

DIARY

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 7 1940

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of February, 1940.

Attachment

S. W. H.

SUMMARY REPORT ON STUDIES OR PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL -
FEBRUARY 1940

1. Monopoly Study. In our last report it was stated that this project would be completed by March 15, 1940. The collection of the material involved has been completed, but the task of organizing and analyzing the voluminous data which have been gathered and of formulating conclusions therefrom has proved so great that it is now expected that the month of March will be required to wind up the job. Messrs. O'Connell, Kades, and Handler are engaged upon this work.
2. Relations with the Department of Justice with regard to cases having both civil and criminal aspects. A study has been made during the past month regarding this subject, and a form of procedure was outlined for referring customs cases to the Department of Justice for criminal prosecution without necessarily surrendering control of the settlement of any civil claims which might be involved in the same cases. Dwan, Chief Counsel, Customs, was in charge.
3. Chinese Currency. This office has commenced a study of the legal questions involved in the New York Federal Reserve Bank's practice of certifying four rates of exchange for the Chinese Yuan each day, and related matters. As a part of this study, there will be considered the legal implications of the present practice of exporters from North China to express their invoices in the currency of the Japanese-established Federal Reserve Bank for North China. Dwan is also engaged upon this study.

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4. Importation of Poppy Heads for Test Purposes. A plan is under consideration whereby a supply of poppy heads may be imported to enable the importing manufacturers to test a method for the direct extraction of morphine. Tennyson, Chief Counsel, Narcotics, is engaged upon this work.
5. Revolving Fund to Permit Reissue of Checks in Advance of Reclamation. Under present procedure where payment has been made to the wrong person or a check has been negotiated without authority from the payee, the Comptroller General will allow a new check to be issued to the proper payee in advance of successful reclamation in only a limited number of cases, with the result that claims of innocent payees are not paid for an unconscionable time. Mr. Easby of Tietjens' office is working in cooperation with the Treasurer's office on a study of these cases with a view to drafting legislation setting up a revolving fund from which these claims could be paid promptly and in advance of reclamation.
6. New Depositary, Financial Agent, and Collateral Agreements. Under the old limited form of designation of depositaries, Government funds in transmission were not protected by the deposit of collateral. Mr. Easby of Tietjens' office, in cooperation with the Division of Deposits, has prepared new forms of designations, collateral agreements, and authorizing resolutions designed to remedy this defect. In connection with this revision, a new form of collateral, 2% Depositary

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Bonds of 1950, has been authorized (Department Circular No. 629), and the forms prepared by Tietjens' office.

7. Broadening of Jurisdiction of Processing Tax Board of Review.

Raymond Brown of the Processing Tax Section, Appeals Division, Revenue, is considering the question whether the law should be amended to confer jurisdiction upon the Processing Tax Board of Review of all cases involving the refund of any amount collected under the Agricultural Adjustment Act. The Board now has jurisdiction only of amounts paid as processing tax, while the district courts and the Court of Claims have jurisdiction of cases involving the refund of amounts paid as compensating, custom processing, or floor stocks taxes. The question was prompted by the Board.

8. Income Tax Consequences of Cancellation of Indebtedness. A study was pursued respecting the income tax consequences of the cancellation of the indebtedness of the taxpayer. The problem arises in connection with open market purchases of the bonds of the taxpayer, voluntary adjustments by agreement with the creditors, reorganizations under the Bankruptcy Act, and mortgage foreclosure proceedings. The Internal Revenue Code presents an approach to the issues quite at variance with that of the Bankruptcy Act. A proper and satisfactory solution will require the cooperative efforts of Wenchel's office and the office of the Legislative Counsel together with the attorneys for the Securities and Exchange Commission. The solution is not to be attempted at the

present session of Congress. In the meantime, consideration must be given to the possibilities presented by any emergency stop-gap legislation which might be proposed. Reiling, of the Legislation and Regulations Division, Revenue, is in charge.

9. Estate Tax on Proceeds of Life Insurance. Study is being given by Reiling's shop to a possible revision of the regulations within existing provisions of the Internal Revenue Code whereby the proceeds of life insurance taken out by the decedent on his own life shall be included in his gross estate notwithstanding the fact that the decedent retained no legal incidents of ownership. This study was undertaken at the suggestion of Mr. Stam, Chief of Staff, Joint Committee on Internal Revenue Taxation.

10. Stamp Tax - Transfers by Operation of Law. The possibility is being studied of eliminating confusion and uncertainty in the administration of the stamp tax provisions of the Code by the repeal of the statutory exemption with respect to "transfers by operation of law" and the substitution therefor of a specific exemption with respect to certain specified transfers. Reiling is handling.

11. More Appropriate Tax Treatment of Taxpayers Claiming Benefit of Community Property Laws. Consideration has been given to the problem of affording more appropriate tax treatment in the case of taxpayers claiming the benefit of community property laws. This study extends to income taxes, estate taxes, and gift taxes, and has resulted in the development of certain tentative recommendations. Reiling is handling.

12. Use of Lapsed Salaries for Promotions. The question was considered whether savings resulting from lapsed salaries are required by law to be covered into the Treasury or may be used for administrative promotions and new appointments. An opinion was rendered expressing the conclusion that the lapse provision contained in the Act of August 5, 1882, is not applicable in an instance where the appropriation for salaries has been made in a lump sum and therefore that lapses may be used for the purposes indicated. Mr. Wolf in the Opinions Section prepared this opinion.

13. Power of Member of Congress to Act as Attorney for Receiver of an Insolvent National Bank. An opinion prepared by Feidler of the Opinions Section concludes that a Member of Congress may not be lawfully retained by the Comptroller of the Currency as attorney for the receiver of a national bank.

14. Destruction of old Checks and Warrants. Under the Act of August 5, 1939, the Secretary of the Treasury and the Comptroller General had authority to destroy paid Government checks and warrants. The Act of August 5, 1939, provides for the disposition of Government "records". An opinion prepared by Mr. Gilmore and Miss Goode of the Opinions Section concludes that the method of disposition of records provided in the Act of August 5, 1939, is exclusive, and hence the Secretary of the Treasury and the Comptroller General no longer have authority to destroy checks and warrants as provided in the previous act (that of June 22, 1926).

15. Authority of Board of Directors of Federal Farm Mortgage Corporation to Reduce Capital Stock. An opinion prepared by Messrs. Feidler and Gilmore expresses the conclusion that the Board of Directors of the Federal Farm Mortgage Corporation does not have at the present time authority to reduce the corporation's capital stock.

16. Correlation of laws Affecting Coast Guard and Lighthouse Service. A study is being made of the laws affecting the Coast Guard and the former Lighthouse Service with a view to recommending such repeals and modifications as may be necessary to establish uniformity of practices considered desirable as a result of the consolidation. An omnibus bill has been prepared for submission to Congress at this session embodying such repeals and modifications thus far developed as desirable and, as the study progresses, it is anticipated other recommendations will be made. However, present plans do not contemplate further recommendations to Congress at this Session, it being considered desirable to accumulate individual cases for incorporation into another omnibus bill for recommendation to Congress at its next session. This study is being conducted by Harrison, Chief Counsel, Coast Guard, in cooperation with administrative officers at the Coast Guard.

17. Inter-American Bank. Proposed by-laws, charter, and convention for the Inter-American Bank were prepared, approved by the full committee, and forwarded to the 21 Pan-American governments for consideration.

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Bernstein handled this job and was assisted by Messrs. Pehle, Friedman, and Ferguson.

18. Sabotage Awards. This Department has been cooperating with the Department of Justice in connection with the interests of the Treasury in the litigation relative to the so-called sabotage awards. The suit against the Secretary of the Treasury which would enjoin him from paying such awards is now pending on appeal in the Court of Appeals for the District of Columbia. The cross action brought by the holders of the sabotage awards which requests the court to direct the Secretary of the Treasury to pay such awards is still pending in the District Court.

The time for filing applications for payment of awards of the Mixed Claims Commission, which has been extended by Congress from time to time, expires on March 10, 1940. The Treasury Department has not requested a further extension of the time for filing such applications. Pehle and Miss Hodel assisted Mr. Bernstein in the above work.

19. Alien Property Bureau. This Department has been cooperating with the Department of Justice and the Department of State in the consideration of proposed legislation which would discontinue the Alien Property Bureau and provide for the disposition of the funds being held in the German Special Deposit Account. We also raised with the Department of Justice the possibility of issuing an executive order which would lift the restrictions of the Harrison Resolution to the

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extent necessary to enable the Attorney General to pay certain taxes owing by Germans out of property seized from Germans. Mr. Pehle and Miss Hodel in Bernstein's shop have been engaged upon the above task.

20. Townsend Silver Bill. This office participated in the consideration of the position which the Administration should take with reference to the Townsend bill which would immediately discontinue all acquisitions of silver by the Treasury other than acquisitions of newly mined domestic silver. Messrs. Bernstein and Pehle handled this assignment.

21. Silver Commissions. We referred to the Department of Justice for appropriate action the matter of the charging by certain New York brokers of a double commission on the liquidation of certain outstanding silver contracts of the Treasury at the time of the nationalization of silver. This was handled by Messrs. Pehle and Friedman.

22. Export of materials. We reviewed and made suggestions with respect to proposed legislation giving the President power to restrict exports of certain materials. This was handled by Messrs. Pehle and Friedman.

23. Moving of Silver to West Point. The Mint Bureau is contemplating moving between 200,000 and 400,000 bars of silver from the New York Assay Office to West Point in the near future. We drafted the necessary papers, including proposed specification, bids, bid bond, etc. for such moving. This job was handled by Messrs. Pehle and Bernstein.

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24. Gold Mining Cases. Exceptions to findings of fact made by a commissioner of the Court of Claims in two of these cases are being prepared. A proposed stipulation of evidence is being prepared in another one of such cases. This job is being handled by Messrs. Friedman and Mann in Bernstein's shop.

25. Bakewell Case. A brief for the Government in this case, which involves a suit upon a gold-clause Liberty Bond for an amount in excess of the face amount thereof, is being prepared. Messrs. Pehle and Friedman are doing the work.

26. Harris S. Durkee. The Department has for some time been corresponding with Harris S. Durkee with respect to certain gold which he indicated had been held since 1933 in a safe deposit box in this country and which he wished to arrange to have turned in without penalties being imposed. The Department took the position that it would give no assurances to Durkee with reference to such gold. Recently a New York lawyer came to the Department to discuss a similar problem and when asked if he represented Durkee, indicated that he did. No assurances were given to the lawyer with reference to the possible penalties but the lawyer promptly made arrangements for the surrender of the gold, for which settlement was made at the face amount for the gold coins and \$20.67 for the gold bullion. The total amount paid to Durkee amounted to approximately \$80,000. This was handled by Pehle.

27. Material for Col. Halsey. At the request of Col. Halsey statements relating to gold and to the public debt were prepared for him by Messrs. Pehle and Friedman.

28. Purchase of Silver from Japan and Gold from Russia. We assisted in the consideration of the Treasury's position with respect to the purchase of silver from Japan and gold from Russia and assisted in the drafting of correspondence, statements, etc., relative thereto. Pehle worked on this.

The following items all pertain to work handled in the Legislative Section under the supervision of Mr. Bernard:

CONTINUATION OF PROJECTS

29. Alien Fishing Problem. (For description see original report, No. 18.) Mr. Spingarn recently attended a public hearing of Mr. Bland's Committee on bills dealing with the problem. Only nongovernmental witnesses testified at this meeting, but later on governmental representatives will attend an executive session.

30. Bills relative to the Harrison Narcotic Act:

(a) Bill to relieve the hospitals from double tax. (For description see original report, No. 9, and previous report, No. 4.) This bill is still in the hands of Budget. Miss McDuff handled this.

(b) Bill to withdraw registration under the Harrison Act from person violating state or Federal narcotic laws.

(For description see previous report, New Studies,

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No, 4.) A memorandum on the constitutionality of this measure has been completed by Mr. Groman.

This bill has now been sent forward with a draft of a memorandum from Mr. Foley to Mr. Gaston summarizing the background and legal aspects of the bill and requesting a policy decision as to whether or not the Department should sponsor it.

31. Bond Survey. (For description see original report, No. 10.)

A report on Senator McCarran's bill is being prepared and an alternative bill drafted by the Legislative Section, to accompany this report, has been submitted to an interdepartmental conference for consideration. The suggestions made in the conference are now being incorporated in the alternative bill. Mr. Groman is handling this.

32. Assignment of Claims against the United States. (For description see original report, No. 11.) Letters of transmittal to Congress are now being put in final shape by Mr. Groman.

33. Compilation of money Statutes. (See description in original report, No. 11.) Miss McDuff is putting this material into final form.

34. Compilation in Annotated Form of Laws and Regulations Affecting Government Personnel. (For description see original report, No. 13.)

All the attorneys in the Legislative Section are continuing this project under Mr. Bernard's supervision.

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35. Codification of Federal Regulations. (For description see original report, No. 16.) Mr. Spingarn is continuing the Treasury phases of this work.
36. Codification of Anti-counterfeiting and Related Laws. (For description see original report, No. 7.) Work on this by Mr. Koken continues.
37. Restriction of Export of Vital Material. (For description see previous report, New Studies, No. 2.) The Legislative Section has continued its cooperation with Mr. White's office in considering legislation to restrict the export of materials vital to national defense. Mr. Spingarn has been handling this work for the Legislative Section.
38. Coast Guard Omnibus Bill. (For description see previous report, New Studies, No. 3.) Work on the proposed bill has been completed by Mr. Koken and the bill has been sent forward for Budget clearance.
39. Federal Depository System. (For description see original report, No. 6.) A draft of this bill has been prepared by Mr. Reeves and the bill has been submitted to the Division of Deposits.

NEW STUDIES

40. New Office of Fiscal Assistant to the Secretary of the Treasury. The Legislative Section has prepared and submitted to Mr. Bell and Mr. Bartelt for comment a draft of a reorganization plan to establish

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the office of Fiscal Assistant to the Secretary of the Treasury. A memorandum in support of the legality of the proposed plan has also been prepared. Mr. Reeves was responsible for this work.

41. Council of Personnel Administration. A proposed reorganization plan, a message to Congress, and a memorandum supporting the legality of the plan are being prepared by Mr. Groman. The possibility of utilizing funds in the Civil Service Commission to sustain the present Council of Personnel Administration is also being studied.

(COPY:EAS)

No. 62

AMERICAN CONSULATE GENERAL
 American Foreign Service, Hanoi, Indochina,
 March 7, 1940.

Subject: Transportation of Wood Oil
 through Kwangsi.

The Honorable
 The Secretary of State,
 Washington.

Sir:

I have the honor to refer to my despatch no. 61 of March 6, 1940, in regard to the increasing utilization of pack trains for the transportation of exports to and imports from China, as a result of the disruption in part or in whole of other means of transportation via Indochina. It is now reliably reported that pack train transportation of wood oil from Kwangsi is increasing very appreciably.

During a recent investigation of the back country trails along the Indochina-Kwangsi frontier, an observer noted an unusual number of pack trains carrying wood oil into Indochina. He was subsequently informed by a member of the Kwangsi Import and Export Syndicate that approximately 4,000 tins of wood oil are now being handled monthly over these trails. In order of importance these trails are: (1) Tran Khan Fu - 29 kilometers to the frontier and 3 days to Tsingtsi; (2) Tralin - 3 kilometers to the frontier and 1 day to Tsingtsi; (3) Sac Giang - 3 kilometers to the frontier and 2 days to Tsingtsi; (4) Ben Cra - 8 kilometers to the frontier and no Chinese town of importance within 4 or 5 days; and (5) Hulong - 10 kilometers from the frontier and about 3 days to Lungchow. All coolies and pack animals have to be arranged for at Tsingtsi.

It is possible that much of the wood oil reaching Indochina by these back trails escapes the control of the Foo Shing Trading Corporation, which holds the export monopoly of this commodity, except that arriving by the main Cao bang road.

The Indochina Government is apparently cooperating with the Chinese National Government in endeavoring to make effective the control of the Foo Shing Trading Corporation, as exports of wood oil from Indochina are prohibited unless evidence is presented that the export is "legitimate". In addition to this apparent cooperation, the Indochina Government, by the recent tightening of control over exports of wood oil and other commodities from Indochina, is patently pursuing a three-fold purpose: (1) preventing these commodities from going into Russian hands, for possible use by the Germans; (2) acquiring control of commodities which will realize foreign exchange; and (3) acquiring commodities, which are usable in French and British war time industries.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II

American Consul.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, March 7, 1940.
3/6/40

Press Service
No. 20-38

Secretary of the Treasury Morgenthau announced today the offering, through the Federal Reserve banks, of $3/4$ percent Treasury Notes of Series A-1945, in exchange for $1-1/2$ percent Treasury Notes of Series B-1940, maturing June 15, 1940. Exchanges will be made par for par, and accrued interest on the notes exchanged will be paid to March 15, 1940. The offering of the new notes will be limited to the amount of maturing notes tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury Notes of Series A-1945, now offered only in exchange for Treasury notes maturing June 15, 1940, will be dated March 15, 1940, and will bear interest from that date at the rate of $3/4$ percent per annum, payable semiannually. The notes will mature March 15, 1945, and will not be subject to call for redemption before that date. They will be issued only in bearer form with coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

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

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of $1-1/2$ percent Treasury Notes of Series B-1940, maturing June 15, 1940, with final coupon due June 15 attached. The notes will be accepted at par, and accrued interest on such notes from December 15, 1939, to March 15, 1940, (about \$3.73 per \$1,000 face amount) will be paid following their acceptance.

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The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circular, all subscriptions will be allotted in full.

Treasury Notes of Series B-1940, maturing June 15, 1940, are now outstanding in the amount of \$738,428,400. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. Any maturing notes not so exchanged at this time will be paid in cash when they mature.

The text of the official circular follows:

UNITED STATES OF AMERICA

3/4 PERCENT TREASURY NOTES OF SERIES A-1945

Dated and bearing interest from March 15, 1940

Due March 15, 1945

Interest payable March 15 and September 15

1940
Department Circular No. 631

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, March 7, 1940,

Public Debt Service

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 3/4 percent notes of the United States, designated Treasury Notes of Series A-1945, in payment of which only Treasury Notes of Series B-1940, maturing June 15, 1940, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1940 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated March 15, 1940, and will bear interest from that date at the rate of 3/4 percent per annum, payable semiannually on September 15, 1940, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1945, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of

the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made or completed on or before March 15, 1940, or on later allotment, and may be made only in Treasury Notes of Series B-1940, maturing June 15, 1940, which will be accepted at par, and should accompany the subscription. Coupons dated June 15, 1940, must be attached to the notes when surrendered, and accrued interest from December 15, 1939, to March 15, 1940 (\$3.7295 per \$1,000), will be paid following acceptance of the notes.

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V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

March 7, 1940. 21
11:15 a.m.

H.M.Jr: Hello.
Harold
Ickes: Henry?

H.M.Jr: Yes Harold.

I: I have your letter of March 3, saying that you'd be glad to furnish us a tax expert for Alaska.

H.M.Jr: Yes.

I: Were you kidding in your second paragraph?

H.M.Jr: I don't know what it is Harold. What did I say?

I: Well, did you expect us to defray the travelling and living expenses?

H.M.Jr: Yes, because we have, we can't do it, we can furnish the man.

I: Well, but the whole purpose of this thing is to relieve the pressure on the Treasury for appropriations for Alaska, you'll benefit, we don't. It doesn't make any difference to us.

H.M.Jr: Oh well, Reading was over here.

I: Yes.

H.M.Jr: And I had a meeting with him and he seemed to think that suggestion was fair. No I wasn't kidding.

I: Well but it is the fact Henry, that this will help the Treasury, it won't help us a dime.

H.M.Jr: Well I -

I: They aren't paying their adequate share of taxes up there and then they come down here, gets the Treasury to make up the difference between what the Government costs them and what they're willing to pay themselves.

H.M.Jr: Well -

I: They've been doing that for years.

- 2 -

H.M.Jr: People around here seem to think that, I may be wrong, that we wouldn't have any way of financing that.

Why?

H.M.Jr: I don't know. I - I mean -

Why of course you can finance it, Henry.

H.M.Jr: But Thompson, my administrator -

We'll give him free rides on our railroad when he gets up there.

H.M.Jr: You're big hearted today.

You aren't feeling big hearted.

H.M.Jr: I say you are.

No, sure, I'm big hearted, I'm trying to relieve the tolerable strain that you're carrying over there, making both ends meet. I can get you more revenues out of Alaska.

H.M.Jr: This is too much, I mean -

Of course if you want to give to us an amount like that, why we haven't got any money over here. Come along now, be a good fellow, you're tighter than Jesse Jones.

H.M.Jr: I refuse to take the insult.

You are. You're tighter than Jesse.

H.M.Jr: I'll ask Norman Thompson. I don't know the details, but I'll ask him about it.

You certainly have a right to send somebody up there, it's strictly within your competence.

H.M.Jr: Well let me ask you. Do you want somebody to go up there?

Yes I do. I think those - ever since I went up there a couple of summers ago I've been outraged by the mendicant attitude of the people of Alaska.

- 3 -

H.M.Jr: Well the important thing, you really want somebody up there.

I want somebody up there very much.

H.M.Jr: Will you match me as to who pays his expenses.

No because I think you, I think the coin you match with is crooked.

H.M.Jr: Go to hell.

Well I will go to hell and I'll meet you there.

H.M.Jr: O.K.

I'll have a nice warm fire ready for you.

H.M.Jr: Well I'll talk to Norman Thompson.

March 7, 1940.
3:56 p.m.

Operator: Go ahead.
Ed.
Halsey: Hello.
H.M.Jr: Hello.
H: Ed Halsey, Mr. Secretary.
H.M.Jr: How are you?
H: Fine sir. I want to ask a little favor of you if I can?
H.M.Jr: Well if it's little enough I'll do it.
H: (laughs)
H.M.Jr: If it's big enough I'll do it.
H: Well that's fair enough. I've been watching the interest up here. Hope you read that Schwellenbach speech the other day where we minimized your national debt proposition right down to the vanishing point. Did you see it?
H.M.Jr: No I didn't.
H: Well I'll send you a copy of it, it's an awfully interesting speech and it can be amplified into a real, real argument, where the national debt proposition seems to be worrying a lot of people can be minimized to where it almost take it out of the campaign I think.
H.M.Jr: I see.
H: I'm serious about that.
H.M.Jr: Yes.
H: What I wanted to ask you. You've been kind enough to help me with that case of J. D. Younger. He's been seriously ill and he's on a temporary appointment and his term of leave expires tomorrow and I was wondering if I couldn't - I've been through all of the details with everybody under you that I could get hold of except appealing to you, and I'm doing this

- 2 -

because the others have not found any way to help me.

H.M.Jr: What's his name?

H: J. D. Younger. He's a - J. D. John D. Younger.

H.M.Jr: How do you spell it?

H: Y-o-u-n-g-e-r is the last name.

H.M.Jr: Do you know where he's working?

H: He's in the Mint Division, yes sir.

H.M.Jr: Mint?

H: Mint. Yes sir.

H.M.Jr: Not mint julep?

H: No, not mint julep, but far from it.

H.M.Jr: And they want to lay him off?

H: No, he's been ill and his term of leave expires and they can't - he's absolutely flat on his back. He has coronary thrombosis and I was wondering if some - I couldn't appeal to you in some way or another to put him on the permanent roles, or something, to carry him until he can get on his feet. He's Mrs. Halsey's brother otherwise I wouldn't be interested.

H.M.Jr: Well -

H: I know it's unusual but I do the unusual some times, and I don't know of anybody I'd rather do it for than you.

H.M.Jr: Well, that goes both ways. I tell you, you'll get an answer from Norman Thompson, my assistant, within thirty minutes, one way or the other.

H: Well I talked to him about it sir.

H.M.Jr: Well what - let me talk to him.

H: Will you do it?

- 3 -

H.M.Jr: Sure, right away.

H: I'll appreciate it then if you can do something I'll remember you in my will and everything else.

H.M.Jr: No.

H: It'll help me tremendously.

H.M.Jr: Well look, let me find out.

H: Oh please.

H.M.Jr: Thank you.

March 7, 1940.
4:13 p.m.

H.M.Jr: Hello.

Operator: Admiral Spear.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello
Admiral
Spear: Good afternoon, Mr. Secretary.

H.M.Jr: Hello Admiral. Admiral, do you know whether this release of powder to the English has gone through yet or not?

S: It has not yet, sir.

H.M.Jr: It has not?

S: It has not. What we were told to do was to endeavor to secure a letter from the DuPont and the Hercules people asking the Navy permission to make that release or make that sale.

H.M.Jr: Yes.

S: Which they have not done.

H.M.Jr: I see.

S: Now I don't know what's going to happen in the event the DuPont people refuse to do it. By the way sir, I understand, that they have definitely, this afternoon, refused.

H.M.Jr: Who has refused?

S: The DuPont people.

H.M.Jr: The DuPont?

S: They will not make that request.

H.M.Jr: They won't.

S: That's what I'm told by the Chief of the Bureau of Ordinances, this afternoon, about an hour ago.

- 2 -

H.M.Jr: I see. You mean the DuPont won't make the request?

S: Yes, they will not make any request. They don't want to make that request.

H.M.Jr: I see. Well, -

S: Should we go ahead and do it anyway?

H.M.Jr: Yes. Yes.

S: Go ahead and do it.

H.M.Jr: Yes, because at no time has the President raised that point with me.

S: I see.

H.M.Jr: No, he didn't raise the point.

S: I see. So you think it would be perfectly proper for me to tell both the Army and the Navy that it's perfectly proper to advise both companies to go ahead and make their sales.

H.M.Jr: Yes, if, if they won't do it, the President made no conditions when I got - I spoke to him two different times.

S: I see.

H.M.Jr: He made no conditions.

S: I see. So I'll go right ahead and arrange that right away sir.

H.M.Jr: Thank you Admiral.

S: And I'll tell Captain Collins about it because I told Collins exactly what the situation was and that we wouldn't do anything until we heard further and he agreed that that was the proper step. Now with this information that you've just given me I'll go ahead and make the arrangements.

H.M.Jr: No, I would have liked to have gotten it.

S: I know.

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H.M.Jr: Hello?

S: Yes, sir. I understand.

H.M.Jr: I understand that the English did ask DuPont and Hercules to do this.

S: Oh they have and they told me yesterday afternoon, Mr. Ballantyne was the secretary here, he thought that the DuPont people were going to do it.

H.M.Jr: Yes.

S: Now this afternoon the DuPont people called our Chief, Bureau of Ordinance, Admiral Furlong, and told him definitely, there was a misunderstanding of some kind that they would absolutely not do it.

H.M.Jr: Well I'm willing to say now that if they refused, I'm willing to say that it's all right to go ahead and let them have it.

S: Aye, aye, sir. I'll take steps right away to see that that's done.

H.M.Jr: Because at no time did the President raise that question.

S: I see.

H.M.Jr: So I'll take the responsibility.

S: Aye, aye, sir. Well I'll see to it that those instructions get out right away.

H.M.Jr: Thank you.

S: Aye, aye, sir. Thank you very much.

March 7, 1940.
4:45 p.m.

H.M.Jr: Hello.

Operator: General Arnold.

H.M.Jr: Hello.

General

Arnold: Mr. Secretary. General Arnold talking.

H.M.Jr: Thank you for sending over that material.

A: I hope that that was what you wanted.

H.M.Jr: Just what I wanted.

A: Now I have a request to make.

H.M.Jr: Please.

A: We have to buy two Rolls Royce engines.

H.M.Jr: Right.

A: Similar to the kind that are in the Spitfire.

H.M.Jr: Right.

A: We got a message from our attache over there today, saying that the Air Ministry won't sell them to us.

H.M.Jr: Yes. The easiest thing in the world. What - have they got a type number?

A: Well we just ask for the latest Rolls Royce that are used in the Spitfire. That's the only way we could identify them.

H.M.Jr: You want two of the most recent Rolls Royce engines.

A: As used in their pursuit aeroplanes.

H.M.Jr: Yes. And you want to buy them, or do you want to loan them?

A: We want to buy them. We're willing to pay for them.

H.M.Jr: I see.

A: If we could get them to loan it would be so much better, but we didn't think that was possible, so we thought we'd rather buy them.

H.M.Jr: Well, I'm going to ask, being a little Scotch, I'm going to ask to borrow them.

A: All right, sir. Then the other thing sir.

H.M.Jr: Yes.

A: Is there any way we can expedite that Mission over there? We're still talking about it and doing nothing.

H.M.Jr: Yes well now, I tell you, I was waiting to see the President and I hope to see him in the next twenty-four hours and I'll put it on his desk.

A: Yes sir.

H.M.Jr: Now, may I ask you? Are your top fellows all for this?

A: For the Mission?

H.M.Jr: Yes.

A: Yes sir, that's right through from top to bottom.

H.M.Jr: Mr. Woodring is -

A: Yes sir, they've all committed themselves on it.

H.M.Jr: They have.

A: Yes, sir.

H.M.Jr: Well then I can - I'll give it a push.

A: I wish you would sir.

H.M.Jr: And the Rolls Royce engines. I'll guarantee to get them for you.

A: Well if you can do that, that's going to be a wonderful help.

H.M.Jr: I'll guarantee you that.

A: All right.

H.M.Jr: But the Mission thing, it may be - I mean I don't know how the President will feel. The other thing I can get it for you.

- 3 -

A: Well all right.

H.M.Jr: You want the two latest Rolls Royce engines.

A: As used in their pursuit planes.

H.M.Jr: I - I- I'll - you want two?

A: Yes sir.

H.M.Jr: One wouldn't do?

A: Well one would be better than none but the reason why they sent two was in case one breaks up during our test why we'd have another one to complete them but if we could only get one why we'd be tickled to death.

H.M.Jr: Well I'll get you, I'll guarantee to get you one and I'll try and get you two.

A: Thank you very much.

H.M.Jr: Goodbye.

A: Goodbye.

March 7, 1940.
4:45 p.m.

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H.M.Jr: Hello.

Operator: Secretary Edison.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Secretary Edison: Hello, Charles Edison talking.

H.M.Jr: Hello Charlie.

E: Say, Henry, Speer came and told me that you said it was all right to release that powder and for us to take the initiative in releasing and not insist on the DuPont company asking for it.

H.M.Jr: That's right.

E: And what I was wondering was - now that's six hundred thousand pounds, all the powder we've got to release, you see?

H.M.Jr: Yes.

E: In other words we could take four months, but that's all.

H.M.Jr: Yes.

E: Now I heard today, just a little while ago, that the Finns were over here now very anxious to get fifteen hundred tons of powder and that's three million pounds. Now if we give all this six hundred thousand to the British there will be none for anyone else, not the Swedes or Finns or anybody wants any more we just won't have any more.

H.M.Jr: Well the Finns got some powder from the Army, did you know that?

E: Yes, that was a little while ago.

H.M.Jr: Yes. And I don't know -

E: They're in again today I think for a large amount more.

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- H.M.Jr: Well I didn't know anything about that. But this other thing, this thing that we're talking about for the English, I cleared twice with the President and I don't think I'd change it.
- E: Well I just wanted you to have that word.
- H.M.Jr: I see.
- E: That if you do give it all to the British there won't be any for anybody else, you see, I mean we're through, we've given up all we can give up.
- H.M.Jr: Well there's another - there's another possibility. I understand that by putting on a hundred and seventy-five more men in Indianhead you can build up your own production.
- E: Yes, but God, we'd hate to do that.
- H.M.Jr: What?
- E: I say, I'd hate to do that.
- H.M.Jr: Huhhuh.
- E: For two reasons. I don't want too many men in one place like Indianhead which is liable to blow up.
- H.M.Jr: I see.
- E: And the more of that stuff you have going through a plant the more chance there is of its going, you know, there's more men, more danger, and it's the only powder plant we have, and then once we get them on it's hell on earth to get them down again, see?
- H.M.Jr: But the Finns want how much?
- E: Well they want this huge quantity, three million pounds.
- H.M.Jr: I don't, I haven't heard anything about that.
- E: Collins told Speer and he told me this morning in counsel that this had just come in, just an hour ago.
- H.M.Jr: Collins said so?
- E: Yes, so you can get it from Collins, the story on it. and all I wanted to tell you was that, of course

you know we can always stretch a point really and give up some more, but it's small quantities, but this is, this six hundred thousand pounds is about all we could give up without really hurting, see. And also there won't be any help for the Finns or Swedes or anybody else that wants any if we give this up, that amounts to anything.

H.M.Jr: Well -

E: You see we don't give it up to the English. All we do is to tell DuPont we don't need deliveries for four months, want six hundred thousand pounds, then somebody else, you, over in your department allocate it to whoever you want to give it to.

H.M.Jr: Well of course I'm just acting as the President's agent.

E: Well I know, but I mean.

H.M.Jr: But here's the thing. I've given my word.

E: To the British?

H.M.Jr: Yes. I've given my word and I've passed it in the name of the President.

E: Yes.

H.M.Jr: So I think I'd better stick to it.

E: If that's the case you're elected.

H.M.Jr: So I think I'd better stick to it.

E: Yes. Well I just wanted you to know that, that we can probably not help the Finns much if -

H.M.Jr: Well, there's only so much to go around and I have passed my word Charlie. I think I'd better stick by it.

E: Yes.

H.M.Jr: It's the only thing I've got that's worth anything.

E: Yes.

H.M.Jr: Well of course -

E: I just wanted you to know that -

H.M.Jr: Well I appreciate it, and I've been thinking, while you're talking, but here, I mean I'm only acting as a messenger boy for the President.

E: Yes.

H.M.Jr: And I took it up with him Sunday and then again Monday, and he told me twice that this is what he wanted.

E: Yes.

H.M.Jr: Now I've passed that along to the English and unless he orders me to do otherwise I think that I'd better stick by my orders.

E: Yes, sure.

H.M.Jr: So -

E: I didn't want you to do it without knowing about this new inquiry.

H.M.Jr: Well -

E: Collins can tell you the story on it.

H.M.Jr: Right. Well I think I'll just - I have no alternative but stick by my orders.

E: All right sir.

H.M.Jr: But I appreciate your bringing it to me.

E: All right. Well all we do you see is just merely tell DuPont that we don't want this for four months.

H.M.Jr: I understand.

E: But whoever they give it to is of no concern to us.

H.M.Jr: I understand.

E: Sentimentally.

H.M.Jr: Well, but why the Finns always wait until the last minute, they've been fighting since last December.

E: I don't know why they wait sir.

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H.M.Jr: They came in here and saw the President Sunday. They wanted a hundred and eighty six planes. I took it up with - your Admiral, what's his name? Head of aviation.

E: Yes. Towers.

H.M.Jr: And General Arnold, and it just isn't in the wood.

E: Yes.

H.M.Jr: And - because I don't know how much powder the English and French have got and how much they can release to the Finns.

E: Well I don't think they've got much, if their plant blew up and they need this three million pounds themselves, they're not going to get out of us all that the English want now.

H.M.Jr: That's right.

E: So they're not going to release any.

H.M.Jr: That's right. Well I appreciate your bringing it to me Charlie, but I passed my word and I think I had better stick by it.

E: Yes. Oh sure, if you're committed why that's - ends that. All right sir. Well I'm instructing Furlong to go ahead and tell DuPont to do that.

H.M.Jr: Thank you so much.

E: All right, sir.

H.M.Jr: See you soon. Goodbye.

March 7, 1940.
4:59 p.m.

H.M.Jr: Jesse?

Jesse

Jones: Yes.

H.M.Jr: I'm delighted to see on the ticker you announced the loan to China.

J: I thought you would. I saw Benton this morning and I wanted to talk to him about the, one of the others and he thought we ought to go ahead soon.

H.M.Jr: Well I just wanted to tell you I'm very much pleased.

J: Yes. Well I saw the Chinese yesterday, again last night.

H.M.Jr: Good.

J: And so I thought we might as well go in and ease their pain and do them what good we could.

H.M.Jr: All right Jesse, more power to you.

J: O.K. Getting along all right?

H.M.Jr: Oh pretty well. Got aeroplane troubles, otherwise all right.

J: O.K. Goodbye.

H.M.Jr: Goodbye.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with the Secretary's instructions, I telephoned Minister Procope of Finland at 10 o'clock this morning and gave him the substance of the message which I had received from Mr. Purvis by telephone yesterday evening.

Minister Procope was quite disappointed at what he considered a flat failure to obtain assistance in the United States. I explained to him again, as I had yesterday, that the Secretary had done absolutely everything possible in canvassing the American situation and in making the approach to the Allied Purchasing Commission. I made the point that the Commission was in this country to coordinate purchases and could not make an important decision such as would be involved in relinquishing 186 planes, already under order for France, to Finland. I emphasized that this was a matter of high policy which could only be considered in Paris. I told Minister Procope that his Minister there could look into the possibilities. Procope was of the opinion that representations had already been made in Paris and that the Supreme War Council was not willing to go further than it already has.

Minister Procope will endeavor to see Mr. Purvis while the latter is in Washington today. He said that if he could not obtain some satisfaction through Purvis he might appeal to the Treasury again. I emphasized once more that the Secretary had not referred the matter to Purvis until he had exhausted possibilities of direct American assistance, after consulting with the appropriate high officials in the army and navy. I added that the Secretary had been giving his best efforts to speeding up production of the American aircraft industry, but that it was beyond his authority to influence foreign governments which have contracted for American planes as to what disposition they shall make of them.



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The commercial purchases of open market sterling were in much larger volume today, due to the recurrent rumor that over the coming weekend the British Exchange Control will institute new regulations requiring that certain exports from England and the British Empire would have to be paid for on the basis of the official rate. It was reported that rubber concerns were particularly good buyers of sterling. As a result, the upward movement in the sterling rate was accelerated today. Prior to the opening of the exchange market here, sterling advanced from 3.90-15/16 to 3.91-7/8 in Amsterdam. The opening quotation in New York was 3.91-7/8. The rate moved steadily upward to a high of 3.94-1/4 by late afternoon. Just before the close, an easier tone developed and the final quotation was 3.94.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £656,000 from the following sources:

By commercial concerns.....	£ 241,000
By foreign banks (Europe and Far East).....	£ 365,000
By Federal Reserve Bank of New York (for Yugoslavia).....	£ 50,000
Total.....	£ 656,000

Purchases of spot sterling amounted to £876,000, as indicated below:

By commercial concerns.....	£ 801,000
By foreign banks (Europe).....	£ 75,000
Total.....	£ 876,000

The discounts for one-month and three-months forward sterling narrowed to 5/8¢ and 3-1/8¢ per pound respectively. The relatively greater improvement in the one-month quotation (equivalent to 1-7/8% per annum), as compared with that quoted for three-months (3-3/16%), is explained by the fact that commercial concerns were fair buyers of short-dated maturities while less interest was shown for longer dates.

The following reporting banks sold cotton bills totaling £115,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 42,000 by the National City Bank
33,000 by the Guaranty Trust Co.
23,000 by the Chase National Bank
13,000 by the Irving Trust Co.
4,000 by the Bankers Trust Co.
<u>£ 115,000 Total</u>

CONFIDENTIAL

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In the past, the quotation for the Canadian dollar has generally moved in sympathy with the sterling rate. Yesterday and today, however, the Canadian currency failed to follow the improvement in sterling, and moved off today to close at 14-1/2% discount, a new low since 1933.

The other important currencies closed as follows:

French francs	.0223-1/4
Guilders	.5313-1/2
Swiss francs	.2242
Belgas	.1693-1/2

We sold \$100,000 in gold to the National Bank of Belgium to be added to its earmarked account.

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

\$ 1,691,000 from Italy, shipped by the Bank of Italy to the Federal Reserve Bank of New York, to be earmarked for account of the B.I.S.
1,399,000 from England, representing three shipments by Samuel Montagu & Co., to the Bankers Trust Company, New York, for sale to the U. S. Assay Office.
\$ 3,090,000 Total

The State Department forwarded to us a cable stating that the Bank of Sweden made five shipments of gold for its own account totaling \$20,653,000, from Sweden, to the Federal Reserve Bank of New York. Although the disposition of these shipments is unknown at the present time, in all probability they will be earmarked for account of the Bank of Sweden.

Since there was a holiday in India, no quotation for silver was received from Bombay.

The prices fixed in London for spot and forward silver were both up 1/16d, at 21-1/8d and 21d respectively. The U. S. equivalents were 37.19¢ and 36.76¢.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made nine purchases of silver totaling 639,820 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces consisted of trading silver and the balance of 439,820 ounces was new production from foreign countries, for forward delivery.



STRICTLY CONFIDENTIAL

42

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In accordance with the Secretary's instructions, given me just after he had telephoned General Watson at the White House, I talked by telephone with Mr. Gray of Secretary Hull's office at 11:15 this forenoon. I gave Mr. Gray a summary of the request made by Finnish Minister Procope, of the reference of this request to the Secretary of the Treasury, of the Secretary's efforts with the Army and Navy air chiefs and with the Allied Purchasing Commission, of the response of Mr. Purvis, and of Minister Procope's reaction thereto. Mr. Gray thanked us sincerely for this information which he will communicate to Secretary Hull.



March 7, 1949

My dear Mr. President:

I think you will find the enclosed chart of considerable interest. You will note that in practically every instance the chart shows that the figure for the particular item is higher for the first month of 1949 than during any of the past three years.

Sincerely yours,

*Chart #5 (imports)
from Hans Business
Situation 3-4-49*

The President,
The White House.

March 7, 1940

My dear Mr. President:

I think you will find the inclosed chart of considerable interest. You will note that in practically every instance the chart shows that the figure for the particular item is higher for the first month of 1940 than during any of the past three years.

Sincerely yours,

The President,

The White House.

March 7, 1940

My dear Mr. President:

I think you will find the enclosed chart of considerable interest. You will note that in practically every instance the chart shows that the figure for the particular item is higher for the first month of 1940 than during any of the past three years.

Sincerely yours,

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 7, 1940

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Action taken by the Export-Import
Bank re China, etc., - meeting of
March 7, 1940.

Mr. Jones outlined the proposed course of action which was taken by the Board, involving allocation of \$20 millions of the Bank's resources for additional credits to the Universal Trading Corporation and authorizing \$10 millions in credits for Denmark and \$1 million for Iceland.

Mr. Jones explained that although the Chinese deal was not yet worked out, he had told Chen that credits would be made available and he thought it desirable to take action in order that Chen might be in a position to put out some public statement of psychological value under the present circumstances. As forecast at the last meeting, Mr. Jones said he thought it was impossible to avoid doing something for Denmark after the other Scandinavian loans and he also recommended the \$1 million credit for Iceland which, although independent, has the same king as Denmark. Mr. Jones pointed out that both these countries had indicated that they would wish to use the larger part of the credits afforded for the purchase of agricultural commodities. He said that Denmark had an adverse trade balance with the United States of about \$21 millions, whereas Iceland had a favorable trade balance with us last year of something under \$1 million.

There was some general discussion of the position of the Bank and of pending applications in addition to the formal action taken as above noted. Mr. Pierson called attention to an application for \$5 millions in credits to finance the sale of rails in Brazil in which steel interests here would be willing to take a participation, and to discussions which he had had with Westinghouse interests for financing in connection with the electrification of the Sorro-Cabana railway in Brazil. He also indicated that a representative from Chile arrived to discuss the purchases which might be financed under the \$5 millions commitment assumed last Fall to Fomento, the Chilean development corporation.

I raised the question whether it might not be wise to go a little slow with current business of this nature to avoid over-committing the

- 2 -

Bank — as happened in the past — in such a way as to prevent it from undertaking commitments in special situations where other than purely trade considerations apply, and I pointed to the case of Colombia where assurance of some credits is practically necessary if we are to hope for a permanent debt settlement. Mr. Jones said that he would be prepared to do something in the case of Colombia.

Mr. Schram of the RFC was present and indicated that he was making some arrangements so that the RFC would be in a position to take over the Bank's assets arising from the financing of agricultural exports.

Mr. Noble voiced apprehension about further credits to Brazil in view of the Bank's relatively heavy commitments in that country and the lack of any apparent collateral results from such piece-meal transactions.

J.P.C.P.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: March 7, 1940, 6 p.m.

NO.: 578

My 2150, November 28, 11 a.m.

FOR TREASURY FROM HEATH.

The first definite announcement of the long rumored increase in taxation is contained in an article in this morning's DAZ. According to the article the income tax will be changed and increased but the increase in the rate is not stated. The comment is made that "the formation of capital and reserves should and will not in any way be throttled". No announcement was made of additions or changes in other taxes.

The German income tax has been a progressive levy based on the total net income. The article indicates that the new tax will apply increased and varying rates not to the whole of the incomes but to slices of income lying between specified limits. The war surtax (see Embassy's 1079, September 5, 3 p.m.) will be incorporated in the new income tax system. The surtax on increase of income (see Embassy's 298, April 29, 10 a.m.) will be revoked. The article also announces an expansion of the system of old age pensions but no details are given.

The following is confidential: At the Reichsbank recently I was told that the German Government would shortly announce increased taxation, but I was given no details.

Reichsbank

Reichsbank Director Puhl said that increased taxation on income had been strongly supported by the Reichsbank as necessary for the protection of stability of the currency. I learn from other sources that until some three weeks ago, the long struggle between those who favored higher taxation of income and those who opposed it had continued; those who opposed higher income taxes finally accepted a rate increase which was described to me as being "fairly substantial".

KIRK.

EA:LWW

RECEIVED
 DIVISION OF INVESTIGATION
 U.S. DEPARTMENT OF JUSTICE
 APR 10 1942



THE WHITE HOUSE
WASHINGTON

March 7, 1900.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

(Translation)

H. Mager
Also the payment
already made.

Code No 1313 sent from Helsinki March 1, 1940, 21.35 o'clock,
arrived in Washington March 1, 1940, 4.15 o'clock.

General Lundkvist proposed February 22 to the U.S.A. Naval
Attache Commander Pihl orally, that U.S.A. would assist Fin-
land in sending 150 pursuit planes and 36 fast bombers with
two motors, all with voluntary crews and equipments. The mat-
ter very urgent. In emergency to be bought. Asking urgent
reply.

Mannerheim.

1250
MAR 3 AM 9 30
9:30

3/3/40.

Finland

I Finland's most urgent needs of war materials, for which she applies from the U.S.:

A. 150 Pursuit planes (Breaster, Grumman, Curtis, Vultee, Bell).

36 Light Bombers, twinengine fast planes (Lockheed-Hudson, Douglas).
(Reference A.R. 5-100 - Dec. 1939).

B. Heavy ^{field} Artillery & ammunition.

300 pc 75 m/m - 18 lbs English field cannons
with ~~range~~ ^{limbers} finders, spare parts & equipments

50 pc Battery aiming circles for same.

32 pc. 8" Howitzers with ~~range~~ Limbers, spare parts equipments & harnesses.

8000 pc Grenades filled with T.N.T. for same

10000 pc " empty " " "

16000 pc Fuses " " "

18000 pc. Powder charges " " "

19000 pc Boosters " " "

The aforesaid materials have already been announced as surplus commodities, that a country like Sweden could buy. (Over)

March 7, 1940

11:45 a.m.

HM, Jr called General Watson and said to him:

"How are you, Pa? The other day the President asked me to see the Finnish Minister, after he had seen him, to find out whether we could get him 186 planes.

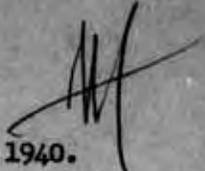
"I saw General Arnold and Admiral Towers and there is nothing that the Army and Navy have which they could release at this time.

"I then put it up to the Allied Purchasing Mission, because they have the planes on order, and they said that they could not release any planes. This had been taken up with the Supreme War Council and they had turned it down.

"We cannot get these planes for the Finns anywhere in the United States. I wish that you would tell that to the Finns. The Army and Navy have been cooperative, but we cannot give the Finns any planes today. We could within a year, but not now."

HM, Jr told Cochran, who had been listening to this conversation, to call Mr. Gray and ask him to pass this information on to Mr. Hull.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON


March 7, 1940.

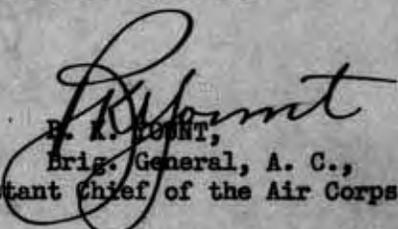
The Honorable,
The Secretary of the Treasury.

Dear Mr. Secretary:

In compliance with your verbal request to Major General H. H. Arnold, the Chief of the Air Corps, under date of March 6, 1940, there is inclosed herewith a tabulation showing all airplane motors of less than 1000 horsepower now under contracts of record and undelivered as of this date.

The tabulation shows contracts in existence with the Army, Navy, commercial and export.

Sincerely yours,


B. K. BENT,
Brig. General, A. C.,
Assistant Chief of the Air Corps.

Incl.

March 7, 1940.

The Honorable,
The Secretary of the Treasury.

Dear Mr. Secretary:

In compliance with your verbal request to Major General H. H. Arnold, the Chief of the Air Corps, under date of March 6, 1940, there is inclosed herewith a tabulation showing all airplane motors of less than 1000 horsepower now under contracts of record and undelivered as of this date.

The tabulation shows contracts in existence with the Army, Navy, commercial and export.

Sincerely yours,

B. K. YOUNT,
Brig. General, Air Corps,
Assistant Chief of the Air Corps.

Incl.

CONFIDENTIAL

AIRCRAFT ENGINES UNDER 1000 H.P. ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1940

Manufacturer	Customer	Type Designation	H.P. Rating	Number Ordered	Number Delivered	Number Undelivered	
Continental Motors Corp.	<u>Domestic:</u>						
	Army Air Corps	R-670	220	151	42	109	
	Piper	A-65	65	750	181	569	
	Taylorcraft	A-65	65	200	59	141	
	Luscombe	A-65	65	400	80	320	
	Aeronca	A-65	65	500	38	462	
	Porterfield	A-65	65	300	29	271	
	Stinson	A-75	75	300	77	223	
	Waco	R-670	220	3	0	3	
	Total			2,604	506	2,098	
Jacobs Aircraft Engine Company	<u>Domestic:</u>						
	Army Air Corps	R-755	225	150	1	149	
	Commercial	L-6MB	225	26	1	25	
	Commercial	L-4MB	170	10	2	8	
	<u>Foreign:</u>						
	Chilian National Airline	L-4MB	170	8	2	6	
	Total			194	6	188	
Kinner Motors, Inc.	<u>Foreign:</u>						
	Canada	B-5	125	509	0	509	
	China	B-5	125	38	0	38	
	Total			547	0	547	

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

AIRCRAFT ENGINES UNDER 1000 H.P. ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1940 (Cont'd)

Manufacturer	Customer	Type Designation	H.P. Rating	Number Ordered	Number Delivered	Number Undelivered	
Lycoming Division, Aviation Corp.	<u>Domestic:</u>						
	Army Air Corps	R-680-9	280	143	0	143	
	Army Air Corps	R-680-11	220	180	32	148	
	Stinson	R-680	220	150	134	16	
	Stearman	R-680	220	22	10	12	
	Vega	R-680	280	2	0	2	
	Aeronca	O-145A1	50	400	83	317	
	Piper	O-145A1	50	750	168	582	
	Piper	GO-145C	50	500	0	500	
	Taylorcraft	O-145A1	50	400	129	271	
		<u>Foreign:</u>					
		Fairchild for export	O-145A1	50	50	39	11
		Total			2,597	595	2,002
	Ranger Aircraft Engines	<u>Domestic:</u>					
Fairchild for Army		I-440	175	270	2	268	
Bellanca for Army		XV-770	420	3	0	3	
Navy		XV-770	420	3	0	3	
Fairchild		6-440C	175	3	0	3	
Spencer-Larson		6-440C	175	1	0	1	
Spencer-Larson		6-440C	175	4	0	4	
Grumman		6-440C	175	2	0	2	
Total				286	2	284	
Rearwin Aircraft & Engines, Inc.	<u>Domestic:</u>						
	Rearwin Aircraft	5F	-	2	0	2	
	Rearwin Aircraft	7F	-	8	2	6	
	Bellanca	5F	-	3	0	3	
Total			13	2	11		

CONFIDENTIAL

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AIRCRAFT ENGINES UNDER 1000 H.P. ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1940 (Cont'd)

<u>Manufacturer</u>	<u>Customer</u>	<u>Type Designation</u>	<u>H.P. Rating</u>	<u>Number Ordered</u>	<u>Number Delivered</u>	<u>Number Undelivered</u>	
Pratt & Whitney Aircraft Division	<u>Domestic:</u>						
	Navy	R-1535	750	76	0	76	
	Navy	R-1690	700	3	0	3	
	Navy	R-1340	500	48	3	45	
	Navy	R-985	450	133	87	46	
	Army Air Corps	R-1340	500	239	62	177	
	Army Air Corps	R-1340	500	85	17	68	
	Army Air Corps	R-1340	500	248	1	247	
	Army Air Corps	R-985	450	620	41	579	
	Misc. Commercial	R-1690	700	40	16	24	
	Misc. Commercial	R-985	450	102	26	76	
	<u>Foreign:</u>						
		Australia	R-1340	500	50	0	50
		Brazil	R-1340	500	1	0	1
		Canadian P&W	R-1340	500	28	4	24
		Canadian P&W	R-985	450	3	0	3
		China	R-1340	500	10	0	10
		Finland	R-1535	750	80	5	75
		France	R-1535	750	1,100	28	1,072
		Grumman for Asiatic Pet.	R-985	450	1	0	1
	Holland	R-985	450	21	0	21	
	N. American for British	R-1340	500	750	0	750	
	N. American for China	R-1340	500	50	6	44	
	N. American for Venezuela	R-1340	500	3	0	3	
	Total			3,691	296	3,395	

CONFIDENTIAL

CONFIDENTIAL

AIRCRAFT ENGINES UNDER 1000 H.P. ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1940 (Cont'd)

Manufacturer	Customer	Type Designation	H.P. Rating	Number Ordered	Number Delivered	Number Undelivered	
Wright Aeronautical Corp.	<u>Domestic:</u>						
	Army Air Corps	R-975	400	134	0	134	
	<u>Foreign:</u>						
	Argentina	R-975	400	15	10	5	
	Belgium	R-975	400	20	0	20	
	Brazil	R-975	400	2	0	2	
	Finland	R-975	400	50	42	8	
	Holland	R-975	400	7	0	7	
	N. American for France	R-975	400	230	10	220	
	N. American for France	R-975	400	45	0	45	
	N. American for France	R-975	400	300	266	34	
	N. American for France	R-975	400	45	30	15	
	Siam (Thailand)	R-975	400	15	0	15	
	Sweden	R-975	400	24	0	24	
	Turkey	R-975	400	62	57	5	
		Total			949	415	534
	GRAND TOTAL				10,881	1,822	9,059

Mat. Plan. Sec., Mat. Div.,
Office, Chief of Air Corps,
March 7, 1940 (CHJ/gep).

CONFIDENTIAL

CONFIDENTIAL

AIRCRAFT ENGINES UNDER 2000 H.P. ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1940

Manufacturer	Customer	Type Designation	H.P. Rating	Number Ordered	Number Delivered	Number Undelivered
Continental Motors Corp.	<u>Domestic:</u>					
	Army Air Corps	R-670	220	151	42	109
	Piper	A-65	65	750	181	569
	Taylorcraft	A-65	65	200	59	141
	Inscoba	A-65	65	400	80	320
	Aerondaa	A-65	65	500	38	462
	Porterfield	A-65	65	300	29	271
	Stinson	A-75	75	300	77	223
Waco	R-670	220	3	0	3	
	Total			2,604	508	2,096
Jacobs Aircraft Engine Company	<u>Domestic:</u>					
	Army Air Corps	R-755	225	150	1	149
	Commercial	L-6MB	225	26	1	25
	Commercial	L-4MB	170	10	2	8
	<u>Foreign:</u>					
	Chilian National Airline	L-4MB	170	8	2	6
	Total			194	6	188
Kinner Motors, Inc.	<u>Foreign:</u>					
	Canada	B-5	125	309	0	309
	China	B-5	125	38	0	38
	Total			347	0	347

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

AIRCRAFT ENGINES UNDER 2000 H.P., ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1940 (Cont'd)

Manufacturer	Customer	Type Designation	H.P. Rating	Number Ordered	Number Delivered	Number Undelivered
Sperry Division, Aviation Corp.	<u>Domestic:</u>					
	Army Air Corps	R-680-9	200	143	0	143
	Army Air Corps	R-680-11	230	180	32	148
	Stinson	R-680	230	190	134	56
	Stearman	R-680	230	22	20	2
	Vega	R-680	200	2	0	2
	Aerocsa	O-145A1	90	400	0	400
	Piper	O-145A1	90	790	168	622
	Piper	OO-1450	90	900	0	900
	Taylorcraft	O-145A1	90	400	139	261
	<u>Foreign:</u>					
	Fairchild for export	O-145A1	90	30	30	0
	Total			3,977	995	2,982
Ranger Aircraft Engines	<u>Domestic:</u>					
	Fairchild for Army	L-440	175	270	2	268
	Bellanca for Army	2F-770	420	3	0	3
	Navy	2F-770	420	3	0	3
	Fairchild	6-4400	175	3	0	3
	Spencer-Larson	6-4400	175	1	0	1
	Spencer-Larson	6-4400	175	4	0	4
Total			274	2	274	
Rearwin Aircraft & Engines, Inc.	<u>Domestic:</u>					
	Rearwin Aircraft	5F	-	2	0	2
	Rearwin Aircraft	7F	-	2	2	0
	Bellanca	5F	-	3	0	3
Total			7	2	5	

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

AIRCRAFT ENGINES UNDER 2000 H.P. ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1949 (Cont'd)

Manufacturer	Customer	Type Designation	H.P. Rating	Number Ordered	Number Delivered	Number Undelivered	
Pratt & Whitney Aircraft Division	Domestic						
	Navy	R-1535	750	76	0	76	
	Navy	R-1690	700	3	0	3	
	Navy	R-1340	900	48	3	45	
	Navy	R-985	450	133	87	46	
	Army Air Corps	R-1340	900	299	62	177	
	Army Air Corps	R-1340	900	85	17	68	
	Army Air Corps	R-1340	900	248	1	247	
	Army Air Corps	R-985	450	620	42	579	
	Misc. Commercial	R-1690	700	40	16	24	
	Misc. Commercial	R-985	450	102	26	76	
	Foreign						
	Australia	R-1340	900	30	0	30	
	Brazil	R-1340	900	1	0	1	
	Canadian P&W	R-1340	900	28	4	24	
	Canadian P&W	R-985	450	3	0	3	
	China	R-1340	900	10	0	10	
	Finland	R-1535	750	80	5	75	
	France	R-1535	750	1,100	28	1,072	
	German for Asiatic Pat.	R-985	450	1	0	1	
	Holland	R-985	450	21	0	21	
	N. American for British	R-1340	900	790	0	790	
	N. American for China	R-1340	900	30	6	44	
	N. American for Venezuela	R-1340	900	1	0	1	
	Total				3,621	296	3,325

CONFIDENTIAL

CONFIDENTIAL

**AIRCRAFT ENGINES UNDER 1000 H.P. ON ORDER BY DOMESTIC
AND FOREIGN CUSTOMERS AS OF JANUARY 31, 1940 (Cont'd)**

<u>Manufacturer</u>	<u>Customer</u>	<u>Type Designation</u>	<u>H.P. Rating</u>	<u>Number Ordered</u>	<u>Number Delivered</u>	<u>Number Undelivered</u>
Wright Aeronautical Corp.	<u>Domestic</u>					
	Army Air Corps	B-975	400	134	0	134
	<u>Foreign</u>					
	Argentina	B-975	400	15	10	5
	Belgium	B-975	400	20	0	20
	Brazil	B-975	400	2	0	2
	Finland	B-975	400	50	42	8
	Holland	B-975	400	7	0	7
	N. American for France	B-975	400	200	10	220
	N. American for France	B-975	400	45	0	45
	N. American for France	B-975	400	300	266	34
	N. American for France	B-975	400	45	30	15
	Siam (Thailand)	B-975	400	15	0	15
	Sweden	B-975	400	24	0	24
	Turkey	B-975	400	62	37	25
Total				949	423	524
GRAND TOTAL				10,021	1,822	9,059

Mat. Plan. Sec., Mat. Div.,
Office, Chief of Air Corps,
March 7, 1940 (CMJ/gwp).

CONFIDENTIAL

P A R A P H R A S E

A telegram of March 7, 1940, from the American Consul at Rangoon reads substantially as follows:

Arrangements have been made to ship to Rangoon during the next sixty days about five million ounces of silver. Most of the silver is to be in the form of coins and shipment is to be made by rail and road and has been arranged by the Central Bank of China. The destination of the silver which will not be sold until all of it has arrived at Rangoon may be New York, London, or Bombay. One per cent ad valorem transit duty will be collected by the customs officials at Rangoon. There are now on the way over the Yunnan-Burma road the first of the eighty to one hundred trucks needed to transport the silver.

893.515/1482

TELEGRAM SENT

JR

GRAY

March 7, 1940

1 p.m.

AMEMBASSY

LONDON (ENGLAND)

435.

From the Secretary of the Treasury for Butterworth and forwarding by mail to Paris and Berlin.

The Secretary of the Treasury announced on March 7 the offer at par of 3/4 per cent Series A-1945 Treasury Notes dated March 15, 1940 and maturing March 15, 1945 in exchange for 1 1/2 per cent Treasury notes of Series B-1940 maturing June 15, 1940 of which the outstanding amount is now \$738,428,400.

HULL
(HF)

EA:HF:LWW

JR

GRAY

Berlin

Dated March 7, 1940

Rec'd 1:15 p.m.

Secretary of State,
Washington.

569, March 7, 9 a.m.

My 325, February 7, noon.

TREASURY FROM HEATH.

Commercial and Treasury bill holdings of the Reichsbank increased by 958,000,000 marks during the last week of February to a total of 11,825,000,000 marks which is 433,000,000 marks above the ^{previous} peak figure reached on December 30, 1939. On the other hand since December 30 the Reichsbank's portfolio of eligible securities has decreased by 632,000,000 marks to a total of 172,000,000 marks. Holdings of other securities on February 29 stood at 367,000,000 marks or 26,000,000 marks less than on December 30 and collateral loans at 37,000,000 marks or 7,000,000 marks higher than at the year end. The Reichsbank's holdings of all these items together (commercial and Treasury bills collateral *loans* and all securities) were 12,401,000,000 marks on February 29 or 218,000,000 marks less than on December 30 but 451,000,000 marks higher than
on

-2- #569, March 7, 9 a.m., from Berlin.

on January 31. It appears that the Reichsbank has taken advantage of favorable market conditions to dispose of its portfolio of eligible securities (which stood at 1,441,000,000 marks on October 31 last) but the money market was not quite liquid enough to absorb the Reichsbank's security sales and the continuing large issues of Government short term paper as well and accordingly the banks had to avail themselves increasingly of their discount facilities at the Reichsbank.

The Reichsbank's miscellaneous assets (which include the Reich's direct borrowing) decreased by 116,000,000 marks to 1,779,000,000 marks during the latter week of the month the peak figure for February having been reached on February 15 with 2,103,000,000 marks. This differs greatly from the usual changes in this item the higher figure ordinarily falling at the end of the month when the Reich borrows to meet heavy monthend expenses.

Reichsbank notes in circulation increased by 768,000,000 marks during the last week of February to 11,877,000,000 marks which is likewise above the previous peak figure of 11,798,000,000 marks reached December 30 last. HOWEVER whereas there were 2,018,000,000 marks of sight deposits on December 30 on February 29 these

amounted

-3- #569, March 7, 9 a.m., from Berlin:

amounted to only 15,059,000,000 marks practically no increase having taken place during the last week of February. There was a negligible decrease in the Reichsbank's coin holdings and a 41,000,000 mark decrease in its holdings of Rentenbank notes but this probably resulted from the retirement of nickel one mark coins on March 2. It is to be anticipated that the Rentenbank's forthcoming statements will show contravention increases in the amount of Rentenbank notes issued since they will be used to replace the one mark coins of which 419,000,000 marks were in circulation on December 30 last.

The February 29 report omitted the usual statement of monthly clearings of the Reichsbank. It is assumed it will be made public later in this month.

KIRK

HPD

GROUP MEETING

March 7, 1940.
9:30 a.m.

Present: Mr. Bell
Mr. White
Mr. Harris
Mr. Graves
Mr. Schwarz
Mr. Foley
Mr. Cotton
Mr. Cochran
Mr. Thompson
Mr. Sullivan
Mrs Klotz

H.M.Jr: Ed?

Foley: I have nothing.

H.M.Jr: You people might be interested to know - I think it has quite a lot of significance. We were trying to get 186 planes for the Finns and the only place in the United States where you can get them any kind of a delivery was if the French would give them up. They sent word to us last night at 5:00 o'clock that this matter had been considered by the Supreme War Council some time ago and the French didn't consider they could give them any more help than they had and they couldn't give them any more planes that they had on order here, which means, I guess, that the Finns won't get any planes anywhere. But I went over the thing twice, both with General Arnold and Admiral Towers and there just aren't any. They can't produce them.

Cotton: Are they trying to buy any regular artillery ammunition?

H.M.Jr: I don't know. I heard about it a month ago, but I don't know what happened on it.

Cotton: I happened to run into Byrd's pilot, this Norweigan, who seems to know a good deal about it. He said that the calibre of the Finnish gun is different from the French and British gun and they are having terrible trouble with that.

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H.M.Jr: I can't hear, Joe.

Cotton: On account of the difference of the calibre of their ordinary light auxiliary, that that was the major shortage, the light artillery shells.

H.M.Jr: Procope, at my request, is giving to Cochran for me a list of their military purchases that they either have or are making, so we are getting that. He is making that out.

Cochran: He is giving us the civilian, too.

H.M.Jr: So we are getting that from Procope. That man that I want for dinner tonight is out, because we just got a call to come to the White House for supper.

Cochran: So I shan't call him?

H.M.Jr: No.

Cochran: I have nothing.

H.M.Jr: Today is the seventh. Does anybody know what happened to the Brazilian debt?

Cochran: Nothing since yesterday. They said they were still telephoning. They had Francis White in for two hours even before he knew about that and six State Department men with Francis White. They were getting some State Department training, they said, six against one.

H.M.Jr: He must be a good man.

Cochran: He is.

H.M.Jr: Who won?

Cochran: Well, it was a draw, I should say. He just refrained from saying anything in the communique which the Association will get out, but he didn't at that time have the agreement of the Association to that position.

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White: You mean their training made them less effective?

Cochran: Made them too effective.

H.M.Jr: These Whites, you know, are tough guys.

White: I looked that fellow up and I found a lot in sympathy with him. One White against six State Department fellows.

H.M.Jr: You have had that - you have done better than that, haven't you?

White: How many have they got there? I think they have got.... I hope that won't get back to them before tonight. I will be seeing some of them.

H.M.Jr: Chick?

Schwarz: I have this memo (Re Horner on Committee Investigating Aeronautical Industry).

H.M.Jr: There wasn't anything in the papers about it.

Schwarz: They had nothing in the Times, but at least they didn't repeat it in the morning papers, the other story, either.

H.M.Jr: I am just going to say - and you might check it - if they ask me about it, I didn't know that Arnold's testimony had been released. I thought it was confidential, so how can I tell them about it?

Schwarz: That is right.

H.M.Jr: Fine.

Basil?

Harris: Nothing.

H.M.Jr: I referred to you a matter that had twelve signatures on it and it wasn't enough, whether

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we should build a door to the Port there in New York and I thought it was so important that I would let you pass on it.

Harris: It has already gone through.

H.M.Jr: All right, but I couldn't decide. Incidentally, I have a letter here and I would like to know (Feb. 20) if anybody could help. This man has been asked by a friend to dispose of a terra cotta bust of President Monroe. They want to sell it to the Government. Copeland introduced the bill, et cetera and so on.

Klotz: And it has expired.

H.M.Jr: If Oliphant was here, I could turn it over to him, because he was interested in those kind of things. Who would there be on the Hill who would be interested in having the Government buy a bust of President Monroe?

White: Bloom. He is interested in all busts.

H.M.Jr: I thought he stopped at Washington.

White: No, that is where he started.

H.M.Jr: Well, anyway, seriously - Harry is blushing, isn't he?

White: It is just a cold.

H.M.Jr: Who is there - is there anybody up on the Hill?

Klotz: No one is anxious to help.

Bell: Somebody might from Virginia, Woodrum?

H.M.Jr: How about Harry Byrd?

Foley: If it costs any money, he wouldn't be interested.

H.M.Jr: Yes, he might.

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Schwarz: He is on our side this week.

Cotton: How much do they want for it?

White: How much are you offering?

Harris: Isn't there some society that is interested in Madison or - it strikes me they were active not long ago in trying to buy the house where he was born somewhere on the East side.

White: I think probably the American Historical Society here would be able to put you right on it.

H.M.Jr: Bruce isn't here, is he?

Foley: I think he is in Key West.

H.M.Jr: Why don't you have our man on the Hill - he isn't very busy, is he? He hasn't got anything to do. What is he doing?

Foley: He is watching our interests on the Hill.

H.M.Jr: Well, anyway, why not ask our man to see if there is anybody from Virginia?

Foley: Sure.

H.M.Jr: Harry?

White: Nothing.

Harris: He was a graduate of Princeton. Maybe they would be interested in that.

H.M.Jr: You might have somebody speak to - let Huntington get in on this and let him speak to Forbes Watson. Mrs. Klotz said Mrs. Morgenthau could take it up with Ed Bruce. You know Forbes Watson. Huntington could do it. Give it a little push.

Harold, I have got something here from Mr. Arundel. (March 6)

Graves: It is a great thing.

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H.M.Jr: I don't get its significance.

Sullivan: It is.

Graves: If we set up regular calendars for the Board of Tax Appeals, it would be a great improvement over their itinerant, more or less spasmodic calendars which they have always had.

H.M.Jr: O. K.

Mr. Bell?

Bell: Do you want to keep this exchange offering open two or three days?

H.M.Jr: Oh, I think we will let it run through Saturday.

Bell: Then we had probably better announce for tomorrow morning's papers that it will close Saturday. Mr. Biddle, Solicitor General, called me last night and called my attention to the fact that the Burland Printing Company, tied up with this indictment in New York, is contractor for printing literature on Savings bonds.

H.M.Jr: Savings bonds?

Bell: Yes, and I think Gene Sloan and Bryan looked into it previously, but he suggested we might want to investigate it because there was a rumor going around New York that there is some connection between these people that are indicted and the Treasury.

H.M.Jr: Is there?

Bell: I don't think so.

H.M.Jr: What work do they do for us?

Bell: Print our literature. They have a contract. Ed is going to have a man go with one of Chick Schwarz's men and investigate this thing from the angle here. Biddle suggested that

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we might want to have an outside investigation and not let the Treasury do it. It might look a little better. I told him we would take it under consideration.

H.M.Jr: I have, and I am opposed to it.

Bell: I suppose he wanted the FBI to do it. I don't know. I didn't ask him.

Thompson: I think we are all right as far as our contract is concerned. I have checked with the printing division.

H.M.Jr: Just while we are talking, it made me think of Bryan. Last night I was at Bob Jackson's and he told me - at this press club. Was anybody here at this press club dinner when they had the ten men tell why they shouldn't run for President?

Bell: No.

H.M.Jr: It seems that everybody got up in good fun with the exception of Tom Dewey and Tom Dewey proceeded to give the Treasury hell because they were attacking McNutt and had no reason to and did this thing at this dinner.

Schwarz: I have a report on that.

H.M.Jr: Wasn't Bryan there or somebody?

Schwarz: Jim Bryan.

H.M.Jr: Yes. Ask him about it. He said it was the most amazing thing. He said McNutt sat there and squirmed in his chair while Dewey attacked the United States Treasury for doing this thing. He said everybody else was there and having a good time and telling why they shouldn't be a candidate, but Dewey took it on himself.

Foley: Mr. Bryan told me Dewey was serious. He couldn't have been doing it for the fun of it.

H.M.Jr: I didn't like that Pearson and Allen story yesterday which was too accurate to be funny.

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Why do they get all that stuff? Now, Elmer Irely gave me the name of the reporter who gets it from the Attorney General's office, if you want it. He has got it. He has the name of the reporter who is getting the stuff right out of the Attorney General's office.

Foley: They never got that out of the Attorney General's office, that story. They haven't got that much information over there. That stuff could have come only out of the Treasury or the United States Attorney's office in Indianapolis.

Schwarz: I think Pearson went out to Indianapolis.

H.M.Jr: I didn't mean that story. There is a report that Sullivan of Indianapolis says - he mentions his name, who is getting the stuff out of the Attorney General's office. Get Irely to give you the name of that reporter.

But you think that could only come out of the - it couldn't have come out of the Treasury?

Foley: Why not?

H.M.Jr: Where?

Foley: I think it could have come out of the Treasury.

H.M.Jr: You mean here in Washington?

Foley: Sure, or the U. S. Attorney's office in Indianapolis, but I don't think it could have come out of the Department of Justice.

H.M.Jr: Which division?

Foley: I don't know, Mr. Secretary.

H.M.Jr: Well, my guess is it came out of Indianapolis, because in the seven years I have been here,

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we haven't had a leak like that. I think you ought to look into it.

Schwarz: I will.

H.M.Jr: O. K. Gentlemen, we have still got Norman Thompson, you know. You are in a hurry,

White: I thought you dismissed the class.

Thompson: I have nothing. I have spoken to Miss Lonigan and she is taking it with good grace.

H.M.Jr: You stay a minute.

Now, gentlemen, you can go.

March 7, 1940

3 p. m.

Present:

Mr. Purvis
Mr. Pleven
Mr. Bloch-Laine
Col. Jacquin
Sir Herbert Self
Captain Collins
Mr. Cochran
Mrs. Klotz

HM, Jr: I think going abroad agrees with these people. Leroy-Beaulieu came in just blooming health!

Mr. Purvis: Breezes across the Atlantic, which I understand were rather strong.

HM, Jr: Were you (Pleven) air sick?

Mr. Pleven: Not at all.

HM, Jr: I would not ask the Colonel.

Mr. Bloch-Laine: If he were he would not admit it.

Mr. Purvis: I was going to suggest that Mons. Pleven, if it was on the aircraft end, describe the situation as he encountered it.

Mr. Pleven: Mr. Secretary, when, as you remember, when we came first with Colonel Greenley and Colonel Jacquin, the scheme which we had been requested to investigate was to find out whether it was possible to obtain a very large additional quantity of aircraft which would have been available in the early part of 1941.

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HM, Jr: Umh!

Mr. Plevin: When the investigation proceeded we found that on account of the engines bottleneck it was not possible to secure any large quantity of engines if we were keeping to the date of the Spring of 1941 and we had to extend -- and we took the decision on ourselves -- the time limit to September, 1941. In spite of this, however, we could not reach exactly the quantity of engines which would have been necessary to get 10,000 planes and we finally landed, if I can use that word, with a number of engines which would have been sufficient to equip 8,000 planes, but those planes would not have been available before the last part of 1941.

When we reported the results of our investigation to the two Governments, this question and the time at which the surplus of material would be available was considered as a most essential point, because considering the very heavy expenditure which would have to be undertaken and which meant that the two countries would have to sacrifice certain other things if they were not to lessen the high mark on the aviation program, the fact that the planes would not be available before the last part of 1941 -- and that was subject to not hitch coming -- had the effect to reduce the value of the program from the point of view which was most paramount to the Government: the possibility of shortening the war.

For this reason, therefore, the results of our investigation made it necessary to revise the original conception of the two Governments when they had asked us to carry this investigation. They realized that even by spending a tremendous amount, they could not get what they would have wanted earlier in 1941. At the same time, they were continually aware of the fact that to employ the maximum output of the American industry remained essential for the Allies, because it was considered a second line of supply and reassurance should the very large programs of output in England and France be disturbed during this critical year of 1940 by certain destructions.

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With this change of conception, necessarily certain technical changes had to follow in the way. If the engines could have been available at the end of 1940 or early part of 1941, then we could have mounted them without hesitation on the types of planes which are now ready for production and which are satisfactory for fighting under the fighting conditions which will prevail in 1940, but if the engines, as it is, will only be available in great numbers as, say, from the middle of 1941, then we must think in terms of planes which will meet the fighting conditions which we assume will exist in the middle of 1941 and that means the necessity, as far as fighting planes are concerned, as pursuit planes are concerned, of must faster planes than those we are now receiving from the States, and, as regards bombers, also certain types of changes in the bombers, because the bombers we receive now are all right for 1940, but not for 1941.

The Government then made this decision of policy, which was outlined in the telegram which was sent to Mr. Purvis, and we have been sent -- Sir Henry Self, Colonel Jacquin and I -- with the idea now of formalizing and making definite proposals to be put forward to the American industry to get final prices and final contract and, as outlined, the instructions which have been given to us means that we are to try to acquire practically as many engines as we can get within the limits which had been found under our investigation of December and January, and as regards the number of planes, roughly, 5,000 planes.

This is what now we are going to try to obtain in the negotiations which we would like to open with the industry. But in view of the fact that we require the types of planes which will be satisfactory for fighting in 1941. We are coming to you, Mr. Secretary, with new requests. They are to obtain release of certain types which we believe have been studied precisely for 1941 conditions in this country.

HM, Jr: May I ask you a question. When you

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say 5000 planes, have you divided those as between bombers and fighting planes, pursuit planes?

Mr. Plevin: The proposition as finally agreed upon would be two-fifths -- 2,000 bombers and 3,000 fighters, but from the point of view of engines, it does not make much difference, because very close consideration is going to be given to two-engine pursuit planes.

HM, Jr: How many engines do you have in mind?

Mr. Plevin: Practically the same number of engines as before.

HM, Jr: What was that?

Mr. Plevin: It is about 12,000. Originally we had 14,600 engines and now it makes 12,000 engines.

HM, Jr: 2,000 fighters?

Mr. Plevin: 3,000 fighters; 2,000 bombers.

HM, Jr: And you want a plane that will be, so to speak, one cycle ahead of what you have now.

Mr. Plevin: Of what we are taking now.

Mr. Purvis: Because it will be for 1941 fighting conditions.

HM, Jr: Have you something particular in mind?

Mr. Plevin: Very particularly, Mr. Secretary. We try always to be concrete.

(Mr. Purvis handed a document to the Secretary.)

HM, Jr: Wonderful!

Mr. Purvis: One sheet!

HM, Jr: May I read this out loud?

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HM, Jr: (Reading)

"In order to finalize the proposals which the two Governments wish to negotiate with the American industry, the following is essential:

Engines

1. In view of the importance of obtaining as powerful engines as possible, we would ask for the release of certain types of superchargers (turbo and two stage) which we are under the impression the engine companies have developed but which have not yet been released.

2. We are anxious to obtain the release of an improved type of Allison engine which we understand has been developed for use on the newest fighters.

Airplanes

In view of the fact that the bulk of the additional engines which we shall obtain will only be available for mounting on air frames during the year 1941, we need to order the types of airplanes which will meet the war conditions prevailing in 1941, and for this reason access to complete information on the following airplanes is desired:

A. Pursuit airplanes

Lockheed interceptor P.38
Bell P.39
Improved Curtiss
Generally any other type of fighter
which would be serviceable in 1941.

B. Bombers

We believe that new types of bombers have been developed for the American Army and Navy, and we also would wish to have information on those, including big four engined bombers and dive bombers.

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"The information necessary for the taking of decisions would cover, for example, the results of the engine manufacturers' tests on engines and also the results of Service and manufacturers' trials of airplanes, with details of performance and handling qualities."

(HM, Jr concluded reading the message.)

HM, Jr: Well, I can't give you the answer on this now, because you are getting into things which affect our Army and Navy and I don't know how they are going to feel. I don't know how they are going to feel. But we can find out. I have had the last two days -- I have met with them twice now to get ready for this, with General Arnold and with Admiral Towers.

This speed business, of getting these planes that fly 400 miles an hour and really do it honestly is something still to be proven. They have not accepted the Bell plane yet and it has not come within 20 miles of what they claim for it. It's down in the wind tunnel for the third time. That's in the room here. It has not come up to specifications. What did they say? It wasn't as fast as

Capt. Collins: A drag, they said, of 20 miles that should not be there.

HM, Jr: And Allison is having engine trouble in production. He's behind now on their production.

Mr. Purvis: That's crank shafts, I think.

HM, Jr: No. He says they are going from 700 men to 3,000 men and it's a question of breaking these men in.

Mr. Purvis: Yes.

HM, Jr: But they are behind for the Army in their production. Where General Motors was going

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to teach the other fellows how to do it, they are going to have to teach themselves first.

Mr. Purvis: That is a prime point, because I understood there was another factor - crank shafts.

HM, Jr: That I don't know, but they are having production difficulty. Well

Mr. Plevin: You appreciate, Mr. Secretary, that the types we have mentioned here do not mean that it is those types which we finally would order, but before making the decision whether it's a P-40, the Curtiss P-40, or the Bell, which should be Allison, we should like precisely to know the type of information you are just giving us now. We would like to be sure we order the very best.

HM, Jr: The manufacturers can't give that to you, can they?

Mr. Plevin: No, because they have not the right to talk to us unless they are authorized to do so.

Captain Collins: Not on a restricted ship.

Mr. Purvis: For instance, I believe the Allison men took that up with General Arnold in regard to the P-39 at the time when we thought that we could get a trial order in and his indication was the instruction would have to come from higher up.

HM, Jr: I can't give you any answer today, other than I will simply have to find out what can be done. I would not even attempt to give an answer today, because you are asking something that is quite difficult. That's why I thought possibly you would be glad to sell 150 of those P-36's to the Finns.

Mr. Plevin: We are giving them much more than 150 planes.

HM, Jr: Really!

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Mr. Purvis: It's still 1940 and it's the Spring.

HM, Jr: You have not been permitted, Colonel to see any of these more advanced planes?

Col. Jacquin: Not of those types. Only Col. Zigler has seen the Bell.

HM, Jr: Here's what you gentlemen have got to make up your mind and you can help me in the decision. Take, for example, I got permission that you could buy the Bell P-39. It has not been accepted yet by our Army. You would not want to buy a plane that is not approved?

Sir Henry Self: May I observe there, Mr. Secretary, that there is a point in our experience, as you no doubt experience here, that you have to take a decision as to how long you can go on that existing type with the possibility, as Mons. Plevin stated, we shall, as far as 1941 fighting is concerned, have reached the stage where we shall probably have to take the risk.

HM, Jr: That makes a lot of difference. Just using again this Bell. If you wanted to gamble on that.

Col. Jacquin: But there are many types: the Bell, the improved Curtiss, there is the Lockheed. We have in mind to get the three, but the quantity of each, that would be directed by the test made by the officials of the Service. For example, if they are in favor of the Curtiss or the Lockheed, we will take the Bell.

HM, Jr: Even though they have not been accepted by our Army or Navy?

Col. Jacquin: Maybe decision is not taken. I don't know, but I think tests are finished now.

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Captain Collins: On the original French program, light bombers bought were off the drawing board.

Col. Jacquin: That's right for Douglas. The manufacturer test and some official test were already done. The decision was to take them.

HM, Jr: Would you be saving any time if you started talking with the engine people?

Mr. Pleven: It is our intention. We will not waste any time.

HM, Jr: Will you start with them?

Sir Henry Self: I think the position is the engine situation is the crux of the whole thing and whatever air frames or airplanes that these engines go in, the first important thing is to clear the engine production in terms of types, but there is in relation to that the question of the improved Allison and the supercharger question which we shall have to keep in mind in the course of these discussions.

HM, Jr: That is not so difficult. You are asking for something special. The other thing. You are asking for something which is more difficult.

Captain Collins: Two restricted engines.

HM, Jr: They don't specify.

Captain Collins: But they are restricted.

HM, Jr: They ought to give them to me. If you will give me the number of the engines you want, I can ask and is this sufficient for me to say "release a certain type of superchargers"? I have to have the type and name.

Captain Collins: That's understandable to these people.

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Mr. Plevin: Pratt-Whitney and Allison.

HM, Jr: If you give it to me -- now, turbo and the two-stage, it doesn't mean anything to me. If you will tell me now, on engines, what engines you want released and what it is.

Mr. Purvis: I think what we ought to do is take back the memorandum and particularize. I think Captain Collins could particularize, because, in a way, we are speaking about things without

HM, Jr: Somebody said you want a release on two engines. They have a serial number, and who makes them? I don't have to go over the ground more than once.

Mr. Purvis: I quite agree, because otherwise there might be misunderstanding.

HM, Jr: I want to go and say, "Is it possible to get a release on engine XYZ made by such and such a company?"

Mr. Purvis: Yes. I can see that. Particularize on that paragraph.

Col. Jacquin: That is very easy. I have not now the exact figure, but we could give them to Captain Collins.

Mr. Purvis: Would you like that to be retyped? The whole thing?

HM, Jr: I am at the White House tonight, so if I could get it the first thing....

Mr. Purvis: ... the first thing after this meeting.

HM, Jr: The engine thing, you could start there and know much more definitely. I take it what you want is all the horsepower you can get and then you can adapt the plane around the engine.

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Sir Henry Self: That's right.

Mr. Plevin: The object was to work immediately on the engine, but superchargers are very important because it allows the engines to take the planes at a speed of 25 miles higher.

HM, Jr: One thing, while we are talking on engines -- this may not be feasible, but I just want to bring this to your attention: I have here, from the Army, the number of engines that the English and French have on order for Allison, 1000 HP. Now, do you want to make a note of this: You most likely know this, but France has on order with Pratt-Whitney 1100 R1535, which is a 750 HP engine, and you have only had delivery of 28. The British have the R1340, 500 HP. You have 750 on order and none delivered. Now, with the Wright Company, France, R975, 230 ordered; 10 delivered, 400 HP. You have got another order in there for 45 and there are none delivered. Another order for 300, of which there are only 34 delivered. Another order for 45, of which there are only 15 delivered.

Now, as I say there, I don't know, but the reason I am bringing the attention to it -- two types of engines, one 750 HP and another 400HP -- lot of engines there -- of the possibility of transferring that to some other company. Just think about it.

Mr. Purvis: I can identify the British. Our 750 are for training purposes, which have been ordered by Canada and for Canada.

HM, Jr: In talking it over with General Arnold and Admiral Towers, the only thought they had was the possibility if the English and French wanted to transfer some of these to another company, get another company, and have them begin to build up on the 500HP or the 750 HP and get a fourth company going instead of just three -- the possibility of transferring some of these smaller engines, particularly the 400 HP.

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Col. Jacquin: When you say transfer, those particular engines would be built in another company?

Mr. Purvis: Same type, under license.

HM, Jr: Same type. This is suggested by General Arnold and Admiral Towers -- the possibility of going to some other company that is a successful builder, but building engines of less horsepower, but, you see, only three companies that build you engines of 1,000 HP or more. Now, you might get a fourth or fifth company to take the smaller engines and let Pratt-Whitney and the others concentrate on the bigger engines.

Col. Jacquin: I remember when we made our inquiry about the engine, we thought of that transfer and we put the question to the manufacturer and they were not willing to do that.

HM, Jr: After all, if you are holding out this order to Pratt-Whitney and Wright and say gentlemen, as part of the condition we want you -- after all, Wright licenses the Russian Government to build planes in Russia, so it is pretty hard to say they won't permit an American company to build, especially if your orders are contingent upon that. We have been all through this, as engines is the controlling factor and only three companies can build them and Allison is behind them.

Col. Jacquin: Tools to build those engines are not the same necessary to build bigger engines, so they have to give their tools to the other companies.

HM, Jr: Some of the tools are the same.

Mr. Purvis: Your point is experienced labor would be available for the large machines.

HM, Jr: And then you always have the unhappy thought one of these might be dynamited, and then

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where are you? You have this intense concentration in three cities. You dynamite Pratt-Whitney and Wright, and then where are you?

Col. Jacquin: There are many other plants which are very good, but they don't build over 300 HP.

HM, Jr: You are quite right. But they can. As a matter of fact, there are two or three companies that are now building experimental engines for the Army and Navy that are only building 200 HP, but have experimental engines for 1000 HP, like Lycoming. You understand?

Mr. Purvis: Yes. I see.

HM, Jr: All of these are suggestions as to the possibility.

Mr. Purvis: And they are in the minds of the Services that are interested in this whole situation.

HM, Jr: And it would be pleasing to both the Army and Navy if this was done. They had one other suggestion, which I would like to bring to the attention. I asked them for suggestions because I am trying to bring them into the picture and I would like to have them feel a little happy about this. So I said to them, have you any suggestions in regard to the Allied purchasing, as to where orders might be placed where they have not been placed before and they had two suggestions. One was Grauman, who has a very good fighter in production now for the Navy. It is faster than the P-36. In production now. Are you familiar with the Grauman?

Col. Jacquin: Yes, I am.

HM, Jr: They are in production. And the other suggestion is Boeing. Neither of the plants is very busy. Grauman is making a four-engine bomber. But the thought that the Army and Navy had was that they

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might get a license to make a fighter, and, you see, they are located up in Seattle, entirely away from all other airplane manufacturers and their labor conditions are very good up there. They are the suggestion of the General and the Admiral. You might consider Grauman and you might consider Boeing, and they both have good production, good factory and are good companies and have no export orders from anybody.

Captain Collins: Grauman may have some small orders, but Boeing has none.

HM, Jr: Grauman has some from Belgium.

Captain Collins: I think 8 from Belgium.

HM, Jr: But Grauman are in production for the Navy and the Navy thinks very highly of them. And Boeing is turning out two of these bombers a day so they are in good shapre. But if you could give me this with the specific things you want in engines, and then I will see what I can do for you in getting you to have a chance to look into the future. That's what you want.

Mr. Plevan: That's right, Sir.

Col. Jacquin: That can be done very quickly.

HM, Jr: But to look into the future, not so quickly. I see what you want and I don't blame you.

Mr. Purvis: It's logical.

HM, Jr: It's logical.

Sir Henry Self: If you saw no objection, I had hoped that my colleagues would feel on these points it might be useful to open preliminary talks with the air frame people without in any way infringing on the restrictions imposed on them. Take the case of Boeing, capacity that you mentioned. If Lockheed are the key firm, supposing the Lockheed P-38 was a practical proposition, it would be so simple to ask Lockheed to look

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at the possibility of working with Boeing to insure that they had a proper group arrangement going for the West coast.

HM, Jr: I would think that -- certainly I am not placing any restrictions and, as I told Mr. Purvis, I should think that you would be seeing these people up in New York and getting started, and the same with the engine people. It's this kind of thing that Captain Collins and I will have to work through for you once we know what the specific things are that you want. And this suggestion of Boeing and Grauman are just suggestions, you understand, but they come from the head of the Air Corps of the Army and Navy as just simple suggestions.

Don't want to give the Finns anything?

Mr. Plevin: I don't think it is quite fair to ask us this question.

HM, Jr: It's just as fair to put it to me.

Mr. Bloch-Laine: We are only purchasers in this country. We don't happen to be sellers.

HM, Jr: You feel about your airplanes the way Congress does about silver. I buy -- I can only buy it and not sell it.

Well, if I get that information, I will try to get it for you as fast as I can.

Mr. Purvis: Thank you very much.

HM, Jr: If there anything else you have on your mind?

Mr. Purvis: If I could have a moment with you on alloys.

HM, Jr: Fine!

And please feel free to come back and when I get this

-16-

information I will try to get it for you. Are you gentlemen going back to New York?

Mr. Plevin: I think we had the idea to spend perhaps two or three days here and, as we understand now, it is preferred that we should have our meetings in New York not to attract too much attention, I believe.

HM, Jr: I think New York is a little bit bigger than Washington. Washington is an awfully small village and I think if these preliminary meetings are up there, I think the chance for secrecy is better and then as you get along

Mr. Plevin: So perhaps we shall be here until Friday night or Saturday and then our meetings start in New York on Monday morning.

HM, Jr: But you will be here tomorrow?

Mr. Plevin: Oh, yes!

Mr. Purvis: That will not bar us from coming back to Captain Collins?

HM, Jr: Oh, no!

Mr. Cochran: As we came in, there were a number of press men outside and Mr. Schwarz wanted to ask you if these men, if they wanted to see the press.

HM, Jr: They asked me when the Mission was coming and I believe the truth is always right and I told them this afternoon.

Mr. Purvis: The press knowing this meeting having taken place, if some simple announcement should be made

HM, Jr: I told them because they asked me, because the announcement of you three gentlemen coming back was in the papers, so I said you would be here at 3. I thought it was much better to say it; no reason to hide it.

-17-

Mr. Purvis: Very wise. I don't think anything should be said about types.

HM,Jr: All I would say is a meeting took place, so anything that would possibly be said by us would be more in the nature

Er. Pleven: To submit our plans.

Mr. Purvis: With the intention of discussing it with the industry.

HM,Jr: I think, if you don't mind, you came in to get acquainted.

Mr. Purvis: To introduce Self and that we are going to inform you that we hope to have discussions with the industry.

HM,Jr: You are going to meet with the industry.

Sir Henry Self: Could I make a small point there? Would it be any difficulty if we had any preliminary talks with Captain Collins before we went back, or would that create any difficulty?

HM,Jr: No, that's all right. The only point I made is I think your first meetings with the industry should be strictly with the industry at your own offices and Captain Collins is available, but rather than do it the way it was the last time, I preferring the meeting with the engine people and aircraft people -- the preliminary meeting -- take place on your ground.

Sir Henry Self: I understand that.

HM,Jr: I think you can appreciate that, but if you want to meet with Captain Collins today or tomorrow, he's available. Is that agreeable to you?

Sir Henry Self: Entirely.

(At this point the group left. Mr. Purvis remained.)

-18-

HM, Jr: Before you start in on me, I am going to start on you.

There is a man by the name of Butler, who is Counselor of the Embassy, and he calls up -- I take it he calls up Jimmie Dunn -- and told him that Mr. Ashton Gwatkin and Mr. Rist are coming down and one thing they want to talk about in the State Department is molybdenum, because they can no longer take it up in the Treasury, so I said to him, in Treasury language, "Mr. Butler is crazy!".

Mr. Purvis: That's a strategic material.

HM, Jr: And that was Adolf Berle called me, while you were sitting outside to see me. So Mr. Berle said, "We don't know anything about strategic materials or molybdenum. The Treasury has done a swell job and we don't want to get in on it."

Mr. Purvis: I tried to point out the difference between strategic materials and purchase thereof, which seemed to me to come completely under your thing, and your desire not to get into the other situation such as copper, oil, things that had political implications.

HM, Jr: Anyway, it is all straightened out. And Berle said, "We don't want to get in on that." I said, "I am doing this with Purvis. Purvis is more or less accredited to me, not the State Department." Berle said, "I know it. We want to keep it that way."

Mr. Purvis: And I have kept away entirely -- was my definition correct? I told them and our Ambassador -- Butler was there -- that where strategic materials are concerned, where purchases thereof, where anything to do with control of things that might come into the war picture from the angle of strategic materials, that that would be entirely something I would expect to deal with you on.

HM, Jr: Things that are possible to do on strategic

-19-

materials, you and I do. Things that are impossible, goto the State Department. They do oil and copper over there.

Mr. Purvis: I made the remark they would be in continuous hot water with the State Department for the duration of the war.

HM, Jr: And Mr. Berle does not want anything to do with the thing and I can't define it any better than that.

Mr. Purvis: We still remain where we are in regard to seeing Rist and Ashton-Gwatkin.

HM, Jr: I am waiting for their Ambassadors to introduce them or make an appointment.

Mr. Purvis: And then they can discuss this strategic material thing

HM, Jr: ... with you personally, but I have not had any request to see them. That's how it came up that I told the press these gentlemen were coming in this afternoon.

Mr. Purvis: Can they come in any time?

HM, Jr: Any time, but I would like the Ambassadors to formalize it.

Mr. Purvis: Having been legitimized myself, I appreciate the necessity of having them come in formally. My understanding is rather definite.

So, nickel. In talking with Loring Christie -- have you heard that there has been a slight change?

HM, Jr: No.

Mr. Purvis: I thought I would simply tell you

-20-

and I will have a paper to give you later, but the Canadian Government, thinking over the nickel situation carefully since the memorandum I handed you, has become definitely worried in the implications in rationing Japan if it means rationing the United States -- the theory they worked out -- so they immediately worked out a scheme of a five year average, 1934-1938, which would reduce Japan to 4200 tons and would nevertheless leave the United States -- were it natural to do it as a neutral country instead of getting out in front and trying to hit Japan -- would bring 5,200 tons here. But thinking your public opinion moves in devious ways, so temporarily, as I understand the situation, what they are presently doing is (still they are trying to find some other approach which will achieve the same general purpose) they propose to dribble it out, if they have to dribble it out, under pressure to the Japanese Minister, who I understand now -- I saw the evidence -- is pushing rather hard and who is asking for a perfectly amazing quantity, out of all proportion of possibilities.

HM, Jr: Could I have this Monday forenoon?

Mr. Purvis: They are still trying to find out what to do and they are worried. As a matter of fact, all we can do is give you a note.

HM, Jr: This sort of thing is much better to handle with me.

Mr. Purvis: And Christie feels that.

HM, Jr: Because when you are talking with me, we don't really get on a trading basis.

Mr. Purvis: No. I agree. And we can keep it completely off that. Well, that was -- I will do that.

The only other thing I just wanted to report, because I am going down to see Mr. Sullivan. After all your help, we ran into a perfectly amazing thing with Hercules. They sent up a contract to us, night

-21-

before last, a very onerous one but frankly one that we were willing to accept because of the anxiety of the Government on having bridged, with your assistance, the main difficulty, which was the tax thing.

Yesterday, about 3 p. m., we got a telephone message saying the Board of Hercules had met last morning and had disagreed with the three men who had been negotiating this and who had reached agreement with us, and had decided they would not accept a closing agreement at all. Obviously I can't tell you our feelings. They are a little lurid. But I propose now to play the last card I can and that is to go and face out in Wilmington a sufficient number of the Board, to put our case to them, and what we would like to do -- first, I must say to them the excuse which has been given, which sounds to me too fantastic, is that obviously the feeling is that they should pay the tax and that is merely a way out and two or three years out public opinion may pillory them. It seems so far fetched that I can hardly credit it. After all, if the Treasury is willing to consider giving a closing agreement and one they told us they would be happy to accept a good long time ago in the negotiation. I propose to bring that out in the open and, in addition, if necessity arises in order to prevent the creation of this precedent, to say to them, "If you will do what we want and work this out the way - in whatever way the Treasury is willing to have it worked out, provided it is a fixed sum, which it would be with a closing agreement, we would guarantee that if by any chance you had to pay the tax later that we will find the tax."

HM, Jr: "Find." You mean raise?

Mr. Purvis: We will pay the tax if the closing agreement did not work out in practice. It's the last card we have to play.

HM, Jr: Quite frankly I was not very happy over the position that the Bureau took and I now feel that our position is a perfectly fair one and it now looks ...

Mr. Purvis: It's up to us.

-22-

HM, Jr: Yes.

Mr. Purvis: We can't complain. If it is a genuine difficulty, I am amazed. But there we are!

HM, Jr: But that takes it out of our lap.

Let me ask you, what is the status of the powder? How far have you gotten?

Mr. Purvis: On that powder

HM, Jr: Yes, the 1200,000 pounds.

Mr. Purvis: Yes. The Army -- while I was down here, day before yesterday, our people got in touch and asked DuPont and Hercules to write appropriate letters. They asked for permission to get in touch first by telephone with the appropriate people here. They have been in touch with the Army and arrangement has been made. Whether it's done formally or whether it's being done informally, I don't know. In the case of the Navy, the Navy had not yet received information.

HM, Jr: It's ridiculous! Not only did General Watson call up the Navy and tell it to them, but Mr. Edison wasn't satisfied so he called me on the phone and he said, "I am not satisfied. I want to hear your own voice. Will you tell me, Mr. Morgenthau, that this is agreeable and that you want it?" and I said, "Yes." And that was last week.

Mr. Purvis: What I think is by today they probably have got through to the proper person and I may hear before I go this afternoon and I could perhaps send word into your office on the last position.

HM, Jr: Stupid! But I thought you would tell me that the -- let me ask Admiral Spear while you are here.

-23-

Mr. Purvis: All right.

One other point I would like to mention. Nitrocellulose powder, which is made for the Navy, is air dried; takes four months to dry. The Army powder is dried out more quickly. Therefore, they said "Couldn't you have got it all from the Army?" I said, "Will you be good enough to leave me alone." I don't think we should go back on it in the slightest.

HM, Jr: You can't get another pound out of the Army.

Mr. Purvis: I sensed that while we were waiting.

(At this point, HM, Jr spoke to Admiral Spear.)

HM, Jr: Might as well be hung -- DuPont flatly refuses to make the request.

Mr. Purvis: It is very difficult.

HM, Jr: My own neck is out so far, it's stretched so far it can fall all too easily.

Mr. Purvis: It's too good a neck. I do appreciate it.

oOo-oOo

After the meeting was over and Miss Chauncey had been excused from taking notes, Mr. Purvis stayed behind and told Mr. Morgenthau that the Hercules Powder Company called him on the telephone in December and said, "Don't go and see Sullivan. The thing to do is to see Colonel Burns." (Colonel Burns is aide to Louis Johnson.)

*first submitted
at meeting on
large topic
Date revised*

SECRET

POINTS TO BE SUBMITTED TO MR. WORGENTHAU

In order to finalize the proposals which the two Governments wish to negotiate with the American industry, the following is essential:

Engines

1. In view of the importance of obtaining as powerful engines as possible, we would ask for the release of certain types of superchargers (turbo and two stage) which we are under the impression the engine companies have developed but which have not yet been released.
2. We are anxious to obtain the release of an improved type of Allison engine which we understand has been developed for use on the newest fighters.

Airplanes

In view of the fact that the bulk of the additional engines which we shall obtain will only be available for mounting on air frames during the year 1941, we need to order the types of airplanes which will meet the war conditions prevailing in 1941, and for this reason access to complete information on the following airplanes is desired:

A. Pursuit airplanes

Lockheed interceptor P.38
Bell P.39
Improved Curtiss
Generally any other type of fighter which would be serviceable in 1941.

(Note. Present indications are that war conditions in 1941 will involve a speed for fighters of not less than 400 miles per hour.)

B. Bombers

We believe that new types of bombers have been developed for the American Army and Navy, and we also would wish to have information on these, including big four engined bombers and dive bombers.

The information necessary for the taking of decisions would cover, for example, the results of the engine manufacturers' tests on engines and also the results of Service and manufacturers' trials of airplanes, with details of performance and handling qualities.

HS

POINTS TO BE SUBMITTED TO MR. MORGENTHAU.

In order to finalize the proposals which the two Governments wish to negotiate with the American industry, the following is essential:

Engines.

1. In view of the importance of obtaining as powerful engines as possible, we would ask for the release of certain types of superchargers (turbo and two-stage) which we are under the impression the engine companies have developed but which have not yet been released. That is to say:-

- (a) General Electric turbo compressors on the Allison engine 1710 and on the Pratt & Whitney engine 1830;
- (b) Two-stage two-speed superchargers on the Pratt & Whitney engine 1830 and on the Pratt & Whitney engine 2800.

2. We are anxious to obtain the release of an improved type of Allison engine which we understand has been developed for use on the newest fighters. That is to say:

The Allison engine V1710-35, specification 130D dated December 18, 1939.

Airplanes.

In view of the fact that the bulk of the additional engines which we shall obtain will only be available for mounting on airframes during the year 1941, we need to order the types of airplanes which will meet the war conditions prevailing in 1941, and for this reason access to complete information on the following airplanes is desired:

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- Lockheed interceptor P.38
- Bell P.39
- Improved Curtiss.
- Generally any other type of fighter which would be serviceable in 1941.

(Note. Present indications are that war conditions in 1941 will involve a speed for fighters of not less than 400 miles per hour.)

.....2

- 2 -

B. Bombers.

We believe that new types of bombers have been developed for the American Army and Navy, and we also would wish to have information on those, including big four engined bombers and dive bombers.

The information necessary for the taking of decisions would cover, for example, the results of the engine manufacturers' tests on engines and also the results of Service and manufacturers' trials of airplanes, with details of performance and handling qualities.

March 7, 1940.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 11, 1940

MEMORANDUM FOR THE SECRETARY

The use of the turbo compressor and the two-stage two-speed supercharger permits of the development of more speed and the maintenance of greater speeds, particularly at higher altitudes.

The British interest lies in the turbo compressor. Apparently the French have no interest in either the two-stage two-speed supercharger or the turbo compressor.

A handwritten signature in cursive script, appearing to read "H. Green".

LMS

GRAY

Paris

Dated March 7, 1940

Rec'd 3:18 p. m.

Secretary of State,
Washington.

301, March 7, 6 p. m.

FOR THE TREASURY FROM MATTHEWS.

Today's JOURNAL OFFICIAL published an instruction of the Minister of Finance for the guidance of importers and exporters with respect to the currencies to be used in effecting settlement of imports and exports. Currencies are divided into four categories namely the franc (the French franc and currencies of French colonial possessions) the pound (the pound and the currencies of the British Empire, the Dominions excluding Canada, the Egyptian pound and the Iraq dinar) free foreign exchange currencies (United States dollar, belga, Dutch florin and Swiss franc) and "controlled currencies" (all others' currencies).

(END SECTION ONE)

MURPHY

WWC

JT

GRAY

PARIS

Dated March 7, 1940

Rec'd 5:30 p.m.

Secretary of State,
Washington.

301, March 7, 6 p.m. (SECTION TWO)

Countries are divided into four groups namely: the sterling area (the British Empire - with the exception of Canada, Hong Kong and Newfoundland - Egypt, the Sudan, and Irak); the principal "free commercial settlement" countries (United States, Belgium, Holland, Scandinavian countries, Portugal and Switzerland); compensation agreement countries (Chile, Turkey, Argentina, Yugoslavia, Spain, Greece and Hungary) and controlled exchange countries with which France does not have compensation agreements (all other controlled exchange countries).

MURPHY

NPL

LMS

GRAY

Paris

Dated March 7, 1940

Rec'd 3:23 p. m.

Secretary of State,
Washington.

301, March 7, 6 p. m. (SECTION THREE)

The third section of the instruction groups countries according to the exchange to be used in settling imports and exports: One. Imports from and exports to countries in the sterling area must be invoiced in francs or sterling. Two. Imports from countries of free commercial settlement must by preference be invoiced in the currency of the exporting country if not in francs; they may only be invoiced in sterling "within certain limits"; exports to "free commercial settlement" countries must by preference be invoiced in the currency of the importing country, or in a free foreign exchange or in francs.

MURPHY

WVC

JT

GRAY

PARIS

Dated March 7, 1940

Rec'd 5:16 p.m.

Secretary of State,
Washington.

301, March 7, 6 p.m. (SECTION FOUR)

Three. Imports from compensation agreement countries may be invoiced in any currency but must be paid for in francs at the compensation office unless specifically excepted. Exports to compensation agreement countries may be expressed in francs or a free foreign exchange but are generally paid for in francs by the compensation office. Four. Imports from controlled exchange countries with which France does not possess compensation agreements must, except under special instructions be invoiced in francs or the currency of the exporting country; they may not be invoiced in sterling except "within certain limits"; exports to non-compensation agreement countries must be expressed in free foreign exchanges or in francs. Exceptions to the foregoing rules may be made if circumstances warrant.

MURPHY

NPL

JT

GRAY

PARIS

Dated March 7, 1940

Rec'd 3:46 p.m.

Secretary of State,
Washington.

301, March 7, 6 p.m. (SECTION FIVE)

You will recall that there has recently been some agitation for efforts to bring about an increase of bank deposits through greater use of the check as means of payment in France (for example my telegrams No. 104, January 22, 6 p.m. and 144, January 29, 7 p.m.) An assembly of the Presidents Chambers of Commerce of France yesterday passed a resolution also urging more widespread payments by check. Reynaud accordingly announced to the Finance Commissioner of the Chamber yesterday that two decrees are in course of preparation which are designed to "generalize the use of the check especially as concerns payments by the Government".

MURPHY

WWC

JT

GRAY

PARIS

Dated March 7, 1940

Rec'd 4:23 p.m.

Secretary of State,
Washington.

301, March 7, 6 p.m. (SECTION SIX)

It is reported that the Franco-Italian commercial agreement negotiations which have been proceeding in Paris (my telegram No. 262, February 27, 6 p.m.) resulted in the initialing of an agreement yesterday.

The Minister of Labor yesterday informed the Chamber that current unemployment figures are 200,000 as against 330,000 at the beginning of the war. Of the present 200,000 approximately one third are over 60 years of age. He also announced that additional 200,000 workmen from the colonies are expected in France this year. He added that there are 450,000 mobilized men especially assigned to national defense work; requisitioned civilians employed in national defense work total between 750,000 and 800,000.

MURPHY

NPL

JT

GRAY

PARIS

Dated March 7, 1940

Rec'd 5:21 p.m.

Secretary of State,
Washington.

301, March 7, 6 p.m. (SECTION SEVEN)

The Bank of France statement published today for the week ending February 29 does not of course contain the recent gold changes dated March 1. The statement reveals, however, that the government drew another 1,350,000,000 on its authorized advance bringing the total since the war to 20,050,000,000. Note circulation reached a new high of 156,150,000,000 an increase of 2,790,000,000 over the previous week occasioned largely by month/nd requirements and the aforesaid additional drawing by the government on its advance. Gold coverage dropped from 56.54 to 55.75%.

The securities market the past few days has in general been calm and listless. The undertone was firmer today for French industrial shares though rentes continue their recent small fractional declines.

(END OF MESSAGE)

MURPHY

NPL



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

112

March 7, 1940

MEMORANDUM FOR THE SECRETARY

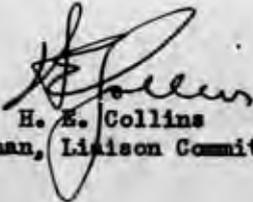
The production of powder at the Indian Head Powder Factory is now at the rate of 15,000 pounds per day or 3,500,000 pounds per year. By increasing the personnel approximately 175 men this production could be increased to 25,000 pounds per day or 6,000,000 pounds per year.

The Navy's remaining allocation with the DuPont Company for 1940 involves deliveries of approximately 1,500,000 pounds, of which amount 375,000 pounds must be retained, being of a type of powder not produced at Indian Head.

The increase of facilities at Indian Head as indicated above would permit, therefore, of the release of capacity at the DuPont plant of 1,125,000 pounds for the remainder of 1940. The Navy has agreed to release 4 months' capacity, or 600,000 pounds, which is the quantity they were asked to provide for the British.

If the facilities at Indian Head are increased as indicated above and this release is approved there will still remain 525,000 pounds of unallocated capacity with the DuPont Company.

In connection with the proposed expansion at Indian Head, it has been pointed out by the Navy that they consider it essential to keep the DuPont powder line in existence. Therefore, when the British contract is completed the DuPont source of supply should be maintained through the award of a Navy contract which, in turn, will undoubtedly reduce the production at Indian Head and necessitate a curtailment of activities at that plant.


H. E. Collins
Chairman, Liaison Committee

March 7, 1940

Mr. Felt

Mr. Godwin

Will you kindly send the following cablegram:

"AMERICAN EMBASSY LONDON.**From the Secretary of the Treasury for Deiterweith and forwarding by mail to Paris and Berlin.**

The Secretary of the Treasury announced on March 7 the offer at par of 3/4 percent Series A-1940 Treasury Notes dated March 15 1940 and maturing March 15 1945 in exchange for 1-1/2 percent Treasury notes of Series B-1940 maturing June 15 1940 of which the outstanding amount is now \$730,000,000."



HMG/m 3/7/40

COPY OF TELEGRAM SENT

Washington, March 7, 1940.

The Honorable
Francis White, President,
Foreign Bondholders Protective Council, Inc.,
90 Broad Street,
New York, New York.

I wish to acknowledge the reply telegraphed to the Department last night transmitting the results of the Council's consideration of a possible debt offer that may be made by the Brazilian Government to the holders of its external bonds.

The Department transmitted at once to its Embassy in Brazil the text of the contemplated statement contained in your telegram, and the further statements of the Council as to its understanding that the offer will disclose to the bondholders the whole picture, including repatriation of bonds, and that should there be modifications of the present offer the Council reserves the right to review the situation anew with full liberty of action with respect thereto.

The Ambassador was authorized to transmit this to the Brazilian authorities.

The Department appreciates the serious and continued consideration you have given this question.

A. A. BERLE JR.

Assistant Secretary of State

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 57

DATE: March 7, 1940

Reference is made to your no. 71 of February 24 and to the Department's no. 44 of February 28, regarding the repurchase of bonds by the Government of Brazil. In order that the bondholders may have full knowledge, the Department believes it essential that any debt offer of the Brazilian Government contain a full statement of what the Brazilian Government proposes to do.

Reference is made to your telegram no. 90 of March 6, 3 p.m. If the Government of Brazil feels that it is faced by serious exigencies in the matter, the Department would not wish to make a particular issue of the prospective treatment to be offered to holders of Grade IV bonds. It has been and continues to be the leading wish of the Department to obtain for bonds in Grade III an improvement in the comparative terms with reference to bonds in Grades I and II. The Department therefore still hopes that in working out the terms of the offer, the Brazilian Government will find it possible to do something in that connection. It is the sense of the Department, as has already been expressed to you on several occasions, that such
action

action would not only be equitable but would have beneficial results as far as the Brazilians were concerned since it would greatly increase the chances of the offer's receiving a favorable reception from the bondholders.

HULL (AAB)

EA:EB

TO THE SECRETARY
ARMY & NAVAL
OFFICE OF THE

NOV 8 11 5 42

RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 93

DATE: March 7, 1940

Reference is made to the next-to-the-last paragraph of the Department's telegram 56, March 6, 7 p.m. In order to take care of the exigencies of the Foreign Bondholders Protective Council in the premises, Aranha is considering attaching to the debt announcement the following statement:

"The Brazilian Government has not worked out plans for now or the near future for the repatriation of bonds in the open market. The Brazilian Government hopes that in due time improving trade and exchange conditions may permit it to avail itself of the provisions of Article No. 1 (6) of the Aranha plan decree which permits repurchases in the open market. Under no conditions, however, does the Brazilian Government intend to make more than moderate purchases of this character; and will make no such purchases without consulting the interested government."

CAFFERY

EA:EB

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 58

DATE: March 7, 1940, 7 p.m.

Reference is made to your telegram no. 93 of March 7.

The last clause is not liked in the Department. This clause would imply that approval is to be given by this Government before purchases in the open market are made. The clause might be deleted or it might be replaced by a statement to the effect that disclosure will be made from time to time of the amounts of such purchases.

It appears that the phrasing used would exclude repurchases in the open market even for amortization of bonds in Grades I and II. In order to clarify the text the following changes might be made: for the last four words of the first sentence substitute QUOTE in excess of the amortization indicated in this proposal END QUOTE; in the second sentence before QUOTE repurchases END QUOTE, insert QUOTE such additional END QUOTE.

HULL (AAB)

NO LINE
TECHNIC
ONE
END
JUN 10 1940

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 94

DATE: March 7, 1940

On March 5 the following telegram was received by the National City Bank of Rio from its head office in New York City:

"Has British exchange control established official rate for purchases sterling bills for milreis covering export from Brazil to British Empire. If so, what rate?"

This was passed on to the Brazilian authorities by the Manager of the National City Bank. I was told by Aranha this morning that although they have not received any other information in this connection, the Brazilian Government is very (I emphasize very) worried about the matter.

GAFFERY

RECEIVED
MARCH 10 1940
MARCH 10 1940
RECEIVED

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 95

DATE: March 7, 1940, 12 midnight.

Following is the text of a decree-law providing for resumption of services on the Brazilian foreign debt on the plan specified in Department's no. 51 of March 4 and 56 of March 6. The Minister of Finance says that this decree-law will be signed by President Vargas tonight and will be held confidential until it is released for publication here, which will probably be tomorrow.

"Article I. Decree No. 23,829 of February 5, 1934 is hereby reenacted for the period from April 1, 1940 to March 31, 1944 with the following amendments: Sole paragraph. The provisions of this Article cover the amendment contained in Decree 24,490 of June 28, 1934.

"Article II. The percentages fixed for exchange remittances for service of the foreign debt of the Union, States and Municipalities shall be the following percentages of those of the last year of the Plan approved by Decree 23,829 of February 5, 1934." (Here follows a table containing the following percentages, for each of Grades I, II and III interest at 50% throughout; for each of Grades I and II amortization at 40% throughout

out

- 2 -

out; for each of Grades IV, V, VI and VII interest at 40, 41, 43 and 50% in the first, second, third and fourth years respectively.)

"Article III. For the purposes of the application of the percentages provided for in the preceding Article the first year to be considered shall be the period of 12 consecutive months counting from the date of the first coupons matured but not paid after November 10, 1937.

"Article IV. While the present decree-law is in force the general structure of the Plan cited in Article I shall be maintained and no changes or modifications of any kind shall be made that benefit in any way the bondholders of a given loan unless proportional benefits are granted to the bondholders of all foreign loans.

"Sole paragraph. The provisions of this paragraph do not apply to the object of No. 6 of Article No. I of Decree 23,829 of February 5th, 1934.

"Article V. The sums required for the execution of the present Decree shall be included in the respective budgets of the Union, the States and the Municipalities.

"Article VI. The plan covered by this decree-law shall be reviewed again by October 1943.

"Article VII. No. 5 of Article I and Articles II and III of decree-law No. 23829 of February 5, 1934

and

- 3 -

and other provisions to the contrary are hereby
revoked."

I had persuaded Aranha to drop the idea of raising
Grade IV above the figures mentioned in the foregoing
even before I had received telegram of March 7, 1 p.m.,
No. 57, from the Department.

GAFFERY.

EA:EB

TO THE PRESIDENT
FROM THE SECRETARY OF STATE
MARCH 7 1934
RECEIVED
MARCH 7 1934
U.S. DEPARTMENT OF STATE

MAR 7 1934



MEMORANDUM

March 7, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

Conference with Messrs. Halvering, Foley, Irey, Kades,
and Lewing.

(Mr. Sullivan dictated the following in the presence
of these gentlemen at 11:30 a.m., March 7, 1940.)

Question: Is there at the present time an adequate record
to justify our requesting the Department of
Justice to file petition against Bowman Elder?

Unanimously concluded that the record as transmitted
in letter of Special Agent James H. Sullivan, dated March 4,
does not constitute a sufficient record. Unanimously agreed
that Special Agent Sullivan be called to Washington to give
this same group any further information he may have in sub-
stantiation of any statements contained in his letter of
March 4 and that this same group review the situation in
the light of such additional information as may be obtained
from Special Agent Sullivan.

We will not take any further steps with the Department
of Justice until after our meeting with Agent Sullivan.

Copy to:

Halvering
Foley
Irey
Kades
Lewing

Page 124 missing -

faulty numbering machine



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 8, 1940

MEMORANDUM FOR THE SECRETARY

A meeting was held in my office this afternoon at which were present M. Plevan, Colonel Jacquin, Vice Air Marshall Cave-Brown-Cave, Colonel Cave, Sir Henry Self, and the Director of Procurement.

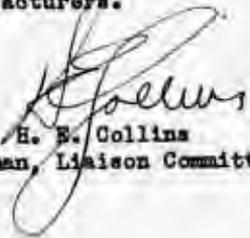
It was indicated at the conference that a meeting will be held Monday morning in New York with Mr. Evans of the Allison Motor Company; Monday afternoon with Mr. Gordon of Wright Aeronautical; and Tuesday with Mr. Wilson and Mr. Ward of Pratt & Whitney.

The purpose of these meetings will be to determine what motors can be supplied through October, 1941, and based on these determinations will depend a decision as to the types and numbers of planes for which contracts will be made.

Colonel Jacquin indicated that they desired 3500 Allison of the latest type; 4400 Wright motors, types to be determined at their conference with the Wright people; and 5790 Pratt & Whitney motors, types to be determined at a conference with the Pratt & Whitney people. He further indicated, however, that they desire to obtain as many of the larger horsepower motors as possible.

It was indicated that as soon as the information is had from the engine manufacturers discussions will then be undertaken individually with the plane manufacturers in an effort to arrive at a program as to what planes shall be acquired.

M. Plevan advised me that he would keep me informed as to developments in their negotiations with the manufacturers.


H. E. Collins
Chairman, Liaison Committee

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 96

DATE: March 8, 1940

With reference to my telegram 95, President Vargas signed the Debt Service Decree this morning at 12:30. It will be released tomorrow for publication here and abroad.

Aranha has changed his statement so as to conform to the wishes of the Department expressed in its telegram no. 58 of March 7.

EA:EB

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 60

DATE: March 8, 1940, noon.

It is noted by the Department that Article 3 of Decree Law No. 23829 of February 5, 1934 is revoked by the new decree law. Would there not be more assurance of the continued execution of the fulfillment of the new plan if Article 3 were kept in effect but were amended as necessary?

HULL (HF)

EA:EB

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 59

DATE: March 8, 1940, 11 a.m.

Reference is made to your telegram no. 95 of March 7.

Of course the Department will not take any action with reference to the text of the decree law until word of its release has been received from you. We are going over it now article by article and will cable you later in the day if we have any comment.

Is it Article I of the February 5, 1934 decree that is reenacted or is it the whole decree? What is the form of the table contained in Article II? Is a list of the loans in the various grades included in this table? If so, does it vary from the list published in the 1938 report of the Foreign Bondholders Council? What treatment is accorded to Grade VIII. In order to respond to questions, we need full details.

In order to avoid the possibility of confusion, we believe it highly desirable that you telegraph at once the complete text of the proposed public announcement to be made by the Government of Brazil. It is assumed by the Department that the matter raised by the Department in its telegram no. 58 of March 7 has been dealt with in a satisfactory manner.

EA:EB

HULL (AAB)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 97

DATE: March 8, 1940

Reference is made to the Department's telegram no. 60 of March 8.

The reason for revoking Article III was that its original purpose had been solely to implement Article II of the old decree law. The amounts provided for under the new law will be deposited in the Bank of Brazil in exactly the same manner as before.

With reference to the Department's no. 59 of March 8, publication of the decree abroad at any time on March 9 has been authorized by the Minister of Finance.

As stated in the new decree, the old decree is reenacted in its entirety with the exception of the revocation which is explicitly specified in the new law.

Only the words and figures paraphrased in my telegram are contained in the table in the new decree. The new decree does not repeat the lists of individual loans; they continue to be exactly as in the several grades of the old law. No change is made in Grade VIII.

it

-2-

it is exactly as it was in the original Aranha plan. If there is no objection, the Government of Brazil may be willing to amortize it, as could have been done under the old law.

CAFFERY

EA:EB

Rio de Janeiro, March 8, 1940

No. 2678

SUBJECT: Brazilian Foreign Debt Situation.

ORIGINAL AND THREE COPIES BY AIR MAIL — CONFIRMATION COPY BY STEAMER.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

Referring to recent correspondence regarding the Brazilian foreign debt situation, I have the honor to report that the Brazilian Minister for Foreign Affairs told me this morning that one of the principal reasons that the Brazilian Government had for desiring to maintain the principle of the Aranha Plan derives from the French gold franc situation. As the Department is aware, the French have in their favor a 1928 decision of the Hague Court which backs their claim for a 1 to 13.8 ratio instead of a 1 to 5 ratio which the Brazilians desire to maintain. The Brazilian Government has been afraid that if the principle of the Aranha Plan were destroyed the French would hold themselves entirely free to press their claim for the 1 to 13.8 ratio.

Respectfully yours,

Jefferson Caffery.

JC:alc

File No. 851

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 98

DATE: March 8, 1940

Reference is made to the last paragraph of the Department's telegram no. 59 of March 8.

There is not to be any public statement except publication of the decree and an interview which the Minister of Finance is to have with the press late this afternoon. In that interview a justification will be offered, for domestic consumption, of foreign debt payments.

The statement which I mentioned in the last paragraph of my telegram no. 96 of March 8, Aranha will make in a letter to me. When the decree is published, I may make any use desired of the letter.

CAFFERY

EA:EB

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

133

INTER-OFFICE COMMUNICATION

DATE March 8, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At 12:05 today Mr. Dunn of the State Department telephoned me. He said it was his understanding that Secretary Morgenthau was agreeable to the idea of the British and French Ambassadors presenting at the Treasury Messrs. Rist and Ashton-Gwatkin to discuss the subject of alloy metals, such as molybdenum, nickel, etc. Mr. Dunn stated that Mr. Butler of the British Embassy was in his office at the moment, accompanied by Mr. Ashton-Gwatkin. The two ambassadors would like to have the opportunity of making this call at the Secretary's convenience. Since Mr. Dunn is acting as liaison officer in making arrangements for the two visitors from Europe, he asked that we let him know when it would be convenient for Secretary Morgenthau to receive the two ambassadors and their advisors.



I called Mr. Dunn back at 12:30 noon and told him that the Secretary of the Treasury would be pleased to receive the above mentioned gentlemen at 11 o'clock on Monday morning. Mr. Dunn was quite sure this could be arranged, since that hour had already been reserved for a conversation at the State Department in which these officials would participate. Dunn said his Department would be happy to yield the hour to the Secretary of the Treasury. Dunn will call me back to confirm the appointment. He asked that I let him know the subjects which are discussed by the visitors with the Treasury. He did not ask for details, but simply wanted to know what problems they would be discussing here, so that there would not be any overlapping or confusion. I told him that Mr. Butler of the British Embassy had misunderstood the Treasury attitude, but that Secretary Morgenthau had explained his views to Assistant Secretary Berle. Mr. Dunn was familiar with the situation and seemed anxious to cooperate with us in our relations with the visitors.

CONFERENCE IN UNDERSECRETARY'S OFFICE
March 8, 1940 - 2:45 P.M.

PRESENT: D. W. Bell, O. E. Cushing and
E. H. Foley, Jr.

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MR. BELL: Mr. Cushing, we asked you to come down so we could all understand what we had worked out on the case.

MR. FOLEY: We went over and saw Mr. Frank last night, Mr. Bell and I, and gave him the program which had been worked out by the three agencies. We told him the program was satisfactory to the three agencies. We told him also that we understood no action had been taken by the bank insofar as the agreement was concerned. We understood that so far as the people representing the bank were concerned, they had no further questions or suggestions in respect of it, but it had not been approved by the bank. We told Mr. Frank that insofar as we were concerned we were not in any way suggesting to him that a settlement of the difficulties between Transamerica and S. E. C. be influenced by this program. Insofar as we were concerned this program is what the bank had to do in order to adjust its difficulties with the Comptroller and the Treasury Department. The approval of the bank to the program, insofar as the Treasury is concerned, would have to be an unqualified approval. It could not be conditioned upon the outcome of the differences with S. E. C. The thing we want you to understand is this - there is no connection between the two agencies; that at the present time we are doing nothing; we will

- 2 -

give the bank a reasonable time to decide what it wants to do in respect of that program. However, if at the meeting of the Board of Directors next Wednesday, I believe the 12th - Tuesday or Wednesday - this program is approved subject to a satisfactory adjustment of the differences with the S. E. C. insofar as we are concerned that will not be satisfactory. Before the meeting when this is submitted to the Board we want to be absolutely sure that you understand our position and that our position is presented to your Board so that the Board would get some idea that the program might be satisfactory to us provided arrangements could be made satisfactory to Transamerica with S. E. C.

MR. CUSHING: I think you referred in the early part of your statement to an agreement with reference -

MR. FOLEY: Program

MR. CUSHING: I will transmit this statement to the bank immediately so that they will know what you have said. I would like to ask this: Assuming that the Board of Directors did adjourn to a date later in the month further to consider the matter, would there be any objection to that?

MR. FOLEY: We are willing, as I said, to allow the bank a reasonable opportunity to make up its mind. The bank must realize that time is running against it, that there is a report in process of preparation by Examiner Bates that will require the attention of

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the Comptroller when it has been submitted to the Comptroller. If at that time there isn't something from the bank in the way of an unqualified approval of this program, the Comptroller will be free to take such action as the law permits.

MR. CUSHING; And what that action will be, do you care to indicate to me now?

MR. FOLEY; No, we are not in position to indicate that to you now.

MR. CUSHING; It is understood in our discussion here - we took the position from the first that adjustments were involved. So far as we were concerned any proposition or settlement which we arrived at would involve S. E. C. In other words we made no commitment to accept the program without

MR. BELL; I think we made our position clear that we could not be a party to the condition you attached.

MR. CUSHING; I think we presented that clearly on both sides.

MR. FOLEY; I think when you approve this program you should do so with the understanding that the program is on the four corners of that sheet of paper and there were no other conditions that were incorporated in the program.

MR. CUSHING; Except it was known by everybody here that it was the bank's position that settlement with S. E. C. would be necessary in connection with settlement with the Comptroller.

MR. FOLEY; We look on that as being the bank's affair. I want our position to be made perfectly clear, that so far as the Comptroller

- 4 -

and the Treasury are concerned this is a program that must be approved by the Bank without reservation and it cannot be made conditioned upon settlement of matters with other agencies.

MR. CUSHING: I will transmit that statement to the bank.

MR. BELL: We don't have much control over the S. E. C.

MR. FOLEY: It isn't a question of control, I think it is a question of proper relationship between departments and agencies of the Government. That is an S. E. C. matter and not a Treasury matter and your relationship with S. E. C. must be independent of your relationship with the Treasury.

MR. CUSHING: That is the Comptroller's and the Treasury's position. If you will give me a copy of this statement - it is only fair that I should transmit to the Bank exactly what occurred here. I think you will agree with me that is fair. Do you want to take that under consideration?

MR. FOLEY: Yes.

MR. CUSHING: I wouldn't want to take a chance on carrying it in my memory.

MR. FOLEY: It is a simple statement.

MR. CUSHING: What reason is there that I shouldn't have a copy?

MR. FOLEY: I should like to talk that over with Mr. Bell.

MR. CUSHING: We have discussed this and made a record of what your position is and to keep it in your records without giving me a

- 3 -

copy doesn't seem to be proceeding along the lines we have been proceeding along up to this time.

MR. BELL: It would have to be written up. I could give you a ring at your hotel.

MR. CUSHING: All right, I will wait to hear from you before I talk to my people.

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TREASURY DEPARTMENT

139

INTER-OFFICE COMMUNICATION

DATE March 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The reported turnover in sterling transactions was greatly increased today with sales approximately double the amount of the purchases. The pronounced expansion of sales evidently resulted from the fear that the new exchange regulations of the British Control, which are rumored to go into effect over the weekend, may, in some manner, result in the owner's inability to dispose of his sterling balances. The commercial demand for sterling, which was largely responsible for the recovery in the rate during the past two days, experienced a slight contraction today. These developments led to a sharp decline in the sterling rate.

In Amsterdam, sterling receded from 3.93-9/16 to 3.92-3/4 just before our opening. The initial quotation in New York was also 3.92-3/4 and shortly thereafter sterling reached a high of 3.93. An erratic decline then took place and by early afternoon, sterling was quoted at 3.91. After returning to 3.91-1/2, the rate again fell to a low of 3.89-5/8 at the close.

Sales of spot sterling by the six reporting banks totaled £1,241,000, from the following sources:

By commercial concerns.....	£ 522,000
By foreign banks (Europe and South America).....	£ 719,000
Total.....	£1,241,000

Purchases of spot sterling amounted to £670,000, as indicated below:

By commercial concerns.....	£ 620,000
By foreign banks (Far East).....	£ 50,000
Total.....	£ 670,000

Contraction of commercial demand accounted for the widening of the forward quotations for sterling. At the close, the discount for one-month delivery was 7/8¢ per pound and the three-months discount was 3-3/8¢ per pound.

The following reporting banks sold cotton bills totaling £29,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 17,000 by the Irving Trust Company
5,000 by the Guaranty Trust Company
5,000 by the Bankers Trust Company
2,000 by the Chase National Bank
£ 29,000 Total

The discount for the Canadian dollar widened to a new low of 15%. The belga showed a firm tendency all day and closed at .1696. The other important currencies closed as follows:

French francs	.0220-7/8
Guilders	.5314
Swiss francs	.2242-1/2

For the past few days, the Cuban peso has had a weak undertone, and today it was quoted at 8-13/16% discount. The Mexican peso remains unchanged at .1672.

The Federal Reserve Bank of New York purchased 200,000 French francs and 50,000 belgas for the Bank of Latvia.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the following shipments of gold were being made to it by the banks indicated below:

\$4,499,000 from England, representing two shipments by the Bank of England for account of the Swiss National Bank.
590,000 from Mexico, shipped by the Bank of Mexico for its own account.
 \$5,089,000 Total

The disposition of these shipments is unknown at the present time.

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

From Bombay, India:

\$1,063,000 representing two shipments by the Netherlands Trading Society and one by the National Bank of India, consigned to the Chase National Bank, San Francisco.
 399,000 shipped by the National Bank of India to the Canadian Bank of Commerce, San Francisco.
 315,000 shipped by a French bank to the French American Banking Corporation, New York.
 243,000 shipped by the National Bank of India to the Guaranty Trust Company, New York.
 200,000 shipped by the Netherlands Trading Society to the Wells Fargo Bank, San Francisco.
 140,000 shipped by a French bank to the American Trust Company, San Francisco.

From London, England:

285,000 shipped by Pixley and Abell to the Chase National Bank, New York.
 112,000 shipped by the Swiss Bank Corporation to the Bank of Manhattan, New York.
\$2,757,000 Total

The shipments being sent to San Francisco will be sold to the U. S. Mint there, while those consigned to New York will be sold to the U. S. Assay Office.

CONFIDENTIAL

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The Bombay silver quotation worked out to the equivalent of 41.86¢, up 1/4¢.

The fixing price for spot silver in London rose 3/16d to 21-5/16d. The forward quotation advanced 1/4d to 21-1/4d. The U. S. equivalents were 37.63¢ and 37.35¢ respectively. Small Indian buying was reported.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made five purchases of silver totaling 500,000 ounces under the Silver Purchase Act. Of this amount 150,000 ounces represented a sale from inventory and the remaining 350,000 ounces consisted of new production from foreign countries, for forward delivery.



FD:RH:amo:emk

CONFIDENTIAL

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Friday, March 8, 1940.
3/7/40

Press Service
No. 20-40

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of $3/4$ percent Treasury Notes of Series A-1945 will close at the close of business Saturday, March 9, 1940. This offering is open only to the holders of Treasury Notes of Series B-1940, maturing June 15, 1940.

Subscriptions addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Saturday, March 9, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

-oOo-

DUPLICATE

CONFIDENTIAL

REQUIRED

TRANSPORT FACILITIES AVAILABLE IN MAKING
USE OF THE IRRAMADDY RIVER FOR SHIPMENTS
FROM RANGOON TO CHINA

From Vice Consul

Rangoon, Burma. W. Leonard Parker
Date of completion: March 8, 1940.
Date of Mailing: March 9, 1940.

Approved:

Austin C. Brady
American Consul

No. 4

DUPLICATE

CONFIDENTIAL

Rangoon, Burma, March 8, 1940.

CONFIDENTIAL

SUBJECT: Transmission of Report Entitled "Transport Facilities Available in Making Use of the Irrawaddy River for Shipments from Rangoon to China".

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D. C.

SIR:

I have the honor to transmit herewith a report, entitled "Transport Facilities Available in Making Use of the Irrawaddy River for Shipments from Rangoon to China", which this Consulate was instructed to submit for the information of the Treasury Department.

Respectfully yours,

Austin C. Brady
American Consul

Enclosure:
Report.

Distribution:
In duplicate to Department.

881-800
WLP/cp

The Existing River-Highway Route from Rangoon to China.

The only existing practicable route involving the use of the Irrawaddy river for the transportation of goods from Rangoon to China is by river-steamer from Rangoon to Bhamo, a distance of 874 miles, and by motor truck from Bhamo to the Chinese border, a distance of 111 miles, through mountainous terrain over lengthy sections of narrow and winding unsurfaced roads which become impassable at times and may be traversed only with great difficulty during the rainy season lasting from May until October.

Transportation Facilities on the Irrawaddy River.

Except for cargo carried by a few independent operators in the lower reaches of the river and by native sailing craft, freight and passenger traffic on the Irrawaddy is handled by the Irrawaddy Flotilla Company, Limited, which operates scheduled steamer services over the navigable portion of the river and its tributaries. Freight from Rangoon destined to Bhamo is carried by the company a distance of 597 miles to Mandalay in seven days by express services operating twice a week and in nine days by a cargo service which is run once a week. At Mandalay, cargo for Bhamo is transhipped to steamers of lighter draft, which are run on a weekly express schedule of two and a half days and on a fortnightly cargo-service schedule of five and a half days. Two steamers of 437 gross tons each are now employed in the Mandalay-Bhamo service. Each one is capable of carrying an average cargo of 200 tons and of towing two flatboats carrying 400 tons each, which is about half their capacity

but

but the maximum average load which navigation in the shallow waters and swift currents of the upper reaches of the river will permit. The total amount of cargo transported during the calendar year 1939 by these services from Rangoon to Bhamo consisted of 6,448 tons. It is understood that the Mandalay-Bhamo steamers could transport 500 tons a week more than they are actually carrying at present, but additional steamers would have to be placed on the run to carry cargoes in excess of this quantity. An official of the company has made the following statement regarding this service: "We reckon that if we were carrying 2,500 tons of cargo per week from Rangoon to Bhamo we would be busy. Between May and December when river conditions are easier, we could handle more than this and I would hesitate to put a figure on our 'full capacity'".

The Irrawaddy Flotilla Company owns and operates a total number of 650 river craft. Of this number, 311 are self-propelled vessels of various types and dimensions, ranging from small launches used for ferry services to large, shallow-draft, side-wheel steamers 326 feet in length; 134 are flatboats (including some used as floating docks), which have an average cargo capacity of 750 tons each, but which lack motive-power and must be towed; and 205 are "cargo boats" designed for the rice trade in the delta area and which also must be towed. In the course of the calendar year 1939 this fleet carried 1,322,058 tons of cargo and 5,699,817 passengers over the Irrawaddy waterway system. From May to December during the high-water period of the rainy

rainy season it would be physically possible to run all but 12 steamers of the 650 vessels of the fleet the entire distance from Rangoon to Bhamo. Although all of the flatboats and "cargo boats" are potentially capable of being operated between the two points throughout the year, only 21 steamers to tow them are structurally capable of proceeding from Mandalay to Bhamo during the low-water season, which lasts from December to May. Of these 21 steamers, in the opinion of the company, only 3 (one more than is now being used for the run) could be spared for operation between Mandalay and Bhamo under present conditions without disrupting other services. However, it is possible, of course, that the company might be willing to divert additional vessels to the service if future conditions should indicate that it would be expedient and profitable to do so. River steamers capable of navigating the river above Mandalay and flatboats could be loaded alongside ocean-going steamers in Rangoon harbor and could proceed to Bhamo without transshipment of cargo at Mandalay if the volume of freight traffic should warrant such a direct service.

Landing Facilities at Bhamo.

On account of periodic changes in the course of the river and because of variations in depth during periods of high and low water, it has not been practicable to construct permanent docks at Bhamo. River vessels moor alongside temporary ramps, which may be moved easily when changes occur in the shoreline. Cargoes are unloaded onto the ramps by native laborers, who load them on trucks, which may be driven over temporary

tracks

tracks between the nearest road and the riverbank, a maximum distance of two miles. It is understood that an ample number of laborers is available and that no difficulty has been experienced in transferring goods from steamers to trucks.

The Motor Road from Bhamo to the Chinese Border.

The motor road from Bhamo to the Chinese border runs first to Manwing, a distance of approximately sixty-five miles from Bhamo. This section of the highway is a dirt road on which some gravel has been laid in places during the past year. From Bhamo to "Mile 20" the road is fairly straight, and there is two-way traffic at all times. At "Mile 20" there is a steep grade to "Mile 40", where the summit is reached. From "Mile 40" to "Mile 63" the road descends sharply. Between "Mile 20" and "Mile 63", two miles from Manwing, there is one-way traffic throughout the year during daylight hours. Vehicles may proceed from "Mile 20" to "Mile 63" only from 8 a.m. until 2 p.m. and in the opposite direction only from 2 p.m. until 8 p.m. From 8 p.m. until 8 a.m. traffic may proceed in either direction at the driver's risk. In this section there are numerous sharp turns, narrow bridges, and places where vehicles can not pass. During the last rainy season the road became impassable at times, and the average length of time required for a truck to make the sixty-five-mile journey from Bhamo to Manwing during the rains was four or five days.

From Manwing to Namkham, a distance of nine miles, there is a winding dirt road, which is now being surfaced with gravel. This is

regarded

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regarded as an all-weather road, with the possible exception of a two-mile section in which there are twenty-one bridges and culverts. It is understood, however, that this section could be kept open throughout the rainy season if constantly repaired.

The road between Namkham and Muse, a distance of nineteen miles, is fairly straight and is being surfaced with gravel. If properly maintained, it may be kept open to traffic throughout the next rainy season, which begins in May.

From Muse there is a two-lane, gravel-surfaced road eleven miles in length which joins the Burma-Yunnan highway at a point 105 miles beyond the rail-head at Lashio. From "Mile 105" on this highway it is but eleven miles over a gravel-surfaced, all-weather road to Wanting on the Chinese border, where the road extends on to Yunnanfu and Chungking.

Construction of New Road in China from Loiwing to Burma-Yunnan Highway.

At Manwing, which, as has been stated, is 65 miles from Bhamo, there is a gravel-surfaced, all-weather road running a distance of seven miles to Loiwing, China, just over the Burma border, where the aircraft factory of the Central Aircraft Manufacturing Company, Federal, Incorporated, is located. The Chinese authorities are now reported to be engaged in the construction of a new road from Loiwing to Wanting, which is where the Burma-Yunnan highway crosses the border. This road, which will be approximately 55 miles in length, probably will be completed in about a year and may be used as an alternative route from Manwing.

Comparison Between the Lashio and Bhamo Routes.

At the present time goods landed in Rangoon destined

for

for the interior of China usually are transported by rail to Lashio, a distance of 561 miles, where they are transhipped by truck into China. The freight-carrying capacity of the Burma Railways between Rangoon and Lashio is about 30,000 tons a month, which is considerably in excess of the quantity of goods which can be transported by truck from Lashio to the interior of China under present conditions. There is, in addition to the railway line, a hard-surfaced, all-weather motor road running from Rangoon to Lashio. The rail-highway route via Lashio involves transport by truck a distance of 116 miles from Lashio to the border over an all-weather road which is being constantly improved. The river-highway route via Bhamo described herein entails haulage by truck a distance of 111 miles over lengthy sections of bad roads which present difficult operating problems during the rainy season. It is extremely unlikely that the quantity of goods which can be transported over the Burma-Yunnan highway will exceed in the near future the quantity which can be carried by rail to Lashio. Furthermore, it may be assumed that the Government of Burma will be disinclined to improve the Bhamo-"Mile 105" highway sufficiently to encourage the use of this route for transport services which would compete with the Government-owned Burma Railways, already adversely affected by highway competition.

The principal advantage of the Bhamo route is that it is somewhat cheaper than the Lashio route. The average freight rate charged by the Irrawaddy Flotilla Company for the transportation of cargo by river from

Rangoon

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Rangoon to Bhamo is Rs. 31-14-0 (US\$9.56) per ton, and the Burma Railways' rate between Rangoon and Lashio is Rs. 40-0-0 (US\$12.00) per ton, a difference of Rs. 8-2-0 (US\$2.44) per ton. There would be a saving also in port and handling charges in the case of goods loaded directly from ocean-going vessels into river steamers. However, it is likely that truck-haulage charges from Bhamo to "Mile 105" would be greater than from Lashio.

At the present time the Bhamo route may be regarded only as an auxiliary route which can be used during favorable weather for the shipment from Rangoon to China of goods which are not urgently needed and which may be transported more economically in that manner.

Sources of Information:

The Irrawaddy Flotilla Company, Limited.
The Burma Railways.
Persons familiar with highway conditions in northern Burma.

Distribution:

In quintuplicate to Department.

881-800
WLP/cp

RECEIVED
GENERAL INVESTIGATIVE
DIVISION
MAY 2 1954

RE CLOSING AGREEMENTS
 (Bank of America was also discussed during the course of this meeting.)

March 8, 1940.
 9:30 a.m.

Present: Mr. Bell
 Mr. Sullivan
 Mr. Foley
 Mrs Klotz

H.M.Jr: The other thing, we have you (Sullivan) here, and these gentlemen, to listen. Something happened yesterday and I haven't had a chance to tell you about it and this is very, very confidential, and let me tell you my story, if you don't mind, without interruption and then where there are gaps, you fill it in, if you can.

I said to Purvis yesterday - I got him aside - I said, "Purvis, what is the matter? Why don't these fellows want to sign up?" And he said, "Well, I didn't want to tell you this, but," he said, "let me tell you a story." I can't get the exact date, but this happened, I gather, several weeks ago. He said, "When we were negotiating with Hercules for a contract, I was over at my hotel and --" I gather this isn't this week. This must have been - did you hear what he said?

Klotz: No.

H.M.Jr: Could it have been December? Was he negotiating in December?

Sullivan: He first met me the day after Christmas.

H.M.Jr: Then it was December and he said, "I have got a telephone call from Hercules and duPont and

- 2 -

they said to me, 'You want a tip?'" He said, "Yes." They said, "Well, if you are smart, before you see that man Sullivan you will go over and see Burns at the Army first." Now, I gathered he did. He said he just made a sort of formal call. I was upset and didn't get what Burns said to him, but I am going to find out. I told this all to the President last night and he was very much upset and he examined me as to why the Army would want to see Hercules before they saw you and I said to him that the only reason I could think of was that they wanted the kind of closing agreement which would - Army would be able to put pressure on you (Sullivan) in regard to future closing agreements. I said that was the only thing, because both the Army and Navy didn't like the way you were handling the Vinson-Trammell Act. He was going to send for Burns alone and put the heat on him and try to find out whether that was really Johnson's stuff, that Burns is really Johnson's Aide.

Sullivan: Well, the only thing I can piece into that is what happened last Saturday when Ballantine came down and put up to Reiling a closing agreement which had a provision - put up this closing agreement and one of the terms was that as soon as the British contract for powder ended, although the War Department would be using Hercules' plant at full capacity, we would agree to let them immediately write off the plant as a total loss, just as though they closed it up and tore it down. Now, that is the only thing that --

H.M.Jr: But this is December. He said December. Why should they be - the Hercules be tipping off the English to go and see Colonel Burns before they saw you?

Sullivan: I am sure I don't know. You will recall that we discussed a publicity release in connection

- 3 -

with the Colt closing agreement and I was asked to see Louis Johnson, to clear it with him, and I went over there and there were two Army officers I talked with first and then Louis came in and took all three of us into his room. I gave you a report on that conversation and I don't recall the names of the two, but Burns may have been one of them. That was the day that Louis argued that Treasury was doing far less with Colt than it had agreed to do.

H.M.Jr: Well, that is something. I think there is something almost sinister in this thing.

Sullivan: I think so, very definitely. I am not as disturbed as I should be, because if I had ever seen Colonel Burns, it was that day. In none of the negotiations has he ever been over there.

H.M.Jr: He is just a tool. He just does what they tell him.

Sullivan: I rather gathered that he was quite an able fellow and doing a good job.

H.M.Jr: That is what Pa Watson says. That is neither here nor there. There are so many things that are going on which they are watching. Now, I hate to claim to be a prophet, but only a minor one, and yesterday afternoon I was informed by Admiral Spear, of the Navy, that duPont absolutely flatly refused to write any letter asking the Army and Navy to release the powder on manufacture, so having only got the President's approval, I told him to go ahead. The President didn't make any conditions and I said, "My orders are to see that the duPont release this powder to the English at Hercules," so I told Spear to go ahead. Now, the funny thing on that was, on that deal, the Allies had no trouble with the Army but their trouble was with the Navy. I am telling you this because you - I mean, the Army said, "Okay," but the Navy

- 4 -

was insisting on a letter but I took it - seeing the President made no conditions, I said, "All right, there are no conditions. Go ahead. We will try to get it anyway." But there is --

Sullivan: Now, who asked duPont for that letter, the Navy or Purvis?

H.M.Jr: Purvis.

Sullivan: And Purvis told you?

H.M.Jr: No, Admiral Spear said that they got a "no" yesterday. Purvis made the request and the Navy and Spear knew that the request was to come that way, see, but duPont flatly yesterday refused to do it.

Sullivan: Can we go back to Burns a minute?

H.M.Jr: Yes.

Sullivan: You say this was December, before they started negotiating with us at all.

H.M.Jr: He said December. I heard him say December when he first started. He got this phone call from Hercules that they had better see Colonel Burns before they saw you.

Sullivan: Well, the first day I saw them was the 26th of December, the day after Christmas. You recall you --

H.M.Jr: I wouldn't recall anything.

Sullivan: You called down from up home and Harry White came over.

Foley: You will be interested, Mr. Secretary, in reading the testimony before the Naval Affairs Committee in connection with that award to that Electric Boat on this contract for those motor boats. The Naval Affairs Committee just excoriated the Navy for that and if we had ever had a closing agreement in there we would have been in there, too. They couldn't understand why the bid was let without public advertising. They couldn't understand why the Electric Boat company bought the models from Great Britain when the Navy could have bought it direct.

- 8 -

- H.M.Jr: They haven't met - what is the head of the Electric Boat? Sutphin. They haven't met Sutphin.
- Sullivan: Well, didn't somebody ask for a list of all the people who had in any way participated in that contract?
- Doley: Yes, and the Navy never mentioned the Treasury. They didn't think we participated.
- H.M.Jr: Well, just to show you, for instance how a person does something, yesterday when these people came in to see me without my saying anything - he never has sat in on these meetings before. Merle Cochran walked in. Some of the other people - I am not going to ask him to walk out, but he has never been in on any of these meetings before on the plane deal.
- Sullivan: My wheels are going around on this Burns thing. Purvis got this from duPont and Hercules, to go see Burns.
- H.D.Jr: From Hercules.
- Sullivan: Well, is that the answer to Hercules' refusing to enter into negotiations with the British, that the Army wants to save the output of that plant for themselves?
- H.M.Jr: Well, that is what I am getting at.
- Sullivan: Well, that doesn't make sense, because this is a new plant, in addition to their facilities. You would think the Army would want - would want the plant as largely expanded as possible.
- H.M.Jr: I tried to explain it last night and the President and I couldn't explain it. What would you say if we had Purvis come over here and let's talk this over with him?
- Sullivan: I am for it.
- H.M.Jr: Because what would Colonel Burns have to say to Purvis that would be in his interest, in Hercules' interest, but not in the interest of the United States Treasury? Warn them against you? What did he have to warn them about against you, you being in the Treasury? Why not let's ask him? Let's ask Purvis.
- Klots: Well, he is the sort of fellow you can certainly ask and you will get an honest answer.

- 6 -

Sullivan: Oh yes, Purvis - now, Purvis yesterday afternoon came in to see me and talked briefly about Hercules and then he went into - curiously enough, he went into this - he had a four-page letter from Elliott, the Internal Revenue Commissioner of Canada, who saw me last week on this crazy proposal to reduce an offer in settlement to the Canadian Red Cross, so there could be a contribution to the Canadian Red Cross.

Before he got anywhere, the minute he mentioned the name, I said, "Wait a minute. Let me tell you what happened," and I gave him the whole business. Then I said, "What is your interest in this thing?" and he said, "Well, I thought that Elliott was all right until about a year ago. He came to me and he was very much interested in a hospital and he said, among other things, 'Your company makes paint,' and he said, 'Purvis, this hospital has got to be painted and it is going to take \$900 worth of paint and I am calling on you to produce the paint,'" and Purvis said, "Well, I will let you know about that," and he said, "We had a very lengthy meeting of the Board and I was very much opposed to it but we finally decided to give him the paint," and he said, "I was very reluctant to mention this to you and after all, there is no harm in asking." I said, "Well, I have certainly told you," and he said, "Yes, and the fellow he is anxious to do this for - well, he is a successful speculator but he isn't the type of fellow I would want to go bail for."

H.M.Jr: Was this a public hospital or a private hospital?

Sullivan: I don't know. I didn't ask him.

H.M.Jr: Because \$900 is so little.

Sullivan: No, it was the idea of a Commissioner of Internal Revenue going to a company that has large tax problems, saying, "Give me \$900 worth of paint for that hospital."

- 7 -

H.M.Jr: Did he have his palm read? Well, I will get hold of Purvis at 1:30.

Sullivan: The only reason I related that is that I have been - always been very, very frank with Purvis on everything.

H.M.Jr: I like Purvis.

Sullivan: Very much.

Klotz: I do, too.

H.M.Jr: All right, gentlemen.

JR

GRAY

Paris

Dated March 8, 1940

Rec'd 3 p.m.

Secretary of State,
Washington.

311, March 8, 6 p.m.

FOR THE TREASURY FROM MATTHEWS.

In the face of growing anxiety at the failure of French exports to show the improvement so vitally needed and of the criticism in Parliament of delay, formalities, lack of imported raw materials, et cetera, facing French export industries the Government has introduced a bill setting up a "Superior Export Council". It will function under the presidency of the Minister of Commerce and be composed of the following additional members: The Director of Foreign Commerce of the Commerce Ministry, the Director of the Mouvement General des Fonds of the Finance Ministry, the Director General of Customs, the Director of Blockade of the Ministry of Blockade, the Director of Economic Affairs of the Ministry of Colonies, the Director General of Maritime Transport of the Ministry Merchant Marine, a representative of the High Commissioner of National Economy and six representatives of French Industry and Commerce chosen from
active

-2- 7311, March 3, 6 p.m., from Paris.

active members of various trade and industrial organizations. How effective such a council will prove in any difficult position remains to be seen.

In the course of a debate on the Government's agricultural policy which resulted in a unanimous vote of confidence in the Chamber yesterday the Minister of Agriculture stated that the 1959 sugar beet crop totaled 1,050,000 tons of sugar as against consumption requirements of 950,000 tons. With reference to wheat he stated that France has available stocks totaling 13,000,000 quintals of the 1959 harvest according to official figures and that reliable private estimates would raise that figure to twenty million. (END SECTION ONE)

MURPHY

CSB

CK

GR.Y

Paris

Dated March 8, 1940

Rec'd 3:20 p.m.

Secretary of State

Washington

311, March 8, 6 p.m. (SECTION TWO)

In defending the recent measures restricting consumption as a brake on rising prices he said that the general agricultural price index covering French products has risen but 12% claiming that only the increase in meat prices has been "excessive" (owing to heavy army requirements).

It is announced that in view of expiration of Franco-Soviet trade agreement all Russian imports into France except petroleum products will, beginning March 15th, be subject to general (maximum) tariff rates.

The securities market was generally weaker today partly on reports of Finnish Soviet peace negotiations. Rentes were firm.

(END OF MESSAGE)

MURPHY

CSB

TREASURY DEPARTMENT

162

INTER-OFFICE COMMUNICATION

DATE March 9th 1940.

TO Secretary Morgenthau
FROM Mr. White

Mr. Purvis' appended comments seem to me to raise this question:

During January and February the British and French Empires together have sold to us some \$360 million worth of gold. If Mr. Purvis' estimates of payments made with orders are anywhere near correct much of this gold represents payment on their adverse balance of payments with us.

During the same period (minus one week) the British have sold only \$22 million worth of American securities and the French only \$1 million. During the same period dollar balances of British and French empires declined by about \$90 million. If the understanding with respect to the proportion of gold to total payments was that they were going to meet half their adverse balance with a liquidation of American securities and dollar balances they are not fulfilling their part of the understanding.

I am wondering whether this question should not be re-canvassed at this time, and/or an attempt made to get more accurate figures from Purvis.

Conference held in the office of Mr. Cochran, Treasury Department, March 8, 1940, at 10:45 A.M.

Present: Mr. Purvis, Mr. Pinsent, Mr. Cochran, Mr. White.

The following significant points were made by Mr. Purvis in response to Mr. White's questions:

1. That large sums, possibly in the order of \$200 million, have been paid by the French and British during January and February to American manufacturers for the two following purposes:

- (a) Less than \$10 million by the British for capital expenditure — i.e., plant expansion, etc. Possibly two or three times that much by the French for the same purpose.
- (b) The remainder as payment in advance for goods to be shipped later — shipments to be spread over from one month to more than six months, and down payments ranging from 100 percent to 25 percent of the order.

The figures, according to Mr. Purvis, are very rough, and if we want more accurate figures he thinks he can arrange to supply them.

(In response to the question as to how the French and the British could have spent \$200 million for down payments when apparently their total expenditures in the Special Account was much less than that, Mr. Purvis said that the reason was that all of the purchasing of war equipment had not yet been concentrated in the hands of the British Purchasing Committee and that therefore many of the purchases were arranged by private British companies who were forced by the American manufacturers to make some payment with the order.

If Mr. Purvis' estimates are anywhere near correct, it explains most of the discrepancy that we find between our gold inflows and our trade and service and capital balance for January and February.

2. The plane purchase program of both the British and French calls for a probable expenditure of \$700 to \$800 million. This program is in addition to the estimate of purchases already submitted to us of some \$150 million. (Included in the \$700 to \$800 million program may be some payment for optional contracts already given so that there may be some over-lapping with the amount included in the program

- 2 -

earlier submitted.) The planes to be bought under that program will not begin to be exported until 1941 but the orders and contracts should be completed within the next four to six weeks. Mr. Purvis explained that some portion of this expenditure will probably be demanded by American manufacturers as a down payment some time before the planes are shipped but he emphasized that the British Government would attempt to keep that payment as small as possible and perhaps be able to eliminate it. Mr. Purvis also stated that if the plane manufacturers insist on too high a down payment, or on too high special charges, that his government may decide not to place the plane order.

COPY

DUPLICATE

165

No. 286

Rangoon, Burma, March 9, 1940.

SUBJECT: Burma's transit trade with China in
January, in supplies other than war
materials.

THE HONORABLE

The Secretary of State,
Washington, D. C.

SIR:

I have the honor to report that Burma's transit trade with China in the month of January 1940, in supplies other than war materials, was principally in goods received at this port from Hong Kong. The value of these goods was Rupees 1,573,599 (\$472,080), compared with a value of Rupees 345,660 (\$103,698) placed on direct imports from the United States, and a value of Rupees 342,085 (\$102,625) placed on imports from the United Kingdom.

The total value of the transit trade in January was Rupees 2,264,124 (\$679,237). Goods from countries other than those named were valued at only Rupees 2,780 (\$834). The re-exports during January increased the total value of Burma's transit trade with China in non-military supplies in the present fiscal year, ending March 31, 1940, to Rupees 14,780,140 (\$4,684,362).

Big Shipments of Blankets and Nitrate.

The principal items among the re-exports supplied from Hong Kong were 669 tons of cotton blankets valued at Rupees

855,131 (\$256,539) and 3,007 tons of nitrate of soda value at Rupees 279,825 (\$83,947). Included among the many other commodities shipped were drugs and medicines worth Rupees 118,001 (\$35,400); instruments of various kinds valued at Rupees 115,397 (\$34,619); 44 tons of steel plates worth Rupees 79,598 (\$23,879); and 50 tons of potassium compounds valued at Rupees 22,020 (\$6,606). Some of the goods from Hong Kong, all of which were reshipped to Rangoon last year, were American products, but the transit statistics do not show the original sources of the supplies.

American Goods for Aircraft Factory.

More than 40 percent of the direct imports from the United States re-exported to China in January consisted of machinery, electrical goods, instruments and appliances, and implements and tools, and many of the products were for the factory of the Central Aircraft Manufacturing Company at Loiving. The total value was Rupees 142,645 (\$42,793). In addition shipments of hardware valued at Rupees 86,599 (\$26,579) were made, and some of these shipments also went to Loiving. Little American gasoline was sent into China in January, but 70,249 gallons of American lubricating oils, valued at Rupees 46,171 (\$13,851), were included in the re-exports. The total also included 53 tons of iron sheets worth Rupees 16,571 (\$4,971), and rubber manufactures worth Rupees 9,431 (\$2,829).

- 3 -

Trucks, Tractors and Parts from Britain.

Eight Thornycroft trucks valued at Rupees 39,261 (\$11,778) were among the British products re-exported in the month under review, which also included tractors worth Rupees 119,751 (\$35,925), and motor parts and accessories worth Rupees 134,403 (\$40,321). British hardware valued at Rupees 48,000 (\$14,400) was also shipped.

Practically all of the transit trade in January was with departments of the Chinese Government, or with agencies and concerns working with the Government.

Complete statistics of Burma's transit trade with China in January are being transmitted to the Department by ordinary mail.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

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

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TO THE DEPARTMENT
OF COMMERCE
WASHINGTON
JAN 10 1935

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 9, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Estimated Impact of Foreign Transactions on Domestic Business Activity During the Next Six Months

1. On the basis of confidential information submitted to us by representatives of the Allied purchasing committee, in addition to the usual data, we estimate that United States exports for the calendar year 1940 will approximate \$4.7 billion -- \$1½ billion more than last year, (assuming a continuation of the war in Europe.)

More significant for our purpose than the estimate for the whole calendar year, however, is the course of exports over the next six months in comparison with our exports for the past two months.

Our recorded exports in February have been about the same as in the previous two months, but if allowance were made for piling up of goods waiting for ships, our January and February exports would probably be 5 to 10 percent greater. We anticipate that during the coming six months there will be an average increase of between \$35 to \$40 million a month over our February exports.

2. The increase in export, however, does not give the whole picture. The Allied purchasing program will have an additional stimulating effect because it is expected that during the next few months orders for large shipments (chiefly of planes and equipment) will be made. These orders will be accompanied by substantial down-payments on goods to be shipped as well as payments for plant expansion. Though these orders will not increase our exports until later in the Fall and next year, they will have a stimulating effect on our domestic activity this year especially during April, May, June and July.

3. To summarize, the additional business creating activity resulting from exports and the Allied purchasing program may, during the next six months, amount to as much as \$100 million a month more than current levels.

Division of Monetary
Research

- 2 -

4. The behavior of the security markets in foreign countries will not have significant repercussions on business conditions here. Because of the extension to important countries of exchange control, controlled prices and controlled trade, the movements in security prices on foreign stock exchanges have far less influence on business activity in the United States than they ever had.

Stock prices in all the leading markets for which we have recent information, show a slightly rising tendency during February but the increases are not sharp enough to be significant. The surprising thing about the movements of security prices in the belligerent countries is that they have not risen more than they have since the war began. (It is also curious that despite the enormous spending program ahead of the British and the dangers inherent in a major war, British Government bond prices should have risen 15 percent. since the beginning of the war.)

Stock market prices in the European countries which do not have exchange control have declined in the past few months probably as a consequence of the outflow of capital and political uncertainty. Switzerland, Norway, Sweden and Belgium have sent \$85 million in private funds to the United States during the first seven weeks of 1940, a fourth of which was used to buy American securities.

5. Another international factor that bears on the domestic picture is the anticipated sale of American securities by foreigners. During January and February the Allies sold about \$30 million worth of American securities, but the neutral countries purchased that amount, so that the net sales have been zero. In view of the large program of purchases of American goods by the Allies, and in view, further, of the presumed continued intention to finance half their adverse balance by the sale of securities, it is expected that during the coming months the Allies will liquidate securities at a higher rate than they have in the past two months. On the other hand, it is quite uncertain whether the neutral countries will continue to purchase enough to offset the Allied sales.

It would seem that the international transactions on our security market will more likely therefore be a bearish rather than a bullish factor during the next six months.

Division of Monetary
Research

- 3 -

6. Wholesale prices in foreign countries since the outbreak of war have risen sharply -- roughly about 25 percent in most countries. Depreciation of currencies, higher shipping rates and the forced curtailment of imports are in the main responsible.

The higher prices abroad may have a somewhat "bullish" effect on domestic prices in that it will provide resistance to a downturn in prices and may even initiate an upturn. But the increased degree of government control over foreign trade in the important trading countries of the world has sharply reduced the influence of foreign price movements upon price levels in the United States. Prices of individual commodities will no doubt be directly affected by foreign price movements.

Since the outbreak of war prices in the United States have risen only 5 percent.

7. Normally our tourist expenditures in foreign countries would become fairly heavy in June, July and August. This year, however, substantial portion of those expenditures will be made in the United States. We estimate that business creating expenditures from this source should be higher by possibly \$100 to \$200 million net during the summer months compared with last year.

8. Shipping revenue will increase, but the amount involved will be small compared with the magnitudes we are considering.

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE March 9, 1940.

TO Secretary Morgenthau
 FROM Mr. Haas *HA*
 Subject: Business conditions and prospects, as reported to Mr. Haas by:

Mr. T. J. Carney, President,
 Sears, Roebuck & Co.,
 Chicago, Illinois.

Mr. Charles R. Morrison, Vice President,
 International Harvester Co.,
 Chicago, Illinois.

Mr. C. C. Jarchow, Comptroller,
 American Steel Foundries,
 Chicago, Illinois.

Mr. F. Leslie Hayford, Economist,
 General Motors Corporation,
 New York, N. Y.

Sears, Roebuck & Co.

The monthly sales volume of Sears, Roebuck & Co. is shown in the following table:

Month	Dollar volume		Seasonally adjusted indexes (1925-27 = 100)	
	1939	1938	1939	1938
March	\$50,517,000	\$41,583,000	245	202
April	49,806,000	44,182,000	222	197
May	60,645,000	43,670,000	239	172
June	56,693,000	44,214,000	234	182
July	43,473,000	35,714,000	218	179
August	48,761,000	40,614,000	245	204
September	62,030,000	49,507,000	251	200
October	68,039,000	52,613,000	244	188
November	59,931,000	51,997,000	236	205
December	82,035,000	67,550,000	252	208
	<u>1940</u>	<u>1939</u>	<u>1940</u>	<u>1939</u>
January	40,548,000	33,551,000	253	209
February	40,836,000	35,582,000	262	229

Secretary Morgenthau -2-

Mr. Carney estimated that Sears, Roebuck & Co.'s total sales volume for the calendar year 1940 would show an increase of 7 percent over 1939 up to the month of September, and the balance of the year would show an increase of 3 percent. He explained that last year the very sharp increase in their business was in some measure the result of a more liberalized installment credit arrangement, and for that reason he anticipated more conservative increases in business this year. Last week their store managers from various parts of the United States came to Chicago for their annual meeting. They estimated that business would increase in 1940, as compared with 1939, and their estimates ranged from 5 to 15 percent.

Their inventories of finished goods were low, Mr. Carney said. Expressed in terms of number of weeks' sales their inventories were the same as a year ago, although the dollar value of inventories was somewhat higher. He pointed out that in general retail inventories were not high, and that Sears, Roebuck & Co. had obtained considerable business because goods were not available in other competing retail stores. He said that with their national system of distribution they were able to maintain very low inventories by shifting goods from one area to another, thus meeting demands as they arose.

A new Sears, Roebuck & Co. mail order catalog has just been issued. Mr. Carney pointed out that the pricing in this catalog had been determined last November when an average increase of 5 percent in prices had been decided upon. He said that if he had the pricing decision to make today the increase would be only about 3 percent. Because of the 5 percent increase he anticipated that their mail order business might be at a slight competitive disadvantage. Such a disadvantage would not apply to their retail store business, however, as price adjustments could be made quickly in the individual stores.

According to Mr. Carney, not only their "soft goods" sales have been doing well, but their heavier line sales, such as refrigerators, etc., have been exceptional. Business men in general that he had come in contact with, he said, were optimistic. He also stated that the buying public was optimistic, and supported this statement by saying that in the industrial areas Sears, Roebuck and Co. had obtained greater than average increases in sales.

Secretary Morgenthau -3-

International Harvester Company

Farm implement sales of the International Harvester Company are given in the following table:

<u>Month</u>	<u>Dollar volume</u>		<u>Seasonally adjusted indexes (1925-27 = 100)</u>	
	<u>1939</u>	<u>1938</u>	<u>1939</u>	<u>1938</u>
March	\$12,383,000	\$16,431,000	108	143
April	13,000,000	14,656,000	110	124
May	9,797,000	12,949,000	96	126
June	9,283,000	11,269,000	86	104
July	7,977,000	8,576,000	88	95
August	7,058,000	6,786,000	88	84
September	9,239,000	6,129,000	125	83
October	8,663,000	3,776,000	153	67
November	7,651,000	4,499,000	174	102
December	9,329,000	5,324,000	145	83
	<u>1940</u>	<u>1939</u>	<u>1940</u>	<u>1939</u>
January	10,222,000	7,472,000	145	106
February	11,960,000**	10,111,000	131**	111

** Preliminary.

Mr. Morrison said that preliminary figures indicated that their February implement sales would be up 17 percent as compared with their January sales. He estimated that the 1940 sales of the company would show an increase of about 30 percent over the 1939 sales. (The fiscal year of International Harvester Company begins on November 1.)

International Harvester Company's inventories were not excessive, Mr. Morrison said, and went on to explain that this was not just a mere guess, but that he has detailed periodic reports from all the company's wholesale and retail outlets.

He said that their branch managers' reports on the general business situation, which he received periodically, were all favorable with the exception of those coming from the drought belt.

Secretary Morgenthau -4-

American Steel Foundries

The American Steel Foundries' monthly dollar volume of new orders is given in the following table:

<u>Month</u>	<u>1939</u>	<u>1938</u>
March	\$ 685,000	\$ 487,000
April	730,000	602,000
May	1,122,000	309,000
June	783,000	263,000
July	902,000	356,000
August	699,000	357,000
September	608,000	337,000
October	3,564,000	391,000
November	3,442,000	546,000
December	2,811,000	704,000
	<u>1940</u>	<u>1939</u>
January	1,957,000	657,000
February		992,000

The new orders figure for February was not available, but Mr. Jarchow said it would be somewhat less than January, although shipments in February would be about the same as for January.

Mr. Jarchow would not venture an estimate of what the American Steel Foundries' business would average in 1940 as compared with 1939. He said that they have had six months of good business, but pointed out that the railroad equipment business has always been very sporadic. He said he was not pessimistic, but on the contrary was very hopeful as he expected new business to come in although he did not know exactly where the business was coming from.

General Motors Corporation

Actual sales by months of General Motors Corporation are shown in the following table:

<u>Month</u>	<u>1939</u>	<u>1938</u>
July	102,000	78,800
August	76,100	64,900
September	56,800	40,800
October	110,500	68,900
November	162,900	131,400
December	156,000	118,900
	<u>1940</u>	<u>1939</u>
January	120,800	88,900
February	123,900	83,300

Mr. Hayford said that General Motors' retail sales during January and February have held up much better than they had any reason to expect, in view of weather conditions, etc. The January sales are about a normal seasonal expectation as compared with December and the February sales are about a normal expectation as compared with January. He said that dealers stocks were satisfactory and that it would require a very unfavorable development in retail sales to make them burdensome.

General Motors' tentative production schedule, as compared with a year ago, is as follows:

<u>Month</u>	<u>1940</u>	<u>1939</u>
January	188,000	136,000
February	174,000	133,000
March	184,000	161,000
April	190,000	142,000
May	180,000	128,000

The March, April, and May production schedules shown above are the schedules which were revised upward 7 or 8 percent about a week ago. The upward revision was made because the retail sales performance was better than was earlier anticipated. The earlier schedules, he said, were made on the conservative side.

Mr. Hayford estimated that the total United States and Canada production for the year 1940 would amount to 4,250,000 units as compared with 3,732,000 units in 1939. He expects general business to turn upward probably in late May or early June. Before that time, however, he expects the present decline to flatten out.

RFP

PLAIN

London

Dated March 9, 1940

Rec'd 7 a.m.

Secretary of State

Washington

594, March 9, noon.

FOR TREASURY FROM BUTTERWORTH.

The new British Exchange Control regulations referred to in my 432, February 21 and 564, March 6 have been made public. An inspired explanatory article in the TIMES today emphasizes that the British authorities must now feel that the sources of supply of free sterling have been sufficiently closed to permit a deliberate contraction in the demand for sterling on the free market. It continues: "While the supply of sterling reaching the free market was relatively important, any attempt to contract the demand would have entailed a risk of provoking a serious depreciation of the free sterling rate. Now that the greater part of the foreign assets in London (the repatriation of which was the principal source of supply of sterling on the free market in the early days of the war) have been withdrawn that risk must have been considerably reduced. In any case a depreciation of the free sterling

RFP -2- #594, March 9, noon from London

sterling rate can be faced with equanimity with the scope of free market reduced, as it evidently now will be, to a shadow of its former self". The pertinent features of the order are given below. Arrangements in the Colonies and Dominions along similar lines are being made and are in some cases linked with the local existing export licencing systems. Exporters will be required after March 25 to file a new form when exporting certain specified goods from specified countries to specified destinations to ensure that the sale proceeds of these exports will in future be collected in specified foreign currencies. On this form the exporter must state one of three alternative methods by which they may choose to be paid for the goods.

(a) By a sterling bill drawn under a credit opened by the purchaser of the goods with a bank in the United Kingdom; the credit to carry an undertaking by the purchaser to obtain the sterling required to meet the bill by a sale to the bank concerned of one of the currencies named below;

(b) In sterling paid in the United Kingdom and obtained by the purchaser of the goods by a sale to a bank in the United Kingdom after September 3, 1939, of one of the named currencies;

(c) In

RFP -3- #594, March 9, noon from London .

(c) In one of the named foreign currencies paid by draft, telegraphic transfer or otherwise to a bank in the United Kingdom or to its agent abroad for the account of such bank. The goods specified are: from the United Kingdom, rubber, tin, jute and jute manufactures, whiskey and furs; from India, rubber jute and jute manufactures; from the producing Colonies, rubber and tin. The order applies when these goods are shipped to the following destinations:

(1) All the territories in or adjacent to the continent of America (excluding Canada, Newfoundland and any of His Majesty's possessions, the Argentine and any French dependencies);

(2) The Philippines and any territories under the sovereignty of the United States of America;

(3) Belgium, the Belgian Congo and Ruanda Urundi;

(4) The Netherlands and the Netherlands East Indies;

(5) Switzerland. The currencies in which payments can be made for the goods under the order are belgas, guilders, Netherlands East Indies guilders, Swiss francs and United States dollars. It is noted that provision is made for exporters to continue to sell at

RFP -4- #594, March 9, noon from London

at a sterling price when desired provided they arrange to be paid by method (a) or (b) and that provision is made for exports to be financed as before by means of sterling bills. Authoritative press statements say that special arrangements are being made in consultation with the tin and rubber markets in London to enable existing means of dealing to be continued as far as possible without interruption. The order comes into force on March 25. Exports made prior to that date will not be affected by the order ^{but} by shipments made after March 25 under contracts made prior to March 9 will receive special consideration.

KENNEDY

RR

TO THE DIRECTOR
SECURITY DIVISION
DEPT. OF JUSTICE
MAR 11 1955
RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 101

DATE: March 9, 1940

Aranha continues to harp on what he alleges are "inconsistencies" on the part of the Foreign Bondholders Protective Council. He insists that up until now he has always been given to understand that the relative gradings of the Aranha plan were considered fair by the Council. He says, for instance, that he cannot understand why such great store is put upon better treatment for Grade III bonds now when no great effort was made at the opportune moment to secure better treatment for that grade than that provided in the Aranha plan.

My reason for reporting this is merely to give the Department an idea of Aranha's state of mind at the present time.

CAFFERY

EA:EB

COPY OF TELEGRAM RECEIVED

RIO DE JANEIRO

Dated March 9, 1940

Rec'd 3:54 p.m.

Secretary of State,
Washington.

RUSH

102, March 9, 3 p.m.

Department's telegram No. 61, March 9, 10 a.m.,
last paragraph my 98, March 8, 7 p.m.

I have received the following letter from the
Brazilian Minister of Foreign Affairs.

(TRANSLATION) "Rio de Janeiro March 8th. Mr. Ambassador, I have the honor to inform Your Excellency that the Brazilian Government has no worked-out plans for now or the near future for the repatriation of bonds in excess of the amortization indicated in this proposal. The Brazilian Government hopes that in due time improving trade and exchange conditions may permit it to avail itself of the provisions of Article (?) (VI) of the Aranha plan decree which permits such additional repurchases of this character. Please accept the expressions of my highest consideration. Oswaldo Aranha."

CAFFERY

TREASURY DEPARTMENT

182

INTER-OFFICE COMMUNICATION

DATE March 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The new British Foreign Exchange Regulations, which were rumored to be impending, were published today. These regulations provide that specific exports from Great Britain and British Empire countries to certain countries must be paid for in belgas, guilders, Netherlands East Indies guilders, Swiss francs or U. S. dollars or by official sterling. As mentioned in previous reports, these new regulations should result in a lessened demand for open market sterling.

In Amsterdam, sterling declined from 3.90-3/8 to 3.89-3/4. In New York, it opened at 3.89-1/2 and receded to a low of 3.86-1/2. The closing rate was 3.87.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £283,000, from the following sources:

By commercial concerns.....	£ 127,000
By foreign banks (Europe and Far East).....	£ 116,000
By Federal Reserve Bank of New York (for Yugoslavia)....	£ 40,000
Total.....	£ 283,000

Purchases of spot sterling amounted to £245,000, as indicated below:

By commercial concerns.....	£ 177,000
By foreign banks (South America and Europe).....	£ 68,000
Total.....	£ 245,000

The following reporting banks sold cotton bills totaling £11,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 5,000 by the Guaranty Trust Co.
3,000 by the Chase National Bank
3,000 by the Irving Trust Co.
£ 11,000 Total

The other important currencies closed as follows:

French francs	.0219-1/2
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1695-1/2
Canadian dollars	15-1/4% discount

We purchased \$10,000,000 in gold from the earmarked account of the Swiss National Bank.

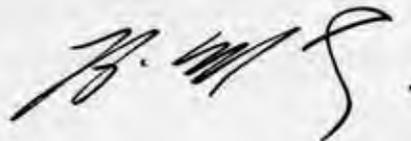
CONFIDENTIAL

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

- \$50,000,000 shipped by the Bank of Canada to the Federal Reserve Bank of New York for account of the Bank of England. Of this amount, \$25,000,000 will be sold to the U. S. Assay Office and the balance will be earmarked at the Federal Reserve Bank.
- 2,303,000 shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York for account of the Bank of Canada, for sale to the U. S. Assay Office.
- 14,000 shipped by the Canadian Bank of Commerce, Toronto, to its New York agency, for sale to the U. S. Assay Office.
- \$52,317,000 Total

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on March 6, such deposits totaled \$39,051,000, an increase of \$307,000 since the last report as of February 28. Of this amount, \$26,937,000 represented deposits with the Yokohama Specie Bank by its branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$85,051,000, a decrease of \$1,674,000 since February 28.

The Bombay silver quotation declined the equivalent of about 3/16¢ to 41.66¢.



CONFIDENTIAL



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

March 9, 1940

MEMORANDUM FOR THE SECRETARY

MEMORANDUM FOR THE SECRETARY

Yesterday afternoon *French*
visits to the Finnish *British*
to Finland of 180 per cent.

Information received from the ~~French~~ Purchasing Commission
indicates that inquiries are being made for the purchase of
50 Chance-Vought bombers, 200 Pratt & Whitney single wasp
engines, and 30 training planes.

parts thereof may be used for the same purpose as *French*
equipment of the same or *British*
for the same purpose as *French*
* * * 1937 May 10, 1937 *French*
1934, 1937, *French*

The foregoing is submitted *French*
Chairman, Liaison Committee with the
distinction that have been *French*

French
Chairman, Liaison Committee

French
Chairman, Liaison Committee



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

185

March 9, 1940

MEMORANDUM FOR THE SECRETARY

Yesterday afternoon Colonel Temple Joyce, one of the technical advisers to the Finnish Minister, called upon me concerning the transfer to Finland of 150 pursuits. He knew of the information that had been conveyed to the Minister by Mr. Cochran.

He stated that it is legally possible to effect such a transfer, and this morning he sent me a transcript from Army Regulations No. 5-100, dated July 20, 1937, in which the following quotation appears:

"* * * Motor-propelled vehicles, aeroplanes, engines and parts thereof may be exchanged in part payment for new equipment of the same or similar character, to be used for the same purpose as those proposed to be exchanged.
* * *. (Act May 12, 1917 40 Stat. 43; U.S.C. 10:1272; secs. 2044, 2077, M.L., 1929)."

The foregoing is submitted for your information in connection with the discussions that have been had about airplanes for Finland.

H. E. Collins
Chairman, Liaison Committee

NO. 64

AMERICAN CONSULATE GENERAL
 American Foreign Service, Hanoi, Indochina,
 March 10, 1940.

SUBJECT: Cargo transported by the Yunnan Railway during February, 1940.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to refer to my despatch No. 60 of March 4, 1940, reporting preliminary estimates of the cargo transported to China via the Indochina-Yunnan Railway during the month of February, 1940, and to submit the following additional information, obtained in the course of a recent conversation with the chief engineer of the railway.

The total traffic in the railway during February amounted to 7,566 tons, allocated as follows: traffic Haiphong-Yunnan, 2,794 tons; traffic Tonkin-Yunnan (including Saigon and intermediate stations), 711 tons; and service traffic (ballast, ties and rails, construction materials, and approximately 3,400 tons of coal), 4001 tons. The railway's figures for commercial cargo transported from Haiphong to Yunnan, 2,794 tons, agree very closely with the preliminary estimates given by the Southwest Transportation Company, about 2,700 tons, as reported in despatch No. 60.

It is of interest to note that the total traffic of the railway during the first two months of this year, i.e., since the Japanese bombings disrupted traffic, has amounted to only 12,609 tons (of which 6,121 tons represent service needs) as against almost 18,000 tons (of which only about 3,000 tons represent service needs) during the month of December, 1939.

With reference to my despatch No. 25 of December 9, 1939, in regard to the allocation of the freight capacity of the railway, I have to report that a new allocation has been made and is in effect: Chinese government cargo, 4.5/10ths (including 1/10th for the Szechwan Railway); 2.5/10ths for private business; 2/10ths for the oil companies (of which 1/3rd is for their own account); and 1/10th for cement. This new allocation would appear to indicate that the reported request of the Chinese Government to be granted further preferential treatment in the obtention of freight space has been ineffectual, as the new allocation differs but slightly from the previous one.

Respectfully yours,

For the Consul at Saigon,
 CHARLES S. REED II
 American Consul.

In duplicate to the Dept. (Orig. by
 air mail)

Copies to the Embassy, Chungking and Peiping
 Copies to Consulates General, Hongkong and Shanghai
 Copies to Consulates, Kunming and Saigon

815.4
 CSR:car

ANGLO-FRENCH PURCHASING BOARD

NEW YORK:
15 BROAD STREET

WASHINGTON:
725 15th ST., N. W.

This letter from

March 10, 1940

SECRET

Dear Mr. Secretary,

As promised, I am sending along a memorandum of my talk regarding nickel last week with Mr. Christie.

see entry 3-7-40.

Yours sincerely,

Arthur B. Harris

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

SECRET

MEMORANDUM

Proposals for allocation of Nickel exports direct from Canada to other than European destinations.

The memorandum dated February 20th gave particulars of a quota proposal for nickel exports from Canada then under consideration by the Canadian authorities. This would have resulted in 1940 shipments to Japan of 4,797 tons (based on the 1934-1938 annual average) as compared with actual exports in 1939 of 11,655 tons. This would have resulted in exports to the United States of 53,680 tons as compared with a 1939 figure of 57,491 tons.

In conversation with Mr. Christie on March 8th, I learned that the Canadian authorities in further considering the matter see some disadvantages in this rationing arrangement from the viewpoint of its restrictions on exports to the United States. Mr. Christie has therefore asked that the 20th February memorandum (which had also been delivered by him to the State Department) be ignored for the time being.

My understanding is that the Canadian authorities are endeavouring to develop some other formula which will achieve the object in mind without restricting exports to the United States and will in the meantime, until such a policy is developed, restrict shipment to Japan to minor quantities. I also understand the Japanese Minister has recently been pressing Canadian authorities rather strongly and that quantities for which shipment has been asked in 1940 are very large.

10th March, 1940.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 10, 1940, noon

NO.: 320

FOR THE TREASURY FROM MATTHEWS.

In view of the possibility that it may have appeared in somewhat garbled form in the press I am giving below the exact text in translation of the communique issued by Finance Minister Reynaud yesterday evening jointly with the memorandum on the bases of our economic foreign policy given him by Under Secretary Welles:

"After conferring with Monsieur Edouard Daladier, Monsieur Paul Reynaud has assured Mr. Sumner Welles of the full agreement of the French Government to the principles set forth in this memorandum. He has recalled that these principles of liberty form part of those for which the allies are fighting and that they are the same principles which inspired the financial and economic agreements between France and England since the beginning of the war especially that of December 4 last which constitutes the first step taken in Europe towards an economic and monetary nature founded on a system of liberty".

Last evening Couve de Murville asked me to come to his office and he showed me the foregoing. He remarked that he thought a good reception had been given the recent measures of the Government. I commented on the foresight

of

- 2 -

of the French Government in timing the replenishing of the gold resources of the stabilization fund at the present moment of calm and in conjunction with a number of other important measures on its program. I wondered why they had not arranged for a figure substantially in excess of the amount ceded to the Treasury, say perhaps for 50 billion francs. It seemed to me that at this time a figure somewhat higher than they received would not have aroused much anxiety, if any, whereas some time later when it becomes necessary to have a further cession of gold from the Bank of France, there may well be important repercussions, both psychological and otherwise. Couve replied, with some emphasis - just as I had expected - that he agreed entirely with this view, that they had been most anxious to transfer a larger amount but were met with a firm refusal by Governor Fournier. The Governor was afraid of the reaction to a larger cession of the gold of the Bank of France at this time, but both Couve and the Minister were of the opinion that he was quite wrong to take this stand.

MURPHY.

EA:LWW

March 11, 1940

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TREASURY DEPARTMENT
Office of the Under Secretary

To The Secretary

Reports from F.R.
banks indicate
we have received
\$717 M of the June
notes. (97+%) We may
get another million
or so on final reports

SWB

3/11/40

Under Secretary.

193

March 11, 1940.

*see Purvis
memo of 1-11-40*MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Leo I. Keyes, Special Agent in New York, who originally (Saturday, February 3) made contact with W. C. Bauer of the Vinco Tool Company, 50 Church Street, New York, after Bauer's name had been furnished by P. W. Brown of the Wright Aeronautical Company, Paterson, N.J., has received a letter from Bauer, who is in Florida, stating that the contemplated deal with I. S. Stepanoy of Amtorg for industrial diamonds is permanently off so far as he, Bauer, is concerned. He was not able to reach an agreement with Stepanoy over price and delivery.

Amtorg transactions for the week ending February 24, 1940, however, reveal \$20,000 paid to the New York Industrial Diamond Company.

We expect to get through our contact with the committee of diamond merchants set up by the British Consul General in New York their returns on questionnaires sent to industrial diamond dealers.

We dropped any thought for the present of attempting to impose any direct moral embargo on industrial diamonds after we learned about the letter and questionnaire sent out by Godfrey Haggard, British Consul General in New York, about the end of January. This questionnaire asked each diamond dealer whether he was willing to sign a statement that he would use his best endeavors to insure that diamonds or diamond products usable for industrial purposes would not reach any country at war with Great Britain or her allies.

Bauer on February 3rd told Special Agent Keyes that an importer named F. W. Jaeger, 140 Liberty Street, New York, had approached him on behalf of the German government seeking to buy industrial diamonds. With the appearance of Stepanoy of Amtorg, however, Jaeger appears to have dropped out of the picture. Investigations of the industrial diamond matter in New York have been made by Special Agents Keyes and Murphy, by Commander Thompson and by Mr. Eddy of Monetary Research.

- 2 -

Mr. Sydney H. Ball of the engineering firm of Rogers, Mayer & Ball, 26 Beaver Street, New York, has been active as one of three members of the committee set up by the British Consulate to prevent shipments of industrial diamonds to enemies of Great Britain. He was the leading member of the committee which made a confidential report to the War Department, dated June 7, 1939. He publishes an annual review of the diamond industry and his estimates on industrial diamond matters are used by the Bureau of Mines. He attended the meeting on December 22, 1939, at which Consul General Haggard presided, at which the drafts of the letter and questionnaire to the diamond trade were prepared. He is also the author of the report on the diamond situation furnished to you by Purvis.

There appears to be a wholly adequate supply of industrial diamonds in this country. Ball said a number of dealers had moved from Amsterdam and Antwerp to New York bringing their stocks with them.

I had a talk with Colonel Charles Hines, Secretary of the Army and Navy Munitions Board, who said that industrial diamonds were well down on the list of strategic materials (about tenth or eleventh) and there would therefore be little justification for purchasing any at this time.

It was Ball's opinion that the British organization of which he is a part, although he didn't admit it, has the situation pretty well in hand. It is to be noted, however, that the phrase in their questionnaire is "any country at war with Great Britain or her allies" and this would not seem to cover sales to Amtorg unless it were reinforced by word on the side.

VH

March 11, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Leo I. Keyes, Special Agent in New York, who originally (Saturday, February 3) made contact with H. G. Bauer of the Plano Tool Company, 50 Church Street, New York, after Bauer's name had been furnished by P. W. Brown of the Wright Aeronautical Company, Paterson, N.J., has received a letter from Bauer, who is in Florida, stating that the contemplated deal with I. S. Stepanoy of Antorg for industrial diamonds is permanently off so far as he, Bauer, is concerned. He was not able to reach an agreement with Stepanoy over price and delivery.

Antorg transactions for the week ending February 24, 1940, however, reveal \$20,000 paid to the New York Industrial Diamond Company.

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