 7.62-mm. machine guns, one of which is a light machine gun.

Ammunition: 50-70 shells for 76-mm. and 8,000 rounds of machine gun ammunition.

Armor thickness:

Upper structure: .39 inches.

Front: .98 inches.

Sides: 1.37 inches.

Turret: One large, two small.

Dimensions:

Length: 23 feet, 8 inches - 24 feet, 2 inches.

Width: 9 feet - 9 feet, 5 inches.

Height: 8 feet, 7 inches - 9 feet, 7 inches.

Weight: 25-33 tons.

Motor:

Type: Armstrong-Siddeley, XII/V.

Horsepower: 450.

Horsepower per ton: 18 - 13.6.

Speed:

Cross-country: 6-10 mph.

Road: 18-23 mph.

Maximum: 25 mph.

Cruising radius: At road (†) speed 60-125 miles.

Performance:

Climbs 45° slopes.

Negotiates vertical obstacle 31 inches high.

Crosses trenches 6 feet, 7 inches wide.

Fords streams 4 feet deep.

Remarks: This tank is a copy of the 16-ton British Vickers-Armstrong. Some models may have the Soviet M-34 motor or the V-12 cylinder type.

f. T-35 (M-II Vickers)

Type: Heavy tank.

Crew: 10-12.

Armament: One 76-mm. gun, two 37-mm. or 45-mm. guns, and two or three machine guns. *

* One report states that the "Vickers-Independent M/I and II" has an armament of one 76-mm. gun, two 37-mm. or 45-mm. guns, and two to six machine guns.

RESTRICTED

RESTRICTED

Armor thickness:
 Upper structure: .98 inches.
 Front: 1.37 inches.
 Sides: .98 inches.
 Turret: Four.
 Dimensions:
 Length: 30 feet, 6 inches.
 Width: 10 feet, 6 inches.
 Height: 9 feet, 1 inch.
 Weight: About 33 tons.
 Motor:
 Type: Armstrong-Siddaley XII/V.
 Horsepower: 350-500.
 Horsepower per ton: 10.6 or 15.1.
 Speed:
 Road: 7 mph.
 Maximum: 16-20 mph.
 Cruising radius: At road (?) speed 185 miles
 Performance:
 Climbs 40° slopes.
 Negotiates vertical obstacle 40 inches high.
 Crosses trenches 15 feet wide.
 Fords streams 4 feet deep.

2. ARMORED CARSa. BA Bronieford

Type: Light Armored Car of Soviet Design.
 Crew: Three.
 Armament: One machine gun in turret, one machine
 pistol.
 Armor thickness:
 Upper structure: .35 inches.
 Front: .35 inches.
 Sides: .35 inches.
 Turret: One.
 Dimensions:
 Length: 12 feet, 2 inches.
 Width: 5 feet, 7 inches.
 Height: 6 feet, 4 inches.
 Weight: 3.2 tons.
 Motor:
 Type: Ford.
 Cooling system: Water.
 Horsepower: 50.
 Horsepower per ton: 15.6
 Speed:
 Cross-country: None.
 Maximum: 45 mph.
 Cruising radius: At road (?) speed 160 miles.

RESTRICTED

RESTRICTED

Ground clearance: 8.5 inches.

Remarks: Without turret and machine gun, this car weighs 2.1 tons and has a maximum speed of 53 mph.

b. BA-27

Type: Armored car.

Crew: Four.

Armament: One 37-mm. gun and one 7.62-mm. (.30 cal) machine gun in revolving turret.

Armor thickness: .24 - .51 inches.

Turret: One, revolving.

Communications: Radio in some cars.

Dimensions:

Length: 14 feet, 9 inches.

Width: 5 feet, 11 inches.

Height: 8 feet, 1 inch.

Weight: 4.5 tons.

Motor:

Cooling system: Water.

Horsepower: 40.

Horsepower per ton: 8.9.

Speed:

Cross-country: None.

Maximum: 28.

Cruising radius: At road (?) speed 125-190 miles.

Fords streams 19.7 inches deep.

Remarks: Obsolescent type, which is being gradually replaced with more modern types. Not used in Finnish War as far as known.

c. Ford Six Wheel Armored Car. Modelled on British Lancaster

Type: 3-axle armored car.

Crew: Four.

Armament: One 37-mm. gun and one machine gun in turret; one machine gun beside driver.

Armor thickness: Averages .43 to .55 inches.

Turret: One.

Dimensions:

Length: 16 feet, 2 inches.

Width: 6 feet, 3 inches.

Height: 8 feet, 0 inches.

Weight: 7 tons.

Motor:

Type: Ford (?).

Horsepower: 85.

Horsepower per ton: 12.1.

RESTRICTED

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Speed:

Cross-country: Unknown; believed fair.

Maximum: 43 mph.

Cruising radius: At road (?) speed 150 miles.

Ground clearance: 10.4 inches.

Remarks: Six wheels with pneumatic tires; four rear wheels have dual tires and can be fitted with tracks.

d. BA Ford Amphibian Armored Car (6 wheel)

Type: Armored car.

Crew: Four.

Armament: One 37-mm. gun and two machine guns (7.62-mm. or .30 cal).

Armor thickness: .43 - .55 inches.

Turret: One revolving turret in rear; 2 rigid front turrets.

Dimensions:

Length: 17 feet, 3 inches.

Width: 6 feet, 9 inches.

Height: 7 feet, 9 inches.

Weight: 9 tons.

Motor:

Type: Ford (?).

Cooling system: Water.

Horsepower: 85.

Horsepower per ton: 9.4.

Maximum speed: 40 mph.

Cruising radius: At road (?) speed 125-190 miles.

Ground clearance: 10 inches.

Remarks: Used in Finnish War. Machine gun turret revolves 270 degrees. Six cutout disc wheels with pneumatic tires. Drive: both rear axles.

* * * * *

RESTRICTED

Paraphrase of Code Dispatch
Received at the War Department
at 18:30, October 24, 1940

CONFIDENTIAL

London, filed 16:05, October 24, 1940.

1. Eight planes of the Bomber Command were dispatched during daylight on Wednesday, October 23, but three abandoned their missions. That night all operations were cancelled because of weather conditions; but the program contemplated attacks by a total of 164 bombers, with 26 against enemy ports, 9 against railroad yards in Germany, 12 against enemy airdromes, 30 against Berlin, 42 against aluminum factories, 12 against German naval targets, 28 against German oil targets, and 5 against factories in Holland. The Coastal Command operated 29 patrol missions, 53 sorties and 20 convoy escorts, losing no planes.

2. German daylight activities during October 23d were carried on by about 35 planes, mostly operating singly. That night the main German activity appeared to be mine laying off Lancashire.

3. The Royal Air Force lost no planes while one German bomber was thought to be damaged. One British plane crashed in the Egyptian theatre and three were damaged. The Italians lost no planes.

4. The damages during the night attacks were greatly reduced everywhere. One airdrome was attacked without result. There were 2 factory fires, one in London and one elsewhere. Considerable damage resulted from a hit on a railroad station. One dock

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shed was destroyed. The National Gallery was damaged by a delay action bomb.

5. The Royal Air Force claims a successful air attack on the Italian pipe line at Sollus.

6. There is no new information of an invasion.

7. A Canadian destroyer was sunk by a collision in the Atlantic. Three trawlers were sunk in home waters. Three merchant vessels, totalling 12,400 tons, were sunk in convoy. A convoy of 21 ships has arrived in Britain. The imports by convoys during the week ending October 12th exceeded one million tons, while the average for the previous 10 weeks was 950,000 tons.

LEE

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 Radiogram Received at the
War Department at 11:51 A. M., October 24, 1940.

London, Filed 16:30, October 24, 1940.

1. The following paragraphs constitute a resume of the results of investigation made during the past week by members of this office. Sources are all most authoritative. In order to present an accurate picture of the cumulative effects of the German air attacks on the essential activities of Great Britain it is necessary to supplement and, to some extent, counterbalance the listing of damages contained in the daily cablegrams.

2. Industrial war production: During the first two weeks of the present intense raids, that is, September 7-21, industrial production dropped about 30 percent. About one percent of this reduction was due to the damages to plants and structures and the remaining 29 percent was due to the hours lost by labor and the stoppage of machinery while workers took cover. This figure has now been reduced by a system of roof spotters, air raid marshals, by the example of the personal presence of managing officials, and by the Government assuring workers that they will not forfeit insurance benefits by continuing at work. Therefore the percentage of production lost has decreased steadily. Outside of London it is estimated that at the present time the loss of production due to damage to plants is about one percent and due to taking cover and the stoppage of machinery from three to four percent. It is believed that this last figure will never exceed five percent. Due to the concentrated raids on concentrated targets the total reduction for London now is about 25 percent. More time is now lost through

the stoppage of plants due to unexploded bombs than due to actual damages and the time lost in shelters combined.

3. Labor engaged in war work: Labor as a whole continues to support war efforts in a magnificent manner. The few strikes that have occurred have been due on one hand to an occasional radical, self-seeking shop steward trying to take selfish advantage of the war situation and on the other hand to management making selfish and unwarranted demands on labor or failing to meet the additional shelter and safety requirements demanded by the situation.

4. Railroads: The delays in all classes of railway traffic to date due to damages to lines and bridges by bombs have averaged only about three hours a day. The longest delay was caused when one end of a tunnel suffered a direct hit and there was no way around. No terminal railroad station has yet been so damaged that some tracks could not be used. The most serious delay in these terminals has been caused by damages to hand-operated remote control switch towers and crossover switches. A delay of nine hours in the use of one London terminal was caused in this manner but both inbound and out-bound traffic was rerouted to other stations and yards so that the actual interruption of traffic was much shorter. Electric signal systems and controls are highly vulnerable to bombing. They are damaged by blasts as well as by direct hits and are difficult to repair for emergency use. The most sensitive point is the hump type remote control switching freight concentration and handling yards. Time is lost by the requirement that trains in raid areas must reduce

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their speed to 15 miles an hour to avoid being wrecked by bomb craters on the lines, and by the reduction in the intensity of light signals making them difficult to see. The main lines of electrified railroads are hard to operate and steam locomotives are better. Air raid conditions require 10 percent more locomotives to move the same amount of traffic than in peace.

5. Utilities: Utilities are vulnerable in the following priority: water, gas, telephone, telegraph, electricity, highways.

6. Water: Water service is essential because of the complete dependence upon it of large urban population, because of the presence of large steam plant industries, and because of the large quantities required to extinguish fires. Pipe lines are easily ruptured by shocks and subterranean breaks are difficult to locate promptly.

7. Gas: Gas mains usually require a direct hit. When mains are broken there can be no cooking in the areas served. Gas tanks are good targets.

8. Telephone and telegraph: In Britain the telephone and telegraph systems are centralized under Government control. German bombers seem to concentrate on telephone exchanges. A direct hit on any exchange building generally puts all switchboards out of action for varying lengths of time. Dial operated systems are particularly sensitive to blasts. Considerable delay is caused by the Post Office rules requiring operators to take cover during

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raids. It is impossible to estimate the delay and damages so far incurred. The time required for telephone calls and telegraph transmissions is probably three times that of normal times.

9. Electricity: Electric utilities are less affected by bombing than any of the foregoing due to the excellent grid interchange system. This results in little interruption to electric power for industry. Direct hits break some wires and conduits. No serious interference seems likely or possible.

10. Highways: The English road net is so complete that bombs striking any highway only means easy detours over equally good roads. The main damage is caused when the bombs break the water, gas or electric lines beneath the road. The movement of military forces and supplies by motor transport is not interrupted by bombing.

11. Bridges: Despite continued heavy bombing none of the London bridges has been destroyed. The lifting mechanism of the Tower Bridge was out of order from September 8-14 but the bridge was open to traffic. One or two others have been temporarily closed due to the presence of unexploded bombs but traffic has always flowed freely across the Thames River.

LEE.

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

BRITISH EMBASSY,
WASHINGTON, D.C.

October 24th, 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 Baker

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated October 23rd1. Naval.

At 2.30 a.m. on October 22nd His Majesty's Canadian destroyer "Margaree" (ex H.M.S. "Diana") on passage to Halifax was in collision with a 10,000 ton merchant vessel about 450 miles west of Ireland. Thirty-two survivors are on board the merchant vessel and it is feared that "Margaree" is a total loss.

Three naval trawlers were sunk by mines in home waters during the night of October 21st - 22nd.

The Italian destroyer sunk in the recent Red Sea action was the "Fincosco Nullo" (1058 tons) completed in 1925.

2. Royal Air Force.

During the day of October 22nd one Blenheim, sent to attack military objectives in Dutch ports, reported having obtained a direct hit on the bows of a cargo vessel of about 1500 tons off The Hague.

All projected night operations were cancelled on the night of October 22nd-23rd owing to weather conditions.

3. German Air Force.

Night of October 21st - 22nd (further reports).

In the London area casualties so far reported amount to 56 killed and 181 wounded. Two serious fires were reported but both were under control by the following day.

At Coventry some storage sheds were gutted at the Armstrong Siddeley works (the aero engine factory reported damaged in yesterday's summary); the water tower collapsed and water mains burst.

Daylight/

Regraded Unclassified

Darklight October 22nd.

Enemy activity was on a very much reduced scale. In the London area visibility was about 200 yards up to midday. Single aircraft were reported over London and in the afternoon a raid of about 30 enemy aircraft approached from the south and turned back.

Two other formations of about 12 each were reported over Essex. Fighter squadrons were despatched to intercept these attacks. Some bombing of southeast seaside towns took place and a balloon site was damaged at Plymouth.

During the night of October 22nd - 23rd enemy activity was less than usual, involving only about 110 aircraft. Attacks were widespread, London and Coventry districts being the principal objectives. Several aircraft appear to have turned back before reaching our coast. By 11.30 p.m. the country was clear except for one machine over the London area and there was no further activity until 5.15 when small raids were plotted over Devon and South Wales. In the London area bombing was much less severe than usual and no important damage is reported.

An attack was made on Coventry early in the evening. Several fires were started and casualties so far reported are 3 killed and 37 wounded. Four factories engaged in war work received damage but the effect on production is not yet known.

Slight bombing took place at Birmingham, Staffordshire and South Wales area.

4. Summary of Air Casualties.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
--------------	------------------	-----------------	----------------

By our fighters:

Fighters	3	1	1
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British: 6 fighters (2 pilots safe)5. Shipping Casualties.

By U-boat. It is now known that an Estonian ship (1200 tons) was torpedoed and sunk in the north-western approaches on October 13th. A British ship (5400 tons) and a Norwegian ship (5800 tons), were torpedoed and sunk while in outward bound convoy in the northwestern approaches on October 20th; 31 survivors from the former and 1 from the latter have been picked up.

A convoy of 21 ships has arrived in United Kingdom ports. Cargoes included crude oil, 3 of iron ore and 2 of steel.

6. Middle East.

Egypt and Libya. On October 21st 3 Blenheims attacked a water pipe line near Sollum. Water tanks were straddled and 2 groups of mechanical transport were hit. Two Hurricanes inflicted casualties on an enemy working party and destroyed 6 mechanical transport.

During the night of October 21st - 22nd about 9 enemy aircraft bombed the Alexandria area. Some grounded aircraft were damaged in Aboukir.

Eritrea. Buildings were hit and a fire was started at Asmara during an attack by our aircraft on the night of October 20th - 21st.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£84,000
Purchased from commercial concerns	£ 8,000

The Federal Reserve Bank sold £2,500 in registered sterling to a non-reporting bank.

In the open market, sterling was first quoted at 4.02-1/2. It moved upward to reach 4.03-1/4 by noontime. The closing rate was 4.03. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£25,000
Purchased from commercial concerns	£30,000

The Swiss franc, which has remained in the neighborhood of .2318-1/2 for several days, advanced to a new current high of .2322 this afternoon. It later reacted to close at .2320-1/2. Our reports indicate that the selling of Swiss-owned American securities continues. Liquidation of dollar balances held here in private Swiss names is believed to have been the major influence in the upward movement of the rate.

The Argentine free peso rate again moved off to close at .2357. Yesterday's final quotation was .2365.

The other currencies closed as follows:

Canadian dollar	13-1/4% discount
Swedish krona	.2386
Reichsmark	.4005
Mexican peso	.2070
Brasilian milreis (free)	.0505
Cuban peso	8-11/16% discount
Lira	.0505

There were no gold transactions consummated by us today.

- 2 **CONFIDENTIAL**

The Federal Reserve Bank reported that the Bank of Portugal made two gold shipments with a total value of \$3,797,000 from Portugal to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Portugal.

The State Department forwarded to us a cable stating that the Central Bank of Chile shipped \$462,000 in gold from Chile to the Federal Reserve Bank of New York. The disposition of this shipment is unknown at the present time.

The Bombay gold price was equivalent to \$33.82, off 5¢. Silver was priced at the equivalent of 44.06¢, off 3/16¢.

In London, the prices fixed for spot and forward silver both rose 1/16d, to 23-1/2d and 23-7/16d respectively. The dollar equivalents were 42.67¢ and 42.56¢.

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 four purchases of silver totaling 256,500 ounces under the Silver Purchase Act. Of this amount 206,500 ounces represented sales from inventory, and the remaining 50,000 ounces consisted of new production from foreign countries, for forward delivery.

About a month ago, a shipment of 1,122,000 ounces of silver was received by the Chase National Bank from the Central Bank of China, Hong Kong. Of this shipment, 843,000 ounces have been purchased by the Treasury. We have learned that the balance of approximately 279,000 ounces was sold by the Chase Bank to the Swiss Bank Corporation, Le Locle, against an order from the latter bank to purchase 1,250,000 ounces. Mr. Funk of the Chase said that the 279,000 ounces were ready for shipment to Switzerland but that shipment had not yet been made, pending receipt of a navicert from the British. Mr. Funk does not know how the Swiss intend to use this silver.

B. M. F.

LAR

GRAY

357

Buenos Aires

Dated October 24, 1940

Rec'd 8:15 p.m.

Secretary of State,
Washington.

502, October 24, 7 p.m.

The newspaper THE STANDARD published this morning Associated Press despatches from New York indicating that our Government is seriously considering a plan involving \$100,000,000 in a refunding operation connected with the repatriation of Argentine sterling obligations, although the Government's part in the operation is not defined. One of the despatches states that a special committee of the Argentine-American Chamber of Commerce is scheduled to meet on Friday to continue a study of the plan and that:

"It is said to be understood that the plan has already been approved in Buenos Aires following conversations between Argentine officials and Mr. Norman Armour the United States Ambassador prior to the latter's vacation in the United States. It is said also that Mr. Armour has discussed the plan with the State Department at Washington which is reported as favoring the plan."

Another despatch states that "businessmen here praised the proposed \$100,000,000 refunding agreement with Argentina as holding out potential benefits to

three

LAR-2- 502, October 24, 7 p.m. from Buenos Aires.

three-way trade between Argentina, the United Kingdom and the United States."

I know of no such conversations here between the Embassy and the Argentine Government.

Reference is made to the Embassy's despatch number 529 of March 11.

TUCK

HTL

HMC
October 24, 1940

Secretary Morgenthau

Mr. Cushman

In my memorandum of July 29, I reported the interest of the Bulgarian Minister in the Estate of Constantin Hadji Kolchoff. At that time several of the New York banks, at Mr. Knoke's request, made a search of their records but they were unable to locate an account in the name of Mr. Kolchoff.

Today the State Department forwarded to me a memorandum of the conversation between Mr. Culbertson, Assistant Chief, Division of European Affairs and the Bulgarian Minister, on August 6, regarding this matter. The State Department also forwarded documents received by the Bulgarian Minister, from Bulgaria, in connection with the Estate of Mr. Kolchoff. All of this data are being forwarded to Mr. Knoke for his information with the suggestion that he again communicate with the New York banks as the documents referred to give several versions of Mr. Kolchoff's name, one or all of which may have been used by him in connection with his accounts.

MP

October 26, 1940

Dear Mr. Knake:

During July of this year the Treasury communicated with the Federal Reserve Bank of New York with respect to the interest of the Bulgarian Minister at Washington in the estate of one Constantin Hadji Kolcheff. At that time you were good enough to make extensive inquiries in the premises, but were unable to find any account in the name of Kolcheff. The Department of State has now provided us with further information with respect to the estate under reference, as received from the Bulgarian Minister. I have pleasure in transmitting herewith a copy of a memorandum from the Department of State dated October 22, together with its enclosures, presenting such information. Any further assistance which you may be able to render us in tracing the estate in question will be sincerely appreciated.

Very truly yours,

H. Merle Cochran,
Technical Assistant to the Secretary.

Enclosure.

L. W. Knake, Esquire,
Vice President,
Federal Reserve Bank of New York.

HMC:lep-10/26/40



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 311,743 Kaltcheff,
Constantin H.

October 22, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to a memorandum (no. 742) dated July 27, 1940 from the Minister of Bulgaria, a copy of which was communicated to the Treasury Department July 30, 1940, encloses for such action as may be found appropriate a copy of a memorandum (no. 953) dated October 16, 1940 from the Bulgarian Legation, concerning the estate of Constantine H. Galtcheff, or Constantine H. Galtcheff Drensky, together with copies of the texts mentioned therein in translation. There is also enclosed a copy of a Departmental memorandum dated August 6, 1940 relating to this matter.

Enclosures:

1. Bulgarian Legation's memorandum, October 16.
2. Three documents in translation.
3. Department's memorandum of August 6.

MINISTERE DES
AFFAIRES ETRANGERES
ET DES CULTES
DE BULGARIE

TRADUCTION OFFICIELLE
Copy.

DIRECTION DES AFFAIRES
CONSULAIRES ET ECONOMIQUES

MUNICIPAL GOVERNMENT OF SOFIA
No. 5868
July 22, 1940.

C E R T I F I C A T E

The Sofia Municipal Government - Fifth Municipal Section - does hereby certify that the sole, direct and lawful heiress of the deceased CONSTANTINE H. CALTCHEFF DRENSKY, who died July 16, 1940, according death certificate No. 2677/40 is his daughter THEOPHANA H. CALTCHEVA, aged 39, residing at Oborishte 6 and that there are no other heirs.

This certificate is issued to the above-mentioned THEOPHANA CONSTANTINE H. CALTCHEVA to present it to whom it may concern.

Deputy Mayor:
SL. KURSHUMOFF

Registrar-Accountant:
KIRO DIMITROFF

Follows the legalisation of the Ministry of Interior and Public Health and of the Ministry of Foreign Affairs and Cults.

For the correctness of the translation,

Dragoman: M. NEDELKOVA.

(SEAL) For the correctness of the copy,

Dragoman: M. NEDELKOVA.

No. D'Office

Vu au Ministère Royal des Affaires
Etrangères et des Cultes pour légalisa-
tion de la signature ci-dessus apposée
de son Dragoman Mlle M. Nedelkova.

Sofia le 3.IX 1940

LE SECRETAIRE du

Département Consulaire: L. Manesoff
Dragoman-Cassier: M. Dmitchof

(SEAL)

MINISTERE DES
AFFAIRES ETRANGERES
DES CULTES
BULGARIE

TRADUCTION OFFICIELLE
Copy

DIRECTION DES AFFAIRES
CONSULAIRES ET ECONOMIQUES

MINISTRY OF JUSTICE
Civil Department
No. 6046
August 31, 1940
SOFIA

C E R T I F I C A T E

The Ministry of Justice does hereby certify that in accordance with the Law for the persons now in force in Bulgaria, articles: 1, 53 and 119, the competent institution which is to establish the death and the heirs of a deceased person is the Municipality where that person has had his permanent residence.

In the case of the deceased CONSTANTINE H. CALTCHEFF, former resident of Sofia, Oborishte street No. 6, the competent institution is the Sofia Municipality.

The Ministry of Justice does further certify that according to the Inheritance Law, now in force in Bulgaria, art. 21, when the bequeather has left after his death only one descendent heir, the latter is entitled to the whole estate.

In the given case Mrs. THEOPHANA CALTCHEVA being the only descendent heir of the deceased CONSTANTINE H. CALTCHEFF is his sole and lawful heiress.

This certificate is issued to GEORGE GOVEDAROFF, advocate, and attorney-general of THEOPHANA CALTCHEVA, pursuant to his written request No. 11848 of August 30, 1940.

Chief of the Department:
CHR. MICHAÏLOFF

Follows the legalisation of the Ministry of Foreign Affairs and Cults.

For the correctness of the translation,
Dragoman: M. NEDELKOVA

For the correctness of the copy,
DRAGOMAN: M. NEDELKOVA

(SEAL)

-2-

No. D'Office

Vu au Ministère Royal des Affaires Etrangères
et des Cultes pour légalisation de la signature
ci-dessus apposée de son Drogman Mlle.
M. NEDELKOVA.

Sofia le 3. IX 1940

LE SECRETAIRE due

Département Consulaire: T. STANNOFF

(SEAL)

Drogman-Caissier: M. DMITKOF

TO THE SECRETARY
RECEIVED
SEP 11 1940

NO 6 MA 45 THO 088

RECEIVED
SEP 11 1940

MINISTÈRE DES
AFFAIRES ÉTRANGÈRES
DES CULTES
DE BULGARIE

TRADUCTION OFFICIELLE
Official copy.

DIRECTION DES AFFAIRES
CONSULAIRES ET ÉCONOMIQUES

The original is stamped
as follows:
stamp duty 15 leva;
judicial marks 30 leva;
judicial employees fund
10 leva and judicial
buildings fund 5 leva.

Free from stamp duty
and fees according
to letter No. 17521
of August 13, 1940
of the Ministry of
Finance and No. 5353
of August 14, 1940
of the Ministry of Justice.

POWER OF ATTORNEY - DECLARATION

I, the undersigned, THEOPHANA CONSTANTINE H. CALTCHEVA of Sofia, sole and lawful heiress of my deceased father CONSTANTINE H. CALTCHEFF, or CONSTANTINE H. CALTCHEFF DRENSKY, late resident of Sofia, do hereby empower the Bulgarian State in the person of the Minister of Finance to take the necessary steps before the Governments of: the UNITED STATES OF NORTH AMERICA, GERMANY, ITALY, FRANCE, GREAT-BRITAIN, SWEDEN, ARGENTINE, CANADA, TURKEY, UGOSLAVIA, ROUMANIA, GREECE, BELGIUM, HOLLAND, SWITZERLAND, DENMARK AND EGYPT for the purpose of investigating all deposits, securities rights and interests and in general all the real and personal estate, things and effects, property and possession of my deceased father and bequeather CONSTANTINE H. CALTCHEFF, or CONSTANTINE CALTCHEFF, or CONSTANTINE H. CALTCHEFF DRENSKY, born in Philippopolis, and residing in Sofia, at Oborishte No. 6, up to the date of his death July 16, 1940.

And therefore I hereby request the respective banks, institutions, societies and private persons abroad to furnish any informations and to give full assistance to the Bulgarian State to investigate and find out the estate of my deceased father and bequeather.-

In the meantime I also declare that this power of attorney is irrevocable.

City of Sofia, July 26, 1940.

Constituent TH. CALTCHEVA.

-2-

I, the undersigned, George Vurbenoff, Second Notary Public to the Sofia District Court do hereby certify that the signature of the constituent of this power of attorney is set in my presence at the Notary office by Theophana H. Caltcheva, of Sofia, personally known to me.

Collected fees: judicial stamps 30 leva and
Judicial Buildings fund 5 leva.

Register No. 9533.

Sofia, July 26, 1940.

Second Notary Public

G. VURBENOFF.

Follows the legalisation of the Second Notary Public to the Sofia District Court of August 14, 1940; of the Ministry of Justice of August 15, 1940 and of the Ministry of Foreign Affairs and Cults.

For the correctness of the translation,

DRAGOMAN: M. NEDELKOVA.

(SEAL)

No. D'office

Vu au Ministère Royal des Affaires
Etrangères et des Cultes pour légali-
sation de la signature ci-dessus
apposée de son Drogman Mlle. M.
Nedelkova.

Sofia le 2F.VIII 1940

LE SECRETAIRE L. S. PAPRIVIOFF
du Département Consulaire:

Drogman
Caisier M. DIMITSHOF

(SEAL)

DEPARTMENT OF STATE
Memorandum of Conversation

August 6, 1940

Participants: Mr. Dimitri Naoumoff, Minister of Bulgaria,
Mr. Paul T. Culbertson, Assistant Chief,
Division of European Affairs.

Mr. Naoumoff came in to see me last week in regard to a message which he had received from his Government concerning the death in Bulgaria of Mr. Constantin Hadji Kelcheff, who is reported to be a man of very great wealth, and who, according to the Bulgarian Government, had left most of his fortune to that Government. According to the Minister's information Mr. Kelcheff had very considerable funds in the United States, probably scattered around in a number of different banks. The Bulgarian Government is anxious to see to it that none of this money is drawn out of American banks through people over here who might have a power of attorney from Mr. Kelcheff.

I told the Minister that I did not know whether this sort of thing could be run down through the Treasury Department or not. However, I made notes of what he had to say and took the matter up with Mr. Livesey. Mr. Livesey got in touch with the appropriate people in Treasury and they ran the thing down as much as they could, and apparently were not able to find any funds in this man's name. I passed that information on to

Mr.

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Mr. Naumoff yesterday, when he came to see me, and told him that if there were any further information which they had he might let us have it.

Eu: Culbertson:mdm

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