

DIARY

Book 172

French Mission (Planes) - Part I

	Book	Page
China		
Monnet's organization, "Chinese Finance and Development Company": Cochran report concerning - 12/27/38.....	172	62

French Mission (Planes) - part I

Letter of authorization to Monnet signed by President of Council (Deladier), Air Minister (LaChambre), and Finance Minister (Reynaud) - 12/9/38.....		1
a) Canadian company authorized		
b) Possibilities of financial arrangement for Canadian company to be established promptly		
Carnel Office informs HMJr Monnet will be here Thursday - 12/12/38.....		4
FDR's authorization at Cabinet that all foreign visitors to departments must clear through State Department. (Hanes' memorandum to HMJr) - 12/13/38.....		6
a) HMJr tells Bullitt the positively will not talk with Monnet until it has been cleared with Welles - 12/15/38.....		7
b) HMJr tells Collins (Procurement Division) that direct word from FDR to Welles and from Welles to HMJr OK'ing mission has been received - 12/17/38.....		8
c) Collins reports on conference with Monnet and other members of mission - 12/17/38; 12/19/38...		9, 10
HMJr reports on progress of mission to Hanes, Taylor, Oliphant, Gaston, and McReynolds - 12/21/38.....		12
a) Oliphant to discuss Canadian corporation with Monnet		
b) HMJr replies this would be a commercial banking proposition		
c) FDR told by HMJr "entire thing is entirely out of his line and he is doing it only because FDR has requested it"		
d) HMJr wants mission to have the very best planes possible		
e) HMJr also reports that six months ago Craig had been over-ruled and French aviators had been allowed to fly the latest and best planes available		
HMJr takes to FDR Collins' memorandum recommending that French mission be authorized to inspect and test three best models available: (1) P-40: Curtiss-Wright pursuit plane; (2) Douglas Attack Bomber; (3) Martin Bomber - Model 166 - 12/21/38.....		16
a) FDR OK's memorandum		
b) Copies sent to Lieutenant McKay, Miss Leland, Secretary of War, Secretary of Navy, and Acting Secretary of State (Welles)		

French Mission (Planes) - (Continued)

FDR authorizes Swanson to sign instructions to Captain Kraus (United States Navy) to obtain for French mission "every consistent facility for inspecting and flying planes in which they are interested" - 12/21/38..... 172 21

Conference in HMJr's home 8:30 A.M. - 12/22/38..... 24

a) HMJr impresses on mission necessity for absolute secrecy

Boeing Plane: HMJr discusses with Assistant Secretary of War Johnson and Admiral Peoples - 12/22/38..... 27

a) Japanese have made large offer for plane and plans

b) Boeing willing if French will consider it

Conference; present: HMJr, Woodring, Generals Arnold and Marshall, Hanes, Peoples, and McReynolds - 12/22/38... 30

a) Memorandum outlining Army program for purchase of military planes..... 31

Foley memorandum on conference with Monnet concerning Canadian corporation - 12/23/38..... 33

Louis Johnson discusses with HMJr his firm conviction that Army men should be used in Army airplanes - 12/27/38..... 34

Banking Credits discussed by HMJr, Monnet, Lockhead, Foley and Taylor - 12/27/38..... 38

a) HMJr reports on results of conference to Peoples, Collins, Kraus, and McReynolds - 12/27/38..... 57

Cochran reports on information he acquired from Hall Hatch (British Financial Counselor in China and Japan) concerning finance arrangements in China through Monnet's organization "Chinese Finance and Development Company" - 12/27/38..... 62

Policy of Mission: HMJr reports to Monnet, Gaston, McReynolds, and Taylor discussion at Cabinet - 12/28/38

a) Taylor memorandum to HMJr concerning talk with Monnet: feeling of United States Government is that details as to time and manner of announcement are entirely up to French Government - 12/29/38..... 74

HMJr instructs Taylor to notify Monnet announcement of mission should appear in newspapers "next Tuesday" - 12/30/38..... 72

Woodring memorandum to HMJr insisting that "proposed inspections and revealings of military secrets are on basis of bona fide order to purchase" - 12/29/38..... 77

a) HMJr's memorandum to Woodring stating inability as to guarantee and that FDR has been so notified - 12/30/38 76

b) Memorandum to FDR..... 75

c) HMJr talks to Woodring about memorandum - 12/30/38.. 78

1) Woodring disclaims any intention to be other than helpful

HMJr discusses frankly with Monnet "impossible position in which Bullitt has placed him (HMJr)" - 12/31/38..... 80

**PRESIDENT DU CONSEIL**  
**Ministère de l'Air 8912 B.C.**

**MINISTÈRE DES FINANCES**  
**Cabinet du Ministre**

9th December 1938.

Sir,

In a memorandum dated October 14, 1938, you have been good enough to report to the Minister of Air the results of the confidential inquiry which you have undertaken in the United States as to what co-operation could be obtained from the American industry for the delivery of aircraft material to France.

You have indicated in this memorandum that, under certain special conditions, it would be possible to obtain delivery of about 1,000 planes before the end of July 1939.

The Government has decided to give an order of approximately this amount on condition that the types and specifications of the planes which the American constructors may deliver will correspond to the types and specifications required by the French Government, and that the time limit indicated above be definitely adhered to.

So as to check this point promptly and exactly, the French Government has decided to send on mission in America, Messrs. Hoppenot, Maser and Colonel Jacquin who will act as its representatives for choosing the material to be ordered.

We would be obliged if you could kindly co-operate with them in their mission; they have been instructed to act with you in the same manner.

You will be shortly notified of the results of this mission, after which we will promptly inform you on what types of planes the Minister of Air will have fixed his choice and what amount of such planes he intends to order immediately.

However, so as eventually to permit the prompt carrying out of these orders, we have fixed with you the terms under which such orders would have to be passed:

1°) You have advised us that you were prepared to form a Canadian Company, the constitution and the functioning of which are explained in general in the annexed memorandum.

We agree with the general convention which is annexed to this letter in authenticated form.

2°) Further, we ask you to let the Minister of Finance know promptly what are the possibilities of the financial arrangement which you will deem may be made by the Canadian Company in accordance in general with the terms of the memorandum annexed to this letter in authenticated form.

So as to avoid any delay, it is understood that you will form the Canadian Company immediately upon your arrival in the United States and that the payment of the capital stated in the annexed memorandum as well as the appointment of the Board will not be effected until the French Government has laid before you firm orders concerning the number and specifications of airplanes which would be ordered immediately in the United States.

As soon as the decision of the French Government will have been notified to you, the general convention attached will become effective.

In the event that the proposed program of placing orders for airplanes in the United States does not go forward, it is understood that you will be reimbursed for the expenses incurred in organizing the Company.

Please.....

signed:

President du Conseil  
Ministre de la Defense Nationale et de la Guerre.

/s/ Daladier

Le Ministre de l'Air

/s/ La Chambre

Le Ministre des Finances.

/s/ Paul Reynaud

Ministère de l'Air 8911.32

Republique Française

MINISTÈRE des FINANCES

Cabinet du Ministre

Paris, le 9 Décembre 1938

Monsieur,

Dans un mémorandum en date du 14 Octobre 1938, vous avez bien voulu exposer au Ministre de l'Air les résultats de l'enquête confidentielle que vous avez faite aux Etats-Unis sur la coopération qu'il serait possible d'obtenir de l'industrie américaine pour la fourniture de matériel aérien à la France.

Vous avez indiqué dans ce mémorandum que dans certaines conditions spéciales il serait possible d'obtenir livraison d'environ 1.000 appareils avant fin Juillet 1939.

Le Gouvernement a décidé de faire une commande de cet ordre à condition que les types et caractéristiques des appareils qui pourront être fournis par les constructeurs américains correspondent aux types et caractéristiques requis par le Gouvernement Français et que le délai ci-dessus soit rigoureusement respecté.

Afin de déterminer promptement et exactement ce point, le Gouvernement Français a décidé d'envoyer en mission en Amérique M.M. HOPPENOT, MAZER et le Colonel JACQUIN qui opéreront comme ses représentants pour le choix des matériels à commander.

Nous vous serions obligés de bien vouloir coopérer avec eux dans cette mission ; ils ont reçu instruction d'en agir de même à votre égard.

Vous serez avisé très prochainement des résultats de cette mission à la suite de laquelle nous vous indiquerons, sans retard, les types d'avions sur lesquels le Ministre de l'Air aura arrêté son choix et la quantité qu'il entend commander immédiatement.

Toutefois, afin de permettre éventuellement la réalisation rapide de ces commandes, nous avons arrêté avec vous les conditions dans lesquelles elles devraient être passées :

1°) Vous nous avez fait savoir que vous étiez prêt à former une Société Canadienne dont la constitution et le fonctionnement sont exposés dans leur ligne générale dans le mémorandum ci-joint.

Nous donnons notre accord à la convention générale paraphée ci-jointe.

2°) Par ailleurs, nous vous prions de bien vouloir faire connaître sans retard au Ministre des Finances les possibilités d'arrangement financier que vous estimerez pouvoir être conclu par la Société Canadienne selon les lignes générales indiquées dans le mémorandum paraphé ci-joint.

Pour éviter tout délai, il est entendu que vous formerez la Société Canadienne dès votre arrivée aux Etats-Unis et que le versement du capital indiqué dans le mémorandum joint, ainsi que la constitution du Conseil d'Administration ne seront réalisés que lorsque vous aurez été saisi par le Gouvernement Français d'ordres formés sur le nombre et les spécifications des avions qu'il y aura lieu de commander immédiatement aux Etats-Unis.

Dès que la décision du Gouvernement Français vous aura été notifiée, la convention générale ci-jointe entrera en vigueur.

Au cas où il ne serait pas donné suite au projet d'ordre de placement d'avions aux Etats-Unis, il est entendu que vous serez remboursé des frais de constitution de la Société.

Veuillez agréer, Monsieur, l'assurance de notre considération distinguée.

Paris, le

Le PRESIDENT du CONSEIL,  
Ministre de la Défense Nationale et de la G.

Le MINISTRE de l'AIR,

Le Ministre des FINANCES,

December 12, 1938.  
3:33 p.m.

HMJr: Hello. Hello.

Operator: Just a minute, please.

HMJr: Hello.

O: Mr. Offie.

HMJr: Hello.

Carmel  
Offie:

Hello, Mr. Secretary, I'm sorry to bother you, but I just received a message I want to transmit to you with some money.

HMJr: Yes.

O: It said, "Please tell Gertrude am arriving Washington Thursday evening with horsees "; which translated means "Please tell Mr. Morgenthau that I am arriving Thursday evening Washington with technician - with his technicians."

HMJr: What shall I do?

O: Well, that's the message at his office in New York.

HMJr: Alright.

O: He asked me to transmit it to you and Mr. Bullitt being out of town, I didn't know whether he had told you about it.

HMJr: Oh, yes, he had.

O: What's that?

HMJr: I -- I knew about it.

O: Alright fine.

HMJr: I am very much obliged.

O: Thank you.

HMJr: Hello? Hello?

O: Yes?

HMJr: Before you go back, come around and say "hello" sometime.

O: Oh, I didn't want to bother you. I know you are very busy.

HMJr: No, I'd like to see you.

O:            Alright, fine. Thank you.

HMJr:        I'd like to see you.

O:            Fine. Good bye.

HMJr:        Good bye.

December 13, 1938

To: The Secretary

From: Mr. Eanes

Several items came up at the Cabinet meeting last Friday which I did not report to you.

1. The President instructed the members of the Cabinet that in case any foreigners came to any department of the Government with letters of introduction or with credentials, no matter from whom, that before acting upon such requests, the department should submit the matter to the State Department for check on the individual.

2. The President asked the Treasury Department to try to work out a plan to take care of small subscriptions to the next long-term bond issue.

3. The President asked me if we were in agreement with the State Department on the matter of the tung oil advance to China. I replied that we had finally gotten into agreement with the State Department and that everything was settled, and that we were ready to go forward at once. I asked Mr. Welles if this was not correct, and he advised the President that the State Department had been over the matter thoroughly with the General Counsel of the Treasury and was satisfied with the set-up as now constituted. The President suggested that the tung oil information should be allowed to leak out through the paint trade rather than by specific announcement by either the State Department or the Treasury Department.

Present at the Cabinet meeting were Messrs. Welles, Woodring, Cummings, Swanson, Ickes, Wallace, Roper, and Madame Perkins. Also, Messrs. Farley, Hopkins, and Eanes.

copy is filed in Eanes  
11/10/38-

December 16, 1938

Ambassador Bullitt was in here with Monnet on a new mission to buy planes and I told Mr. Bullitt, in front of Mr. Monnet, that until Sumner Welles should call me up and say this is cleared with the State Department, that nobody in the Treasury would talk to Mr. Monnet. I have told that to Procurement.

I told Bullitt that all avenues were closed. I said what the French want to do with their foreign office is all right, but I am not going to receive a foreign French mission unless Mr. Welles knows about it. He stormed and I said, "I am sorry. I have to work with Sumner on a lot of things besides French planes, but I wanted you to know that all avenues to Mr. Monnet are closed until Mr. Welles give me a green light."

I have told Procurement nothing doing until I get word from Mr. Welles. I am not going to have a mission running around here and Sumner Welles not know about it.

December 17, 1938.  
9:30 a.m.

HMJr: Hello.

Operator; Captain Collins. Go ahead.

HMJr: Hello. Captain Collins?

Captain  
Collins: Good morning, sir.

HMJr: This is the Secretary speaking. Mr. Welles called me last night to say that he had had direct word from the President that it was all right to cooperate with Monnet so I will send him over to you now. He's outside of my office.

C: Thank you very much indeed.

HMJr: I'll send him over. The word came from the President, to Mr. Welles, to me.

C: Yes, sir.

HMJr: I'd much rather do it on this basis, I mean, now that I know.

C: Yes, sir.

HMJr: And -- keep me posted though, will you?

C: I certainly shall, sir. Shall I do this by word of mouth or by memo?

HMJr: Memo.

C: Thank you, sir.

HMJr: Please.



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TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

December 17, 1938

MEMORANDUM FOR THE SECRETARY

A meeting was held this afternoon at which were present Mr. Monnet, Mr. Hoppenot, Colonel Jacquin, Captain Chemidlin, Mr. Mazer, Captain Krause, and myself.

After a brief resume by Mr. Monnet of the status of the project at the time of the termination of his previous visit, he outlined his understanding in the light of what has recently transpired in his country of the project at present. The meeting then turned to a discussion of needs with respect to quantities and types and an outline of the desired characteristics of the various types.

Over the week-end a study will be made with the view of translating the specifications to American standards.

  
Assistant Director of Procurement



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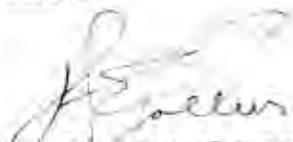
TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

December 19, 1938

MEMORANDUM FOR THE SECRETARY

At a meeting this afternoon at which were present all of those who attended Saturday except Mr. Monnet, the translation of their specifications which had been made over the week-end was discussed and checked.

In addition, they presented additional equipment requirements. As soon as these in turn have been translated to American standards it will then be possible to make definite investigations to determine whether any plans now in the course of construction and on which a release might be had can be used to meet their requirements.

  
Assistant Director of Procurement

EXCERPT FROM GROUP MEETING

December 20, 1938.

H...Jr:

Triple confidentially, Mr. Monnet is back with an aviation commission and with the authority signed by Daladier, the Minister of Air, and some third person. They wanted to keep it secret, and I said I wouldn't receive them unless Mr. Welles called me up and said it was all right.

Well, the President called up Welles Friday night (Dec. 16) and Welles called me, and they've asked me to go ahead, which we're doing.

December 21, 1938

10:10 a. m.

Present:

Mr. Hanes  
Mr. Olinphant  
Mr. Taylor  
Mr. Gaston  
Mr. McReynolds

HM, Jr.: What I wanted to say was this: Mr. Monnet is here (I think I told some of you; not all of you) with letters from Mr. Daladier, the Minister of Finance, and somebody else. He has all his credentials and they have been cleared by the State Department and he is here on this French airplane mission, to buy 1,000 planes to be delivered on or before the first of July and the President has asked me to do everything to cooperate, to accelerate this.

He is working with Capt. Collins and with the people in Navy and the way the situation stands now is this: he was here yesterday and I told him after they have decided -- they have people here from the General Staff of the French Army, head of the airplane production for the whole of France, a very high class man here -- and after they find out what they want is a pursuit or attack plane and a faster bomber, I said after you find out what you want and then you find out whether the factories can produce them, come and see me; if we can get clearance from the President -- because there is no reason your buying planes two years old. The first one they picked on was the P-40, Allison motor, the best plane in the world. I spoke to the President and he said, You don't expect me to answer him? I said 'Think about it again. I said, If your theory that England and France are our first line of defence, then if you want them to be our first line, let's either give them good stuff or tell them to go home, but don't give them some stuff which the

-2-

minute it goes up in the air it will be shot down. No sense in selling them that which we know is out of date." And what they have found out is this: the factories are all sitting waiting for the Army to make up its mind and they could get out, this winter, 1000 planes before the Army is ready, and those are planes which are ready and I have to get permission to bring a plane down here and let a French air officer fly it and suit themselves that this is what they want.

So then Mr. Monnet was in last night and he has this plan all drafted to form a Canadian corporation, civilians in charge, which will do this buying. And then he asked me would this or would it not come under the Johnson Act. So I said all I could tell him was we never gave an affirmative answer in the sense we told him he could go ahead, and we would not tell him whether he would get himself in trouble, and that's why I asked for an appointment for you (Mr. Oliphant) to see this man. He has all the drafts and he wants them looked over to see if in any way he would get in trouble.

He kept talking about everything for cash. Last time, they were going to sell securities here and raise the money. Now he opens up, how about getting 9 or 12 months' credit? So I said that would be a commercial banking proposition. I was not interested. He would have to take it up with commercial bankers. Then again he said would it or would it not come under the Johnson Act. I said my own hunch was it would not. After all, if a company is organized in Canada to buy merchandise, I take it that American bankers every day are extending credit to corporations. This is a corporation. Now maybe they will have to form a Canadian corporation, maybe a New York corporation, and do it there, but I am not urging the thing one way or another.

So I said, Before I thought this was all cash. Well, he said, if we could extend permission over 12 months it would be very nice. I said, Don't expect any help from the Treasury. He said, Will you look over the papers to see if our papers of incorporation

-3-

will do. I said, Yes, I will have Herman Oliphant do it informally.

But I wanted you men to know what was going on. I wanted to let you know how I feel. The whole thing gets down, Will the President say to the General Staff 'I want the French to have the very last word in American planes.' I was surprised last night that he said this. Last night I said, Well, Mr. President, you sent the French mission to me. It's entirely out of my line. I am doing it because you want me to do it. 'I made it as difficult for them to come here as possible.'

As far as I am concerned, if this is what you want, I am not going to sell these people a lot of planes which we know can't even begin to compete with the German planes. This P-40, from all information, is just about 50 miles faster than anybody else has got and the Allison motor is the only motor which we have which will do the trick and the Army developed the bearings. The secret of the whole thing is the bearings and the Army developed the bearings and they have the bearings so they will stand up.

I want to let you know it is in the hop and I want to do everything I can to help. I am in sympathy. I think it's a grand idea. I don't know how long they will be fussing before the Army gets its money and the Army makes up its mind and if we can give our people \$80,000,000 of business -- can you see any objections, John?

Mr. Hanes: No. The French and British can't build planes to compete with the Germans; either got to help them or the Germans and Italians will run over them. I am in sympathy with you.

Mr. Taylor: With the possible exception of the motor thing.

HM, Jr: Personally, if you can't trust the French as to spies -- I think the French would do a better job on protecting the motor than we would here. We have not done an awfully good job of keeping spies out of our plants.

-4-

Mr. Gaston: You can't protect a motor that's in production anyway.

HM, Jr: Here's another thing. General Craig told me six months ago he was overruled, but the State Department asked them to let the French aviators fly the latest and best planes we had. They were in them long enough to see everything there was against his wishes, but he was instructed by the State Department to do it and the French aviators got the very best we had. They established the precedent sometime ago. I am not going to be happy giving them anything other than the best.

As it develops, I will let you know and if you people have any ideas let me know, but I definitely don't want in any way to be a party to even slightly bending the Johnson Act.

oOo-oOo

December 21, 1938

The Secretary took to the White House today, December 21, a memorandum prepared by Capt. Collins recommending that the representatives of the French Government who are in this country in the interest of procuring airplanes, be authorized to inspect and test three models described in Capt. Collins' memorandum, that is, P-40, a pursuit plane manufactured by Curtiss-Wright Corporation with Allison motors, model now in possession of Army; Douglas attack bomber, still in the possession of Douglas Airplane Company at Santa Monica, and Martin bomber, Model 166, now in production for export only. The President endorsed his approval on Capt. Collins' memorandum.

The letter which Capt. Collins had prepared for the President's signature, addressed to Capt. S.M. Kraus, U.S.N., authorizing him to see that the French representatives are furnished every consistent facility for inspecting and flying the planes involved, was not signed by the President, but he endorsed on the original, "O. K. for Swanson to sign. F.D.R."

The Secretary turned over to Mr. McReynolds the original Collins' memorandum containing the President's endorsement and the only carbon thereof with instructions that five photostatic copies were to be made without disclosing to anyone the character of the memorandum and that all copies be retained in his hands until the following morning when one photostatic copy was to be delivered in person by Lieut. McKay to Miss Le Hand at the White House, the Secretary of War, the Secretary of Navy and to Sumner Welles, Acting Secretary of State.

The Secretary also instructed Mr. McReynolds to arrange to report at the Secretary's house at 8:30 the following morning, December 22, and arrange to have also present at that time Admiral Peoples, Capt. Collins, Capt. Kraus, Mr. Monnet and the French naval mission. Mr. McReynolds contacted the individuals named, except Admiral Peoples who was not then available, and arranged for their attendance as requested.

My dear Captain Kraus:

Confirming oral instructions that have been given you, it is desired that there be obtained for the French representatives when you are accompanying every consistent facility for inspecting and flying the particular planes in which they are interested.

Very sincerely yours,

Captain S. M. Kraus, USN  
Navy Department  
Washington, D.C.

18

C)

Original in Presidents  
lists

7/16



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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 21, 1938

MEMORANDUM FOR THE SECRETARY

At a meeting this morning at which were present the French representatives, Captain Kraus and myself, a discussion was had of the possible available models and types in which the French are interested and which it seemed possible might be put in production in time to meet a satisfactory schedule of deliveries. The discussion revolved around three planes.

P-40

This is a pursuit plane manufactured by Curtiss-Wright Corporation engined with Allison motors, an experimental model of which it is understood is now in the possession of the Army.

DOUGLAS ATTACK BOMBER

This is an experimental bomber which is to be entered in an Army competition but which is still in possession of the Douglas Airplane Company in Santa Monica.

MARTIN BOMBER  
MODEL 166

This plane is in production at the moment for export only. By re-engining it could probably be modified to attain a satisfactory performance.

The French representatives desire to inspect the three models indicated above. It is recommended that:

- (A) A clearance be obtained which will permit such an inspection, including flying
- (B) The clearance cover the right to purchase such planes as are desired, including all necessary engines and equipment, it being understood that such planes and equipment are for export only under the project which has been discussed.

Inasmuch as it will unquestionably be necessary to inspect the Douglas plane at their plant at Santa Monica, it is further recommended that permission be obtained to use a Navy transport airplane for the purpose of taking the representatives of the French Government to the west coast. Captain S. M. Kraus, USN, will be agreeable to accompanying the representatives on such a trip.

December 21, 1938

MEMORANDUM FOR THE SECRETARY

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12-21-38

My dear Captain Kraus:

Confirming oral instructions that have been given you, it is desired that there be obtained for the French representatives whom you are accompanying every consistent facility for inspecting and flying the particular planes in which they are interested.

Very sincerely yours,

Captain S. M. Kraus, USN  
Navy Department  
Washington, D.C.

*OK Devans*  
*OK*  
*The President wrote across the original "OK for Devans to sign."*  
*JMK*

My dear Captain Kraus:

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Navy Department  
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Very sincerely yours,

Captain S. M. Kraus, USN  
Navy Department  
Washington, D.C.

December 22, 1938

Memorandum of conference at the Secretary's house at 8:30 a. m., December 22.

Present: Secretary Morgenthau, Admiral Peoples, Capt. Collins, Capt. Kraus, Mr. McReynolds, Mr. Monnet and members of the French mission.

The Secretary informed the group that the President had approved the recommendations contained in Capt. Collins' memorandum, attached hereto, authorizing Capt. Kraus of the Navy and a representative of the Army Air Service to escort the French mission to such places as may be necessary to enable them to examine and test the three types of planes under consideration. The Secretary made it entirely clear that the President is anxious that every opportunity be given this mission to purchase these planes in such volume as to meet their needs, providing their arrangements can be completed and orders given and deliveries made with sufficient promptness so as not to interfere with the U. S. Army orders for the same types of planes which will be available during the early part of next year.

The Secretary impressed on the mission the necessity for absolute secrecy so far as other Governments are concerned with respect to the information disclosed to them of the construction of the planes in question and particularly the necessity in case the planes are purchased and delivered to them for protecting the planes from examination by representatives of any other Government than the French. Mr. Monnet assured the Secretary that they would consider it as much in their own interest to follow his instructions as in the interest of this Government and that when arrangements have been finally completed, the Prime Minister of France would give him directly such assurance.

Admiral Peoples and Capt. Collins were instructed to continue to cooperate with the French mission and furnish all possible assistance.

December 22, 1938.  
10:55 a.m.

HMJr: Hello.

Operator: Mr. Johnson. Go ahead.

HMJr: Hello.

Johnson: Good morning, Secretary.

HMJr: Did you call me?

J: Yes, sir. Merry Christmas to you.

HMJr: The same to you.

J: I told --

HMJr: Hello.

J: I told Boeing the opinion of the top.

HMJr: Yes.

J: I told them that their attitude was highly appreciated, and that it might be that to you there was in the strictest confidence, another one might be worked out at four.

HMJr: That's right.

J: And, it stands there now that their attitude has been perfectly grand.

HMJr: Good.

J: And that ends it as far as they are concerned, and I wondered if there was any move I should make, send any man to see you --

HMJr: Ah -- let me just think a minute -- let their man get in touch with Captain Collins of the Procurement Division of the Treasury.

J: Wait a minute. Let me write that down. Captain Collins?

HMJr: Captain Collins. Ah -- well, I tell you, we'll do it -- wait a minute -- let him contact Admiral Peoples over at Procurement.

J: I'll tell him to go over and see Admiral now.

HMJr: Let him go and see Admiral Peoples, and I'll phone the Admiral and tell him what it's all about.

J: O. K.

HMJr: How's that?

J: That's fine.

HMJr: Thank you.

J: And a merry Christmas to you and yours.

HMJr: Thank you so much.

J: Thank you, sir. Good bye.

December 22, 1938.  
10:57 a.m.

27

HJr: Hello.

Operator: Admiral Peoples.

HJr: Hello.

O: Go ahead.

Admiral  
Peoples: Yes, Mr. Secretary?

HJr: Admiral, this is in confidence.

P: Yes, sir.

HJr: The other day I saw Assistant Secretary Louis Johnson --

P: Yes, sir.

HJr: In the outside office of the President, and he said the four-engine Boeing plane -- uh -- that they -- the Government has the contract to buy it at four hundred thousand but they don't want it, and the Japanese have given them a firm offer of eight hundred thousand dollars for the plane and the plane.

P: Yes.

HJr: So I said, "Well, this is just impossible. You can't do that." And "well, Boeing's lost a lot of money" and so forth and so on; and I said, "well, that's just too bad, you can't do it"; but I said in order to relieve the pressure I'm willing to suggest to this French Mission that if they want a four-engine bomber at four hundred thousand, which is the contract price -- it would -- I think it would be a good buy for them, and it would help us out a little bit, out of a difficult situation, see?

P: Um-hm.

HJr: Hello?

P: Yes -- yes, Mr. Secretary.

HJr: Well I went in and had lunch with the President and told him this story and he said Louis Johnson was crazy -- this is just for you, you see? He said, "We can't let the Japanese have that." So I said, "well, how would you feel about letting the French have it?" He said, "well, that would be fine;" but he said at four hundred thousand. So Johnson just called me and he said Boeings have been fine about it and they would now like to sell it to the French.

and he is sending a representative of Boeings over to see you.

P: Yes, sir.

HMJr: Now, if the French can see their way clear of including this in their order, why, -- it would -- I think it would help us out a little bit, but I'm not going to press them on it, you see?

P: Exactly so, Mr. Secretary.

HMJr: It's only if they want it.

P: That's it.

HMJr: But if they want it, I think it's a good buy and they might want to have one of those long-distance bombers.

P: That's it, exactly.

HMJr: You get it?

P: Exactly, sir. Now, as I understand this -- a representative of Boeing is coming over to see me pretty soon.

HMJr: Yes, Colonel Louis Johnson, Assistant Secretary of War is sending him over to see you.

P: Yes, Mr. Secretary.

HMJr: And what I told you about the background is for you.

P: Fine.

HMJr: But I would tell this -- sh -- to Monnet and let him use his judgment. They might be tickled to death to get one of these.

P: Exactly so.

HMJr: What?

P: Exactly so.

HMJr: And at that price -- sh -- that is, as I understand it, is the Army contract price.

P: Fine and dandy.

HMJr: Will you take care of it?

P: Yes indeed, Mr. Secretary.

HMJr: Thank you.

P: And I'll let you know later on.

HMJr: Fine. Thank you.

P: Yes, sir.

HMJr: Thank you, sir.

P: Good bye.

December 22, 1938

2:15 p. m.

(Conference in Secretary Morgenthau's office.)

Present:

Secretary Woodring  
General Arnold  
General Marshall  
Under-Secretary Hanes  
Admiral Peoples  
Mr. McReynolds

Mr. Woodring and Generals Arnold and Marshall had sought this conference to present to Secretary Morgenthau the attached memorandum outlining the Army program with respect to purchase of military planes and pointing out the probable interference with their program that would result from the French purchase plan.

The Secretary explained that the reason for his activity in this matter was the direct request of the President that he arrange for the French to be given the opportunity to purchase the quantity and type of flying equipment which would meet their needs in so far as this can be done without serious interference with the purchasing program of the military forces of the United States.

The matter was discussed at some length and Major M. S. Fairchild was designated by the Secretary of War to be the representative of the Army to accompany Captain Kraus, of the Navy, and the French mission in their further examination of the possibilities of procuring the type of planes the French desired to purchase. It was understood that no actual examination by the French mission of the secret planes themselves would be permitted until an agreement could be reached as to the availability of such planes without serious interference with the Army program of procurement.

WAR DEPARTMENT  
WASHINGTON

December 22, 1938.

## MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

1. The following points are brought to your attention in connection with possible purchase by the French Government of 1000 United States airplanes.

a. P-40. Curtiss Wright Production for Pursuit Evaluation Competition in January, 1939. Not yet flight tested. Jigs, dies, fixtures and work drawings partially completed.

b. Douglas Attack Bomber. Built for the Attack Bomber Competition in March 1939. Not yet given flight test. Work on jigs, dies, fixtures, work drawings just started.

c. Martin Bomber 106. Commercial model of our B-10-B and is already being sold abroad by Glenn Martin Company.

2. Production Factors.

Approximately nine months elapses after placing of order until first plane is produced. Probably not more than forty planes within first twelve months. Quantity production is reached in fifteen months.

Therefore, orders for, say 300 bombers, would not be filled until eighteen months at best -- probably twenty-one months.

Pursuit plane orders should probably be produced in similar quantity in three months less time.

3. Secrecy.

There is no question of secrecy regarding Martin Bomber 166.

The P-40 and Douglas Attack Bomber are still valuable military secrets if we are to lead in the air. However, it is suggested that the P-40 be released for the proposed inspection and that the Douglas Attack Bomber be held secret.

4. Interference with US Program.

An order at this time for one thousand planes for a foreign government would prevent fulfillment of our ten thousand plane program within the time limits now assigned. The foreign orders could not be cleared through the American plants under eighteen months.

  
Secretary of War.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 23, 1938

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

For your information

As suggested, I saw Mr. Monnet this morning in regard to the purchase of planes by a Canadian corporation. Huntington Cairns and Ralph Dwan participated in the conference.

Three problems are presented: (a) would the proposed Canadian corporation be independent of the French Government, (b) would the extension of credit, presumably by means of a one year unlimited letter of credit arranged by the Bank of France through the Federal Reserve Bank of New York, constitute a loan within the meaning of the Johnson Act, and (c) would the proposed arrangement violate the neutrality act in the event that France became involved in war before the termination of the proposed contract. I told him we would look into these three points and talk to him about them when he returns from New York on Tuesday.

Mr. Monnet left with me the proposed incorporation papers which have been prepared by Messrs. Sullivan and Cromwell of New York. He proposes to talk to Paris over the week-end with a view to working out more specifically the financing plans and will get in touch with me again on Tuesday.

Before we advise Mr. Monnet definitely, I suggest that the matter be cleared first with the Secretary of State and the Attorney General.

EN-7/

December 27, 1938.  
11:15 a.m.

HMJr: Hello.

Operator: Mr. Johnson. Go ahead.

HMJr: Hello.

Louis  
Johnson: Good morning Mr. Secretary. I had a grand holiday,  
you know -

HMJr: We had a nice time.

J: I appreciate your kindness. I want to gossip with you  
just a second.

HMJr: Please.

J: On somebody that's visiting this country.

HMJr: Yes.

J: Evidently Peoples went through Navy on Army ships,  
secret Army ships.

HMJr: Yes.

J: He's stirring up a tempest, a teapot maybe.

HMJr: Did he?

J: Yes, he did.

HMJr: I don't think so.

J: Well I came back this morning and I find he did, because  
the Navy was dealing with manufacturers of secret Army  
ships. They never did that before they tell me.

HMJr: I don't know.

J: He ought to use - he ought to use Army on the Army ships,  
oughtn't he?

HMJr: Only when the President tells him to.

J: Well I don't believe the President would tell him to use  
Navy on secret Army ships, Navy personnel  
going to manufacturers who are working on secret Army  
stuff. All I know is hearing about it this end this  
morning.

- 2 -

HMJr: Yes. Well, he's only - through me, carrying out orders, what the President wanted, and -

J: Well, don't you want him though to use Army men on Army ships?

HMJr: Well, he's assigned an Army man now.

J: What's that?

HMJr: They've assigned an Army man to him now, they've detailed an Army man.

J: Oh, have they done that?

HMJr: Oh, yes. That was done last Thursday.

J: O.K. then. I just got this tempest here and I thought you ought to know about it.

HMJr: Oh, no.

J: I knew you were handling it.

HMJr: No, no. Secretary Woodring and General Marshall - General Arnold were over here Thursday.

J: O.K.

HMJr: And they've assigned, at my suggestion, that an Army do it, just so that the Army would be represented.

J: O.K. then.

HMJr: But my hands were tied and this is one of the things that were wished on me.

J: I get you.

HMJr: And I want you to know it's not my idea and I didn't bring it over, but it was wished on me and I was reluctantly doing what I was asked to do.

J: Well, we want to cooperate in every way in the world we can

HMJr: But I can't give you the name, but Woodring and General Marshall and General Arnold were over here Thursday, and I had Peoples and I understand, I think they left here satisfied that we'd meet them more than half way.

- 3 -

J: I see.

HWJr: If they're not satisfied they'll have another chance to say so.

J: O.K. I just wanted you to know.

HWJr: Well, I, - but that's the story Louis.

J: All right. Fine.

HWJr: I think if you check up, there's been an Army man assigned and Secretary Woodring selected him and he had plenty of time to select him, but that's what I think.

J: O.K.

HWJr: Let's hope so.

J: A happy New Year to you.

HWJr: Same to you, and I'm trying to carry out, on that, a very difficult mission.

J: Oh, I know it's a difficult one.

HWJr: Very difficult.

J: More power to you. If we can help let us know.

HWJr: Well you can, and you're in a position now because I asked that the man be assigned on a twenty-four hour basis, I'm sorry I can't name him.

J: Yes.

HWJr: I can't assign somebody who can be with them on a twenty-four hour basis so that the Army will know every minute what they are doing.

J: Yes.

HWJr: So I think that that's - I know that's been taken - at least the Army were given the opportunity now - if the man isn't with them on a twenty four hour basis, it's up to the Army.

- 4 -

J: All right.

HMJr: O.K.

J: Thank you. Goodbye.

December 27, 1938

3:30 p. m.

Present:

Mr. Monnet  
Mr. Lochhead  
Mr. Foley  
Mr. Taylor

(Note: Reporter came in after meeting had started.)

Mr. Lochhead: When we first spoke about it before, it was about New York banks opening or dits. I spoke to Monnet. It did not seem feasible. It worked out the Bank of France would open a credit for the Canadian corporation, make payments through their New York agents, which would be the Federal, but on the other hand when the question was brought up this morning, payments would be made through the Canadian Bank. Same thing. Substitute the Bank of Canada. The Bank of France would make payments.

Mr. Monnet: But arrangements would be made with the Bank of Canada.

HM, Jr: That would be simpler. That avoids any possible question of the Johnson Act, the Neutrality Act, all the rest. The money should go from the French to, if possible, if they will take a private account, to the Bank of Canada.

Mr. Taylor: As a subscriber, acting as agent of the Bank of France.

HM, Jr: Open with the Bank of Canada .....

Mr. Lochhead: The Bank of France would make payments to the Bank of Canada.

HM, Jr: But do it through Canada and not the United States.

-2-

Mr. Lochhead: As I say, the Canadian Corporation, the idea was to eliminate the United States banks.

Mr. Taylor: I would simply make payments as an agent.

Mr. Foley: Where would the capital come from?

Mr. Monnet: \$250,000 is to be offered for subscription to the Board of Directors. I am prepared to make the necessary advance in the meantime and when the company is formed, then capital stock would be offered to the Board of Directors for them to subscribe.

Mr. Foley: That would not involve the floating of any securities in the United States?

Mr. Monnet: Not at all. In no sense.

HM, Jr.: Why should the Board of Directors subscribe to it?

Mr. Monnet: I do not know if the Board of Directors, in the last analysis, will take it. I am very much afraid I shall have to subscribe.

HM, Jr.: You mean not you, the French Government.

Mr. Monnet: Myself, so as to keep this company on an independent basis.

HM, Jr.: Might I ask why you should do it?

Mr. Monnet: Frankly, I do a lot of things in this affair that I should not be doing. I have been the instrument through which this thing is being worked out and if I find no other solution -- my hope is that the Directors have got to subscribe because .....

HM, Jr.: ... But, Mr. Monnet, let's be frank on this, because this is terribly important. By now you know that anything I am doing -- I am Secretary of the Treasury -- 24 hours of the day I am doing this because the President asked me to. But I want to know all about it.

Mr. Monnet: Surely! Surely!

HM,Jr: Why should any director or why should you risk \$250,000?

Mr. Monnet: Well, sir ...

HM,Jr: It doesn't make sense.

Mr. Monnet: Well, I -- there will be an easy way. That would be for the French Government to advance the money, but if the French Government advances the money then it is a company of the French Government and the whole theory that has been worked out with a view to meeting the various difficulties is that the company should be an independent company and that it can be stated that it is a commercial company, so we have worked out a system so that it is an independent company. Technically it makes no profit because practically all the profit except 5%, or something like 95% of whatever commission the French Government pays goes back to the French Government, so that technically it is an independent company, but shares of the capital is supposed, is intended to be held by individuals so that it can be claimed that this company is a profit company. At least, in so setting it up we had in view all the difficulties that this company may meet in the way, so to carry on the cooperation with the Procurement, etc., so that it can be said that it is an independent company and not a French Government instrument, therefore we had to come to the conclusion who is going to put up this money? As it is, the money is supposed or intended to be put up by the Directors that are going to be asked to be members of this Board.

Mr. Foley: Who are the Directors?

Mr. Monnet: Nobody as yet decided. It has to be determined. And as I said to you, the Directors are to be passed not only by the French Government, but officially by you.

Mr. Foley: The Secretary's point is, what incentive would it be for someone to be approached as a possible Director for this company who would have to put up \$25,000?

HM,Jr: \$250,000, Ed.

-4-

Mr. Foley: His immediate question would be ....

Mr. Monnet: There is no incentive. He will get his interest. It is secure, because under that system there will be enough money to pay, enough commission to pay expenses and pay interest on capital, but there is no inducement for anybody to put up that money. It's a difficulty that I have to solve somehow. I would much prefer if the French Government, through some organ, would have put up the money, but in discussing it with the Administration their thought was if the French Government puts up the money then it is not possible to make a statement that it is an independent company and if questions are asked who owned the capital of this company then you would have to say well, it's the French Government that owns the capital.

Now if in setting it up in that fashion, it was set up with the main intention of protecting any cooperation that was given to it by your people here and avoid the appearance of being a Government corporation or to publicly show cooperation between the two Governments.

HM, Jr: But all we are doing is, there is an official French mission here with documents from the Prime Minister of France and these people meet with our Procurement people to find out where they can buy airplanes and we simply put them in touch with them, and that's all. So far as that goes, I can announce that any day. There is nothing to be ashamed of in that here is a group of people with documents from the head of the French Government saying, Will you please introduce us to your airplane manufacturers, and after we do that we are through. Is that right, Ed?

Mr. Foley: That's right.

HM, Jr: And the rest of it, there is a company, an XYZ company up in Canada who then proceeds to negotiate directly with United States manufacturers of airplanes and we are out of the picture.

Mr. Taylor: Is there any significance to the \$250,000? Somebody just pull that out of the hat as a number?

Mr. Monnet: No. That \$250,000 was put put so

-5-

as to provide enough money to pay expenses of all the mission, certain engineers that have to come from France, from the Administration who have to place the contracts. Now administratively these people are coming to the company and they are going to be members of that corporation. They are going to be paid their expenses, so this \$250,000 is just for the purpose of paying their expenses until the commission paid by the French Government comes into the funds of the Company.

HM, Jr: Well, Mr. Monnet, for the company to be paying salaries of members of the French General Staff isn't very much of a disguise. Here is a member of the French General Staff. They are going to pay his salary?

Mr. Monnet: No. This Mission that is coming on is a French Government Mission.

HM, Jr: The one here now?

Mr. Monnet: Exactly.

HM, Jr: The French Government pays them?

Mr. Monnet: The French Government pays them only they determine what type of planes are going to be chosen. Then it's the Canadian company that has to place the orders. That Canadian company has to be formed, as I explained to you, by a certain number of French technicians, officials, who would come and who would make the contract, discuss the terms, etc., and this company -- the whole purpose -- and if there is no need for this company it is quite easy to change the whole proceeding, but the whole purpose of this company was two-fold: on one hand to be able to avoid, if possible, the publicity of a French Mission established here constantly contacting the manufacturer in some form, cooperating with your Procurement, and in the daily work that lasts for months having to officially appear as a French Government .....

HM, Jr: What this thing gets down to: I think that this corporation is such a thing disguise that, let's say, France gets into a war. Then the question comes, Can we or can we not sell planes? It wouldn't make one ounce of difference whether you are selling 100 planes to XYZ

-6-

Corporation in Canada and they either -- let's say they are shipped from here to Canada and from Canada to France, or whether they go from here to Canada and the French Government takes title -- under our laws it would not make any difference. They ask, where is the distinction?

Mr. Foley: Sure.

Mr. Taylor: Directly or indirectly doesn't make the slightest difference.

HM, Jr: Personally, unless it makes a very important difference, the fact that Mr. Monnet has to go through the difficulty of explaining it to me and making it as difficult as possible, it will be that much more difficult to explain it to the public. And personally, I think the less explaining he has to do, the better and unless there is some good legal reason -- and I would rather see the French Government establish a branch office in Toronto or Montreal and do it openly and you don't have to explain, but do it from Canada. Have a branch office in Canada and they are in the market for so many planes and go ahead and do it right out in the open, and when it gets down that they should be in a war I don't think the fact they had a corporation would make that much (snaps finger) difference.

Mr. Foley: Probably not. They would strip the thing and they would look at it in its reality.

Mr. Taylor: That's the way the act reads. You are supposed to trace them.

HM, Jr: I am just taking it on a common sense basis. Talking to a lawyer the other day, he said in a criminal case he always tells his defendants never to try to hide from a camera. If somebody wants to take your picture, let them take it. The minute you try to hide your face, it looks suspicious. I think the minute you have a corporation it looks as though you had something to hide and unless there is some good reason, Ed, my curbatone opinion is, why not out in the open? but do it in Canada.

Mr. Foley: Yes.

-7-

Mr. Monnet: The reasons -- it was thought that cooperation of this Canadian corporation with your Procurement, as it is going to last for a long time, it would be easier than if it was right open Government to Government.

HM, Jr: I am only doing it for one reason, because the President of the United States asked me to do it. Because Mr. Daladier has his name on a piece of paper, I can do that. I can't do business with a blind corporation.

Mr. Monnet: It isn't a blind corporation as it is set up.

HM, Jr: I will do business with a certified, authentic agent of the French Government, but I am not going to do business with a dummy corporation.

Mr. Monnet: Let it be clear. This Canadian corporation, as it is set up, is really in fact an agency of the French Government. It has been set up in this way so as to cover the action of the French Government because we thought it would be advisable. On the other hand, it was thought that the credit or financial arrangements would be made easier through this company than if it was done outright by the French Government and, third, administratively it was easier to operate here or in Canada through some sort of administration like this rather than the French Government as all the difficulties of administration, to set up an entirely new office with all the difficulties that surround such a set-up. But if you feel that this method has no merit or that it is better to proceed otherwise, as I told you, let's reach out and openly do it some other fashion.

Mr. Foley: The Secretary pointed out that the guise is so thin that it is perfectly apparent what you are trying to do and from our point of view it's much better not to deal directly with a corporation of this kind unless there are some good reasons not to do it the other way.

Mr. Monnet: I am giving you the reasons and there are no others.

-8-

HM, Jr: Unless Mr. Foley could think up some good reasons why you should do it through this corporation, personally I would prefer to do it right out in the open.

Mr. Monnet: If you feel, for instance, that the cooperation that would have to be given -- at least, which I hope for and we assume will be given by your Procurement Division in the future is not going to be made more difficult, if it is going to be given to the French officials .....

HM, Jr: But we are doing that now. Here we are now -- here you have these people in direct contact.

Mr. Monnet: I am not in any sense trying to convince you that that is the method. This has been worked out, elaborated, in the hope and belief that it was meeting the situation. It was difficult in every way to keep the whole thing, in a fashion, under certain cover and make the administration of it more easy. For instance, we thought, and as I told you, that action in this country in placing the orders is going to be helped if at the head of this company we could put an American who is competent, who knows the way of acting in this country, etc., and I asked your Procurement Division to designate me such a man and they mentioned Mr. Hunsaker who is a technician. With such a technician you can up as President an American. An American, dealing with the manufacturer, with knowledge and technical advice, can get action. Things will move. If you have purely a formal mission, it is going to be entangled.

HM, Jr: Until you get the corporation opened and the Mission over here, I want to see \$10,000,000 deposited.

Mr. Monnet: That's easy.

HM, Jr: Until you get all this stuff you are going to have the Army in revolt, because this is going to crowd them on their orders. Take you weeks before you get your paper work done. This thought was all developed in Paris, wasn't it?

Mr. Monnet: Yes. If anyone is responsible, I

-9-

as the one responsible in this thing, because when I came back to Paris I discussed with the Ministry of Finance what is the best method to employ. The administrative difficulty of performing over months is very great; on the other hand, I must say that, rightly or wrongly, I was quite imbued with the necessity of beginning this whole corporation not only as secret as you know it has been kept, but also in maintaining in itself the same secrecy, leaving any official contact between your Administration and the French Government out of the picture as much as possible.

HM, Jr: But the British Government comes over and buys planes. We don't even know they are here. They buy 200 Lockheed and 200 from the North American Corporation. It's a perfectly open deal. Nobody criticizes. They go ahead and buy 400 planes. Your own Navy has bought planes direct.

Mr. Monnet: If you feel no embarrassment in having a French mission openly and officially ....

HM, Jr: I, frankly, would feel much less embarrassed. Here are the British coming in. They do 400 planes. Nobody says a word. Look at the good business we are getting going over to Great Britain.

Mr. Monnet: As I said to you, this has been worked out with the intention of meeting the very reasons that I have explained and if, as I say, anybody is responsible for having set it up that way ...

HM, Jr: Suppose you think it over and come back and talk it over with these gentlemen tomorrow. I have asked how the British have done it. I don't even know. Can you (Lockheed) find out from the banks?

Mr. Lockheed: Uhuh.

HM, Jr: You might.

Mr. Monnet: What do you say, Mr. Secretary? That you want the French Government to have \$10,000,000 in this country?

HM, Jr: Frankly, you have me a bit bothered. You are talking about credits, everything else, and

-10-

before we go and show these people all this stuff, you have me all upset over this corporation and talking about 12 or 15 months' credit. I would like to know have the French got the money? Let's call a spade a spade. Let's be perfectly frank. There is so much of this secrecy over such a simple operation. Either the French have or have not the money. If they have I would like to see some of it on account of all this discussion. It seems to me you are making the thing just as difficult for yourself as possible. The British come over quietly and buy 400 planes. Nobody in the Treasury knows how they paid for them, but they have satisfied the manufacturer and they get their planes. Why can't the French Government do the same way? I would like to know if the French Government, frankly, has the money, or haven't they. And if they have, let them deposit \$10,000,000.

Mr. Monnet: The Prime Minister and the Minister of Finance told me before I left that they are prepared and the Government has decided to put the whole full amount of \$65,000,000, in cash if necessary, at the request, on deposit with the American Banks, an irrevocable letter of credit, for the orders that will be placed. So you need have no concern.

HM, Jr: If he is willing to do \$65,000,000, then my request is very modest. I ask that he deposit \$10,000,000 with the Bank of Canada.

Mr. Monnet: What I have discussed with you and with Mr. Foley since, is there any way by which this transfer of \$65,000,000 does not have to be deposited all at once and a commercial credit arranged so that this transfer is spread?

HM, Jr: And that raises my doubt, have the French got the money?

Mr. Monnet: Well, they have. Yes. I am sure of that and there is no question about it.

HM, Jr: That raises my doubts.

You people talk. I broke my glasses. I don't know -- the British do it and they do it without telling me about it.

(The Secretary left the room.)

-11-

Mr. Taylor: The point may be, there may be some reason why the French Government herself refers to you as a corporation.

Mr. Monnet: No. If there is anyone responsible, I am. I did it, frankly, because I thought I was meeting your needs; that that is what you would want.

Mr. Foley: But the Secretary's point is that it can be done directly and why do you have to have this corporation and when you bring in a corporation aren't you making it more difficult to explain away that's the reason for that method of doing it?

Mr. Monnet: That's the point. It's a question. If you feel that that method is more difficult, makes explanation more complicated, then we can decide and another one put in its place. I have discussed it with the Procurement Division and I had the impression we had cleared it. There is great difference with a French mission. They come in by the back door. They are here two weeks and then go away, but when this is established they will be here for months. They will like cooperation from your people.

Mr. Foley: You can keep these things entirely secret a very short time. There are many eyes and many ears with Congress coming on, all of this being revived, it might be better from your point as well as ours to do it directly.

Mr. Monnet: I want to go back further. When I came here in the first instance and discussed it with you people, it was a question of creating, and still may be a question of creating, in Canada some plants which would be presumably plants where, if war breaks out and the Neutrality Act prevents you from shipping the full planes, you can take parts of the plane, any unfinished plane, take them on to Canada and build the thing so that then France can still have them, because it's quite a question. I would like to discuss this further with you. This is the result of complex reasons that I would like to discuss that with you.

Mr. Foley: If you have the money, if you have

-12-

the cash, then there isn't very much to worry about as far as the Johnson Act is concerned. Then why have some indirect method for accomplishing what can be done directly, and insofar as foreign relations, at this time particularly, go probably it would be ever so much better if it were done straight, without the intervention of some third corporation.

Mr. Monnet: Fine! If this Government feels that, as you say, that it's better it be done that way, that's fine, but again I want to say if war comes and the planes could not be had in full, the tail end of the order, under the Neutrality Act, could not be delivered.

Mr. Foley: Not if a proclamation were issued.

Mr. Monnet: Therefore, we thought and you will read it in the memorandum I have given you, that the intention was to create certain plants in Canada for the purpose of receiving the unfinished parts of the airplane and completing them in a state where they could then be shipped to France.

Mr. Taylor: I think anything you could ship in that form to Canada you could also ship to France and what you could not do would violate the proclamation.

(The Secretary returned at this point.)

HM, Jr.: I am going back to the origin of this Canadian company. I told you -- I never agreed to that, this idea, and I never agreed. I told you, if you will remember, that this idea that you can send parts from the United States and then have them assembled in Canada ....

Mr. Monnet: You warned me. Surely!

HM, Jr.: Then let's do this. You sleep on this. This is what this amounts to: if the French Government is ready to pay cash on delivery, then there is no reason why they should not deposit their money with the Federal Reserve Bank of New York and open an account and do it. If they want a line of credit, then they had better go to Canada and pay them there, but

-13-

talking for this Government we cannot talk anything to you except spot cash.

Mr. Monnet: No. I understand that.

HM, Jr: If the French Government wants any kind of credit or to spread these payments, then they had better go to Canada and make their arrangements up there, but if they don't want some sort of credit they don't have to go to Canada. But in either case, I don't see what benefit the corporation does. You think it over. You can talk it over with Mr. Taylor, but that's what I would sum it up. Do you (Mr. Taylor) agree with me?

Mr. Taylor: There may be reasons for a corporation set-up. I think it is more than possible there are some.

Mr. Monnet: I want to be very clear that the one responsible for this is me and I have done it thinking it was helping you in not giving too formally assistance to the French Government and the French Government for the various arrangements which they might want to do on the financial side. If I have been wrong, it's quite easy to change and retrace my steps.

HM, Jr: You can think it over, and these gentlemen are available to talk to you further. We want to help you.

Mr. Taylor: And if there is no point in having a French Canadian corporation, there is no point in making a deposit up in Canada.

HM, Jr: Unless they want credit. Only if they are prepared to pay spot cash, no necessity for the corporation or for Canada. But if they want credit, they had better go to Canada.

Mr. Foley: That's right. And the only reason why they have a corporation is assembly plants and that might be cheating under the Neutrality Act.

Mr. Taylor: My feeling is anything you could ship to Canada as unfinished, you could ship to France.

-14-

HM,Jr: That has been my position, the first time you were here.

Mr. Monnet: I remember very well. The result has been that the plan we began with has been shifted from manufacturing in Canada to the placing of orders in this country. It's the result of conversations you and I have had that has shifted.

HM,Jr: My objective is to help the French get the best planes we have and at a reasonable price. I told you we have to move fast, otherwise our own Army officials are going to object, and all this thing raises doubts in my mind and it all adds to the difficulty.

Mr. Monnet: I am very sorry if there are any doubts raised in your mind, because if anyone is responsible, I am, because I am the one responsible for having set up this Canadian company in this fashion for the reasons I have explained. It can be changed, altered or completely eliminated. I thought I was meeting the difficulties on both sides, but if it doesn't then it's out the window.

HM,Jr: We are all trying to be helpful.

Mr. Monnet: I will discuss it with these two gentlemen.

HM,Jr: May I just change the subject? I have gotten this cable here. Do I understand that Mr. Laurent is going there?

Mr. Monnet: Yes. He is flying to Indo-China the beginning of the year.

HM,Jr: He's going direct?

Mr. Monnet: Going direct, because they say he should be in Indo-China promptly.

HM,Jr: Did you see the cables in the New York Times?

Mr. Monnet. Yes, I saw them.

-15-

H.M., Jr.: Well, that pretty well explained the situation.

Mr. Monnet: Yes, but you see there three important statements. One is that the transport thing, transit for trucks and oil, is not now restricted, according to this cable.

H.M., Jr.: I also saw the New York Times story that there are 1,000 trucks there.

Mr. Monnet: No doubt the information is correct that trucks and oil can get through, are not held as material of war any more. Now, the second is the question, which the head of the railway, Mr. Bodin, head of the Indo-China Railways, if it would be possible to let him have ahead the program of shipments so he would know how much is coming. I don't know whether the Chinese company might do that.

H.M., Jr.: I think they will send everything to Rangoon until they get this thing straightened out. That's what I would recommend -- not to send anything more to Haiphong until they handle what they have got. The New York Times said they had 16,000 tons awaiting shipment. They say 15,000. It's about the same. Until they get that cleared there isn't any sense sending anything there.

Mr. Monnet: I didn't understand exactly, they said they might have one little gauge tracks.

Mr. Lochhead: I thought they meant rolling stock.

H.M., Jr.: I thought they meant gasoline truck.

Mr. Lochhead: I spoke on the telephone to these people since and my understanding from them is that the difficulty is the lack of rolling stock, so I assumed what they are asking there is whether or not you could supply them, this company would supply an additional one meter gauge, because that's the gauge of the railway, one meter gauge rolling stock.

H.M., Jr.: I suppose once Mr. Laurent goes out there we will know more about it.

-16-

Mr. Monnet: He said 'I might go through the United States, but I think I had much better get to Indo-China quickly. I am going there anyway.' And I arranged, after the conversation I had with you, that Daladier himself will ask to have a definite answer for us and give special instructions so that Laurent, who is the head of the Bank of Indo-China and with the Government of Indo-China owns the railway, will take whatever steps can be taken. I think it's the best practicable thing to do to get this thing moving.

HM, Jr: All right. Now, if you call up tomorrow. Now on this thing I think you should tell whoever is going to attend to it to say whether or not it's possible to get a one-meter gauge promptly.

Mr. Monnet: I think we need more information.

Mr. Lochhead: Just guessing what they mean.

HM, Jr: If you could ask for more information.

Mr. Monnet: Yes, surely.

HM, Jr: This is all very serious, but I think we made a little progress this afternoon. We are trying to help you and I don't want to get bogged down with a lot of red tape.

Mr. Monnet: I appreciate that, Mr. Secretary.

(At this point, Mr. Monnet left the meeting.)

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HM, Jr: The thing I want to say is this: why should be put up \$250,000? General Arnold or one of them said this will help the American companies because when they sell to foreigners they always charge 20% or 30% more. I said if that happens I wash my hands of it. Either this is going to be a clean proposition so that -- I always say anything I can do I can testify on the Hill about it and up to now anything I have had to do -- but you can't tell me Mr. Monnet with a partner

-17-

by the name of George Bonnet is putting up a quarter million dollars for love of La Belle France! It just isn't being done!

Mr. Taylor: Five percent of the commissions are retained.

HM, Jr: I don't want anything to do with any phony corporation. I could not have been any blunter, could I?

Where is Chen?

Mr. Lockhead: Heading out for Detroit today.

HM, Jr: When he gets back I think he should see this cable.

*Monnet, Murnane & Co.*  
*Thirty Broad Street*  
*New York*

HANOVER 2-9389

December 22, 1938.

Mr. Archie Lochhead,  
Technical Adviser to the  
Secretary of the Treasury,  
Washington, D. C.

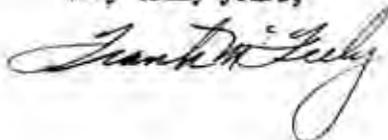
Dear Sir:

Mr. Monnet has asked me to send you the enclosed copy of a cable received by him from our office in Paris in connection with the Indo-China Railway.

Mr. Bodin, whose name is mentioned at the beginning of the cable, is the Head of the Railway Company. Mr. Laurent, who is mentioned in paragraph 2, is one of the heads of the Bank of Indo-China. Mr. Monnet will keep you informed as he receives further news.

Mr. Monnet hopes that you will be good enough to let the Secretary have a copy of the enclosed cable.

Very truly yours,



## COPY OF INCOMING CABLEGRAM

56

*From* Pierre Denis, Paris

*No.* Thursday No. 7 CDE

December 22, 1958.

(1) From Bodin through transport raised from 4000 tons per month before fall Canton to 9000 tons now This is maximum possible with present rolling stock STOP New stock ordered will be delivered between next month and June raising transport capacity possibly by 50% altogether STOP Goods awaiting now harbor estimated 15,000 tons STOP Bodin believes congestion can be cleared progressively but ignores what will be arrivals in harbor in future STOP Contradictory rulings during the last few months created serious difficulties but all at present trucks and oil transit freely STOP For your guidance feel would be useful have approximate programme American shipments to Yunnan during the next few months also friends might consider where they can without delay provide one meter gauge trucks if method hiring or selling them to company is found

(2) Confirms brother Laurent I will expect you to telephone our office 5.15 Friday.

December 27, 1938

4:55 pm

Present:

Admiral Peoples  
Capt. Collins  
Capt. Kraus  
Mr. McReynolds

HM, Jr: I have had one hour and a half with Mr. Monnet and I want to tell you people briefly what I did on this financial end, so as to bring you up to date.

I had Taylor and Lochhead and Ed Foley. I told this to Mr. Monnet, 'If the French Government has the money, then you might just as well open up a deposit in the name of the French Government with the Federal Reserve Bank of New York and pay cash. If you are going to talk about credit, then you had better get out of the United States and go up to Canada, but why all this corporation and who is going to put up \$250,000 capital.' And why should they? I had him perspiring here for an hour. When I got all through -- if you want credit, then go up to Canada, but, I said, if you think that once the French Government goes to war that you are going to get any planes any easier by having a flimsy corporation, you are mistaken, but if you have the money -- I have found out, for instance, how the British have done it. The British, Bank of England authorizes the Federal Reserve Bank of New York, on presentation of certificates, as they progress on their 400 planes, on these certificates the Federal Reserve, acting for the Bank of England, just pays. It's as simple as that. It's perfectly ridiculous, I said, if you go to Canada and form a corporation, I want you to deposit \$10,000,000 with the Bank of Canada before we show you any planes.

I said, You have my wind up. I don't like this thing and I don't like to do it this way. In

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other words, up to now I can go up on the Hill and testify to everything. Everything you gentlemen have done, everything is above board. Talk about 95%, save 5% commission, and Mr. Monnet putting up \$250,000 for the love of France if the directors don't! He's back there now with Taylor and I just want to let you people know.

That's my responsibility, but I am certainly not going to be connected with anything that smells and I am going to make it, if I can, to make it impossible for a phony corporation. If it's a cash deal, they don't have to go to Canada. If they want a line of credit -- anyway I want to let you know what we are working on and before they see any secret planes I want this financial thing cleared up. I don't like to do business that way.

What have you got?

Capt. Collins: Very briefly, first they were interested in 167. Then their interest lagged in this. Then their interest picked up in the Martin. 167 is not in production; will be in five weeks.

HM, Jr: How fast a plane is it?

Capt. Collins: 301 miles per hour. Now this third plane is a combination of these two snifts. We come to the Douglass. Here is one on which the Army now has a contract and in which they say they are not interested. It is in production and can be turned out for them. Here's the secret one.

HM, Jr: The secret one that the Army does not want them to see?

Capt. Collins: That's right. We have a clearance on 7-b, but will have to have a clearance on this and the Army was quite upset about this information having gotten in their possession.

HM, Jr: All they know is that we have the plane.

Capt. Kraus: The plane has been built and flying

-3-

for some months. You can't hide it in your hat!

HM, Jr: They have not seen the design?

Capt. Collins: Nothing at all, Mr. Secretary. We had yesterday with us Larry Bell and John Brown of Brewster's. We drove a deal with them and they got together -- it was their own deal -- and the two of them combined will turn out the Brewsters. That's a very fast pursuit naval plane and we were accused of selling the Army down the river. To show we operated in good faith, Bell is going to sub in Brewster's contract. These quantities (indicating on tabulated statement) are monthly. These in the circle are production for the months.

HM, Jr: Don't worry about the Army. Louie Johnson called me up this morning, all excited. I asked him if he knew the Secretary of War had assigned an Army officer to be on duty 24 hours. He said he did not. I said he had better find out. I said we were acting under the President's orders.

Capt. Collins: This 167, which is <sup>the</sup> new one, and this will both require clearance.

vHM, Jr: Well, before I go to the President for any more releases -- I don't think we are ready for that.

Capt. Collins: No, sir; we don't want to have any releases until these gentlemen make up their minds they want any of these.

HM, Jr: And the French have to show me the money. I want the money on the barrel head.

Capt. Collins: Was there any objection to going ahead with their mission discussing these planes?

HM, Jr: That's all right, but don't show them any planes.

Mr. McReynolds: That's the only limitation, that they are not to inspect planes? The other arrangements, any preliminary arrangements they can make about possible mechanical developments, is all right?

-4-

HM, Jr: That's right.

Capt. Collins: All right to discuss with the mission these ships we have down here?

HM, Jr: You are not showing them designs?

Capt. Collins: No designs. No drawings. But we will tell them performances.

HM, Jr: That's all right.

I told them, Why all this mystery? The British come here, buy 200 Lockheed's, 200 from American Corporation, make open, decent financial arrangements. Why can't the French do the same? When they say, get 10 directors to put up a quarter million dollars for the love of France! As I told them, if they are going to pay commissions, I don't know where they are going to pay them, but they can't add to the price of the plane because if they do it will show up.

Capt. Collins: No way of hiding that.

HM, Jr: If they retain 1 1/2% of the gross price and put it in this corporation -- I think 1 1/2% is to pay expenses of the mission -- of the new mission.

Capt. Collins: Operating expenses of the corporation. But then any surplus, as I understand, -- 1 1/2% is 1/2% too much -- that 95% plus any other reverts to France when the corporation dissolves.

HM, Jr: On my suggestion. There is no excuse for a corporation unless they want a line of credit and then they can go to Canada. If the banks of Canada want to give a line of credit, all right, but our banks won't.

The Army major, did he show up?

Capt. Collins: Oh, yes! Major Fairchild.

HM, Jr: He's in on all this?

Capt. Collins: He is not in on the last two.

-5-

HM, Jr: But you are letting him sit in?

Capt. Collins: Yes. He was with us all day yesterday.

HM, Jr: Did you see General Arnold?

Capt. Collins: Yes. He came over with Fairchild.

HM, Jr: Arnold is still upset?

Capt. Kraus: Sure. I would be too. Treasury has no place in this. These are army planes and let them do it.

Capt. Collins: Who could coordinate the Army and Navy except the Treasury. Two Army people could not sit down with the Navy.

Paris, December 27, 1938.

Dear Mr. Secretary:

During our last evening on the Queen Mary, Mr. Hall Patch, the British Financial Counselor in China and Japan, mentioned Monnet, who had asked him to look me up. Hall Patch remarked that Monnet's organization in the Far East, the "Chinese Finance and Development Company", I believe it is called, was financed by two banks which were permitted to obtain the required funds from the Central Bank of China at 2 per cent, or ridiculously below the current charge for such loans. He added that the Chinese Finance Ministry does its good financing through Monnet's concern, and obliges the Central Bank to handle the bad financing. Monnet's firm, in turn, charges 14 per cent for discounting certain Government coupons, while the ordinary rate is 2 or 3 per cent. Hall Patch said Monnet's inside standing with Finance Minister Kung came through his close association with the son, I believe, David Kung. I first met Monnet at the luncheon which Ambassador Bullitt gave for Kung.

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

On my first visit at the Bank of France after my return, one of my friends brought up Monnet's name. He informed me that Monnet, through influencing General Manager Joussset of the Paris banking concern "l'Union des Mines" (who was formerly a French Inspector of Finance) in regard to investments of that institution, was responsible for resultant losses of 360 million francs. He said details in regard to Monnet's financial operations could be had from almost any well-informed Paris banker, and ventured the opinion that he would some day land in jail.

Monnet's name also came up in a conversation I have just had with a Paris Morgan partner. He said that some years ago, while Monnet was still with the League of Nations, the latter talked Morgans and Lazards into investing 20 million francs in a bank at Cognac, Monnet's home town I believe, with the understanding that Monnet would look out for their interests. When they finally got anxious and looked into the matter, the two Paris firms found they had lost ten million francs on the deal. My friend said Monnet was a smooth negotiator, but too smooth to have business dealings with.

Some day I might send you, for light reading, the story of Monnet's running off with the Italian wife of one of his best friends, Mr. Giannini, the representative in Italy for the Bank of America-Blair concern, with which Monnet was also connected. He had to take

- 3 -

her to Russia to get some sort of a divorce, and then obtained an American visa on the intervention, I believe, of our Ambassador.

I sincerely hope that you are now in good health again and that the New Year may be a happy one for you. We appreciated very much your good wishes of the Season, and particularly the attractive snapshot of the family on horseback.

With warmest personal regards, I am

Faithfully yours,

A handwritten signature in cursive script, appearing to read "B. Woodhouse". The signature is written in dark ink and is positioned below the typed name "B. Woodhouse".

December 28, 1938

4:45 pm

Present:

Mr. Monnet  
Mr. Gaston  
Mr. McReynolds (Mr. Taylor, part of the meeting.)

HM, Jr.: I'll tell you what I am doing. You are coming ahead of Mr. Welles, so will you sit down, please, and I want to save time and I want these gentlemen to hear about this.

I had a chance to bring this matter up at Cabinet. I reported to the President the message which I got from you in regard to this mission. And the point is, to be very brief, from the standpoint of the Administration we think, all around, it would be much better if this mission of the French Government to buy planes were open and public.

Mr. Monnet: If you feel that way, nothing could be better for me.

HM, Jr.: That's what I wanted Mr. Gaston to hear. The President said to make it very plain in the announcement that they are going to pay cash so there will not be the rebound and I think the best way to explain that would be, possibly, that the French Government say that they have this in their Budget.

Mr. Monnet: You will give me a chance of communicating with Paris on this to get the story exactly.

HM, Jr.: And I wanted Mr. Gaston to have it because he handles everything that has to do with the Treasury publicity.

Mr. Monnet: The announcement -- what you have in mind is that announcement be made ....

HM, Jr.: I want this thing out in the open, just the way the British did. The British sent a mission over here to buy some planes and to have it public knowledge.

-2-

Mr. Monnet: As I told you yesterday, and as I have told Taylor this morning, this decision of yours could not -- I am certain beforehand -- could not please Mr. Daladier more and all that has been done and the way it has been done has been done in the thought that that was what was wanted. That being your decision, I am extremely glad.

HM, Jr: It's the decision of the President. And the State Department are particularly pleased.

Mr. Monnet: Well, that's fine. It just could not be better.

HM, Jr: The State Department are particularly pleased. They say they would much it and the Secretary of War very much ....

Mr. Monnet: This is fine and, I tell you, I hoped for it. It could not be more -- I would not have dared to ask you.

The announcement would be that there is a French mission here for the purpose of buying planes and that the French Government has to pay cash. Those are the two points?

HM, Jr: I think it should come from Paris. Don't you think so, Herbert?

Mr. Gaston: Either from Paris or from the State Department, here. It could come from the State Department here. It could quite well come from Paris.

HM, Jr: I should think it would come from Paris.

Mr. Gaston: And if they asked about it here, the State Department or the Treasury could reply.

HM, Jr: The State Department could answer. We would not appear in it at all.

Mr. Gaston: "Various Government Departments are assisting in making contacts with various manufacturers."

(At this point, Mr. Taylor joined the group.)

-3-

HM, Jr.: I started to say that the President said that inasmuch as this was a cash transaction, by all means make it public. I told him that the State Department were particularly pleased and so is Secretary Woodring, so it makes it unanimous. I just had Herbert in to talk about the announcement. My own hunch was it should come from Paris.

Mr. Gaston: I think that's good. And how would it be simply to say that the head of the Mission will consult the United States Government before making its contracts?

HM, Jr.: Do you mind if I interpolate -- I would say the Mission was over here to buy planes and will meet with the manufacturers. Leave the United States Government out of it, entirely, and then if the State Department is asked "Is this a welcome Mission?" -- "Yes."

Mr. Monnet: I think, if I may suggest, I think in order, certainly in the first instance, it should come from Paris and Paris should not say anything about the American Government. They should say, as you say, about the manufacturers. Then you certainly will be asked questions.

HM, Jr.: Not the Treasury. Sumner. The State Department.

Mr. Monnet: The State Department.

HM, Jr.: It will be all right. Mr. Welles is entirely familiar. I can assure you that whatever they say will be friendly, because there is no question about that, because when I brought it up Mr. Welles said he would be most pleased to have it made public, so they are 100% satisfied.

Mr. Monnet: And the matter of cooperation with the Procurement we shall continue?

HM, Jr.: Yes, but you are to see the American manufacturers. This Mission is here just like any other Mission, except that we are volunteering to you our advice which is purely unofficial and about that nothing should be said.

-4-

Mr. Monnet: No. No. Of course, not. And to continuation of cooperation with Procurement, it will be just the same?

HM, Jr.: It will be just the same.

Mr. Monnet: That's fine!

HM, Jr.: Everything, Mr. Monnet, will be just the same, except the knowledge will be public.

Mr. Monnet: You know my feeling about that point and I am sure Mr. Daladier will be extremely grateful.

HM, Jr.: And somebody brought out, if they had a Canadian corporation the American manufacturer would begin to worry where he was going to get paid.

Mr. Monnet: As I told you, the Canadian corporation since it is not required, nothing could be more pleasing.

HM, Jr.: Then you can act right out in the open. And, another thing that may happen, most likely manufacturers may seek you out that you may never have heard of.

Mr. Monnet: That's another story. We don't want to hear of any more.

HM, Jr.: You think it over and Mr. Gaston -- good French name -- will be very glad to give you the same kind of advice that he would give me, and that's very good.

Mr. Monnet: The point is, should this announcement be immediate or should we wait until the visits to the plants have advanced so that we are nearer closing contracts, which will be a matter of a week.

HM, Jr.: (Talked to Capt. Collins on the phone.)

What he said, you most likely know, that they had three hours with your people on the proposed production schedule.

Mr. Monnet: I was there. I know.

HM, Jr.: And it's all over with General Marshall

-5-

and they hope by noon tomorrow to have an O. K. from the War Department on the planes you want to see, etc., and if, Mac (Mr. McReynolds) you don't get an O. K. from War Department, let me know and I will get on it.

Mr. Monnet: Let me tell you the nature of our difficulty and that is the model of 1939, in the supply of planes. Now, the types that can be got here and shipped, the unfortunate part is that they cannot begin to deliver before July so that instead of having from now to July it's really six months afterward, and that's where we are.

HM, Jr.: In other words, we are not much better off than you are.

Mr. Monnet: Yes you are, in the sense that on pursuits you are all right, but on bombers, they are short of motors. I don't think that we will have delivery by the end of the year of what they can obtain in this country, so as far as the end of the year is concerned this will be of little assistance. It really fails to meet the crucial point of the next six months, and that's where we fail. It falls on the vital issues.

HM, Jr.: What happens here, the way it has worked heretofore, when the Army makes up its mind it wants a plane, it has been three years to complete delivery.

Mr. Monnet: There is a bomber from Douglas and one from Martin.

HM, Jr.: But the B-17 is not in production?

Mr. Monnet: No. It will be ready for delivery in July or August and so will the Martin, the new bomber. So far as the Curtis is concerned, they are finishing a contract with the Army. They can begin near June, but can't be made in quantity to arrive there much before September. So I suggest in view of that, I would like to communicate your decision to Paris, but it's a question of timing now. That's all.

Mr. Gaston: You at least would want to get out your arrangements here before making an announcement.

HM, Jr.: I don't think there is any hurry about the announcement.

-7-

I would call down Sloan and say, What we want more than anything else, will you get ready to manufacture 2,000 or 3,000 motors a year; we will see that you are taken care of. Something like that. The orders are coming, but he is not going to extend his plant beyond 300 motors. It doesn't mean anything.

-6-

Mr. Monnet: If it could be done -- things have been kept so secret so far, -- if it could be done so that plans are determined, orders are practically placed, then we make the announcement better than, much better than, now.

Mr. Taylor: The announcement after you have placed the order.

Mr. Monnet: And without counting the calls that will be made to the French Government by the manufacturers in France.

HM, Jr: I would not press you on the announcement.

Mr. Monnet: So if you are agreeable to that, I would prefer to keep it secret until the order is practically placed.

HM, Jr: But you can tell the manufacturer, so you can tell them the money will be on deposit with the Federal Reserve Bank of New York. That saves all your corporations; all lawyers' fees.

Mr. Monnet: Anyway it saves from the point of view of Paris. They will be delighted.

HM, Jr: I am inclined to do everything to get this thing so it will flow and flow smoothly, but I can't manufacture planes. Well, let's see what the Army does with this thing. But you are all right now?

Mr. Monnet: Yes. Thank you very much.

(Mr. Monnet left the meeting.)  
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HM, Jr: This is the objective. The President of the United States says that we consider the marginal line our first line of defense and for that reason he wants these people to have this thing. Those are my orders. I think he's right and the more I hear about airplane manufacturers, the more I think there is something wrong somewhere. Here is the Allison Motors controlled by General Motors, total production for the year 300 motors. If I was really going to put my mind on this thing and we decided the Allison motor was the best motor in the world,

December 28, 1938.  
5:11 p.m.

72

WJr: Hello.

Operator: Captain Collins. Go ahead.

WJr: Hello.

Collins: Good afternoon, sir.

WJr: How are you coming along?

C: Well, Mr. Secretary, we've had the Frenchman down here for the better part of three hours today. Showed him that paper that you saw yesterday, which is simply a proposed production schedule.

WJr: Yes.

C: And they have a copy of that.

WJr: Yes.

C: I photostated it, and the copy was also given to Major Fairchild, representing the Army --

WJr: Yes.

C: And turned over by him to General Arnold.

WJr: Yes.

C: General Arnold sent Major Fairchild with that paper to General Marshall of the General Staff and General Arnold and General Marshall are to have a meeting tomorrow morning to consider the -- the B-7 plane which is being manufactured by Douglas.

WJr: Yes.

C: In our conversation with General Arnold this afternoon, he was not particularly concerned over that one sixty-seven made by Martin which was their new fast ship.

WJr: Yes.

C: And I did that after speaking to Mr. McReynolds thinking there was no use in disturbing you about any more clearances until we found out what the Army's reaction was going to be to this proposal.

WJr: All right.

C: And Mr. Monnet is very anxious now to get a clearance so that they can see this Martin ship in production.

This export ship -- they also want to see the Douglas and they also want to see the -- the new Martin ship, and they wanted to go to the Curtis plant, and we are stalling on that, of course, until after the outcome of the meeting of the War Department tomorrow.

SMJr: Well, can you press the War Department?

C: Sir?

SMJr: Can you press them?

C: Yes, sir, we will. If we do not get action tomorrow morning by ten o'clock, I'll be right behind General Marshall to see what's holding it up.

SMJr: O. K. All right. Thank you.

C: You are entirely welcome, sir. Good night, sir.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 29, 1938.

TO Secretary Morgenthau  
 FROM Mr. Taylor

Mr. Black of Agriculture came to my office this morning to discuss the drafts which he had prepared of the description of the wheat and cotton problems. We spent a little over an hour going over the various aspects of the problems and he will have new drafts in about a week. If these are satisfactory, I will send them down to you at Yuseppa Island. The wheat problem is not particularly serious, but the cotton problem comes pretty close to being National Headache No. 1. I won't comment on any of the aspects until we get the new draft.

I lunched with Bennett, who wanted to have a talk about a great many things, but more specifically various angles of the aviation problem. He was curious as to the implications of the conversation that he had had with you last night, particularly as to the time and manner in which publicity should be released by his Government. I maintained the position which you took last night, that that was a matter entirely up to his own Government and that we would be guided by their desire and, in fact, would give out no publicity on the matter until after his Government had acted and that even when the announcement, if any, would come through the State Department. He was particularly interested in publicity aspects, I think, for the more or less obvious reason that whereas he certainly doesn't need a nurse, he would like to have a chance to make all necessary arrangements for protecting his own position before any news of the contemplated purchases leaks out through official or unofficial channels.



December 30, 1938.

MEMORANDUM FOR THE PRESIDENT:

I attach a copy of a letter I have just written to the Secretary of War. Since I cannot undertake to guarantee the French orders, I am unable to proceed further in this matter so long as Secretary Woodring maintains his present attitude.

*Handwritten:*  
L.A. [unclear]  
Tolson [unclear]  
[unclear]

MCR:kcb

December 30, 1938.

Dear Mr. Secretary:

I am returning herewith your memorandum of December 29th in which you say that you have instructed the Chief of the Air Corps of the United States Army to furnish the facilities looking towards the purchase of certain secret planes by the French Government. You suggest that the secret developments involved in the military air production be revealed only on my assurance of purchase orders that are bona fide, financially and otherwise.

I cannot, of course, undertake to guarantee the French orders and I am therefore notifying the President that I am unable to proceed in this matter in view of the limitations you have imposed.

Sincerely,

*(Signature)*

Honorable Harry H. Woodring.  
Secretary of War.

*Handwritten notes:*  
Woodring  
12/30/38

WAR DEPARTMENT  
WASHINGTON

~~SECRET~~  
O. C. of S. by *hds*  
12/29/38

December 29, 1938.

77

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

In accordance with our agreement to the plan for French procurement of United States military plane types, based on reasons of state, and in response to the proposed schedule of production for the French orders, a photostat of which was furnished me by Captain Collins, via General Arnold:

I have instructed the Chief of the Air Corps, United States Army, to furnish the facilities looking towards the purchase of the Martin-166 and M-167 (Attack Bomber), the Curtiss P-36 (Pursuit), and the Douglas 7-B (Attack Bomber). He has been instructed to arrange for the inspection of the planes, including the revealing of the secret developments in our military air production, there involved.

In taking this action I would like to suggest the following provisos: That you, as Secretary of the Treasury, be assured, financially and otherwise, that the proposed inspections and revealings of military secrets are on the basis of a bona fide order to purchase. Also, that it be understood in the consummation of the deal that we must have the assurance that the French orders will be filled so as not "to interfere with United States new orders this spring".

Incidentally, any flying of these planes should be done at the risk of the French Government and the manufacturer.

*Attorney General*  
Secretary of War.

~~SECRET~~

December 30, 1938

12:50 pm

HM, Jr called Harry Woodring about the French planes. He explained to Mr. Woodring that he was very much disappointed that he, Woodring, had apparently undertaken to put him, HM, Jr, on the spot by writing a letter placing such limitations as he had on the program of assistance to the French. Woodring disclaimed any intention to be other than helpful and stated that he would destroy the memorandum which the Secretary had returned to him so that there would be no record of it. Secretary Morgenthau told him that in the memorandum which he had given the President about the matter no copy of Woodring's memo had been transmitted.

Woodring explained that the pressure from his own shop had been brought to him with the claim that not only his Army officers, but members of Congress were critical of the proposed action with respect to the French.

Secretary Morgenthau asked Woodring whether the Army had any objection whatever to showing the Martin planes to the French now. Woodring stated there was no such objection to showing the Martin planes. An agreement was reached that Woodring would immediately instruct the Chief of Air Service of the Army to make the Martin planes available to the French mission at once and that the question of showing the other planes, that is, the Curtis and the Douglas, would be discussed by Secretary Morgenthau and Secretary Woodring at the convenience of Secretary Morgenthau sometime within the next 48 hours and that no release would be given with respect to those planes until such conference.

\* \* \*

Mr. McReynolds, subsequent to this conference, informed Harry Collins of the current situation and, Collins having been notified in the meantime by the Army of the availability of these planes, arranged for showing the Martin planes to the French mission without further delay.

December 30, 1938

1 pm

HM, Jr called Assistant Secretary Taylor and asked him to call Monnet and say to Monnet that he, the Secretary, had decided that it was desirable for him, Monnet, to announce publicly through the newspapers that the French mission is here and the purpose for which it is here. HM, Jr said he would expect such an announcement in the press on next Tuesday morning. Mr. Taylor promised to communicate the Secretary's desires in this matter to Mr. Monnet, today.

December 31, 1938

10:20 a. m.

Present:

Mr. Monnet  
Mr. McReynolds

HM, Jr.: I want to talk very frankly to you. Our mutually good friend, Ambassador Bullitt, has put me in an almost impossible position on this work that you have done. I mean, I find myself now in the position that the whole United States Army is opposed to what I am doing and I am doing it secretly and I just can't continue, as Secretary of the Treasury, forcing the United States Army to show you planes which they say they want for themselves.

Now, I am going away Monday night, as you know. And if I am to do anything more on this end -- I got them to let you go up to Martin's, through a personal call. Your people are up there now. If I am going to do anything more on this thing, I have got to have this mission out in the open. It's got to be out in the open and if it isn't out in the open I am just going to call up Ambassador Bullitt and he will have to take it and do what he can from this point on, but I can't work with a secret mission when the Chief of Staff of the United States Army and the Chief of the Air Corps is opposed to it and it puts me in the position that I am trying to take planes away from them that they want and revealing secrets. I can't be put in that position.

Mr. Monnet: I appreciate it greatly.

HM, Jr.: It's all very nice -- Mr. Bullitt does this and then he leaves. He's Ambassador to France. I am not. Yesterday, in order not to have your people sitting here without doing something, I asked Mr. Woodring, at one o'clock, to let you go up to the Martin factory and he said he would issue those orders at once.

Mr. Monnet: I appreciate that.

-4-

HM, Jr: He wrote me a letter that was so unfair I returned it to him and I had to write the President about it. A most unfair letter.

Mr. Monnet: Really!

HM, Jr: I want to do everything, and I haven't lost interest, but the very fact it is secret, the regular Army have got me in an impossible position. Your Government has to decide one of two things if they want my continued cooperation. They have got to come out in the open and say a mission is here. If they don't want to do that, I will call up Bullitt on the phone and say I have gone as far as I can and he will have to take it from this point on.

Mr. Monnet: I appreciate ....

HM, Jr: It's -- you can reserve the thing at home.

Mr. Monnet: Look! To less degree, I have been put in the same position.

HM, Jr: But you are not a Government official. I realized, from the first time you were here I told you there was no advantage in going through all this camouflage. If your country went into war, under the present Neutrality Act you would not get the planes anyway; wouldn't get the parts. I told you that right from the beginning. I want you to have planes and will do everything I can, but I can't because the Army now has me in the position that I am doing something secretly that they are opposed to. I can't, as Secretary of the Treasury.

Mr. Monnet: I realize fully that you gave us more cooperation that I ever hoped would be possible from the beginning and I realize the difficulty you are put in at this moment. Honestly, I am surprised that those difficulties did not happen before. Of course, anything that -- we will do everything so as to adjust to conditions.

Let me say one thing, which may or may not affect what the decision will be. This mission came here with the definite object to get planes by July

-3-

or August. I understand that one of the types, the Douglas, I understand that the difficulty comes from one of the bombers.

HM, Jr: The B-7.

Mr. Monnet: The new Douglas bomber.

HM, Jr: Which has not been accepted by the Army.

Mr. Monnet: That's right. This was not shown. We have sent a confidential telegram to Paris suggesting that certain planes may be delivered over a certain period. We have not had a reply yet. I don't know, until we have this cable, that it isn't impossible; that this may not suit them. If it was so, Sir, it would eliminate itself. And there would be no difficulty. We would only finish on the basis we are, namely, the Martin and the Curtiss, for which the French are already buying some.

HM, Jr: Oh, are they?

Mr. Monnet: Under credits. The only difficulty is a new model, because the P-40 must be eliminated.

HM, Jr: Must be eliminated? They can't get it?

Mr. Monnet: They can get the plane, but not enough motors. The Allison motor manufactures 300 a year. That's out of the question, so they have to revert back to P-36 modified. They are already on order for the French, the P-36. All they need is the motor -- a technical question, whether certain fuel can be used or not used, so that is not a major difficulty. The major difficulty is on this Douglas bomber. If the French come back by their cable and concentrate -- which may well be; I don't know -- on the Martin and say that and the Curtiss, and the delivery date of the Douglas is too late, we leave matters as they are. If they come back and say we want to concentrate on the Douglas, which we should know today or tomorrow -- the result of our conversations I have telegraphed ...

HM, Jr: About the corporation?

Mr. Monnet: I have not only telegraphed, but I

-4-

have been to see the French Ambassador and I understand he may have seen Sumner Welles on this yesterday.

HM, Jr: I don't know.

Mr. Monnet: I don't know either, but he may. Anyway, the French know from me fully this position and I said that there was no need of this Canadian corporation; that you were willing to have made public the fact that the French would buy planes in this country; that the mission who would pass the order could come as an official mission, etc.

HM, Jr: That must have gone a couple of nights ago.

Mr. Monnet: Yes. So not only did I telegraph, but I telephoned, so that I would make it perfectly clear and no misunderstanding. They have not replied to me, but I have said to them that I was personally convinced that they would welcome such a solution and I have said so to you.

HM, Jr: Now, this thing may solve itself.

Mr. Monnet: So I wouldn't worry too much over this matter at this stage.

HM, Jr: You know, I am leaving Monday night.

Mr. Monnet: That's why I asked to see you this morning. If by Monday it is not cleared up, I will come back on Monday to see you.

HM, Jr: I am going to be here all day. It's no holiday for me. My office will be open Monday.

Mr. Monnet: I am going to New York, because my wife and family are there, and spend tonight with them, but I shall be back here on Monday and see you before you leave, so with all the news and cables, we can straighten it out.

HM, Jr: I want you to know how far I have gone. I practically had to order the Secretary of War to let

-5-

you people go up, but you know the Regular Army officers and you know what the Regular Army is in any country, and if you do something that they don't want and where it is done secretly -- if it was done openly, I would not object because then, so to speak, they haven't got anything on me, but I am in a false position because it's a secret mission. If it was public, I don't care. Let's understand each other. Your people went up there?

Mr. Monnet: They are there now.

HM, Jr: So they are seeing ....

Mr. Monnet: Oh, yes. That's all right.

HM, Jr: And on the Curtiss there is no trouble?

Mr. Monnet: It's not actually trouble. It's a question of special motor; whether that motor can meet the French requirements. The French only use 87 octane and whether that model will work on 87 I don't know. The planes we were discussing had motors built to use 100 octane.

HM, Jr: Is that the Curtiss?

Mr. Monnet: That's the Curtiss. So even if that doesn't work, they will take the B-36, 100.

HM, Jr: This may get down to Curtiss and Martin.

Mr. Monnet: Maybe.

HM, Jr: Well, personally, I would be very much surprised if they would wait for this Douglas, because until they get this thing in production I doubt if they would give you anything.

Mr. Monnet: They begin in July or August, but between July and August Douglas can deliver 85 planes.

HM, Jr: Then, of course the Army undoubtedly says, Well, those are the planes they want for themselves.

Mr. Monnet: I don't doubt it. I was surprised that this difficulty had not arisen before, because if it was in France, I am sure it would have occurred.

HM, Jr: The only reason why it didn't is because

-6-

I have taken extraordinary measures to force this thing through.

Mr. Monnet: I know. I appreciate it. I am grateful.

HM, Jr: I have done more than anybody else but the President himself.

Mr. Monnet: I will tell you further, my experience with the French Army people is if one gets into a jam like this if you try and force it you raise tremendous trouble.

HM, Jr: I don't mind forcing it if it is in the open. Then I will take my chances with the Army, but if it is secret, they have something on me as long as it is secret.

Mr. Monnet: Of course, it isn't really secret between you and them. It's secret as far as the public is concerned.

HM, Jr: They say it is secret as far as Congress is concerned.

Mr. Monnet: When it becomes public with Congress, what is it going to bring?

HM, Jr: It's all right. The French come over. The English come over. They buy these planes. We are a commercial nation. We like the business. Look at these headlines. (Chen's visit to Detroit.) "Chinese Makes Gift. General Motors and Chrysler arrange a big dinner for him." They like him so much, the man in Detroit says, You have to stay. I am going to give you a luncheon tomorrow. Then he's going on to Akron and they are going to fete him there. This is not accident. I can do the same thing for you people. Look at this clipping. I can get the same kind of publicity for you people. I can make it a very popular thing. This is not accident. Do you see what I mean?

Mr. Monnet: I do.

HM, Jr: Look at this picture of Chen.

-7-

Mr. Monnet: Yes, I saw that.

HM, Jr: Make a hero out of him. And that's the same thing -- I am not afraid. You will just have to weigh whether my judgment is good or not, and I can make this thing a very popular thing, but I can't do it as long as it is secret. They are feting, dining and wining Chen and making a hero out of him. What has he bought? One thousand trucks.

Mr. Monnet: The only thing that counts is that the French get planes, so that anything that needs to be done to remove any difficulty must be done. Are they going to say we want this Douglas bomber or are they going to say, Concentrate on the Martin. If they say concentrate on the Martin and the Curtis, then it is solved. Then if we find they concentrate on the bomber, then something has to be done.

HM, Jr: You ought to know by Monday.

Mr. Monnet: Yes. I have telegraphed and telephoned to Paris.

HM, Jr: We understand each other.

Mr. Monnet: But I don't like to press them to make up their mind on the Douglas because if I do they might concentrate on it.

HM, Jr: Leave it the way it is and Mr. Hanes will be back Monday morning and he will carry on from where I do, but he can't do what I do.

Mr. Monnet: I will either be here Monday morning or telephone you. I am sorry that this difficulty has arisen.

HM, Jr: It's all right. Everything is difficult. Happy New Year and happiness for your country for the coming year. What happened is, which pleases me very much, the difference between France -- the strong position they are taking and the weak position England is taking. It is more apparent every day.

Mr. Monnet: This airplane thing is common to

-8-

the whole European solution. Germany takes this threatening position because she knows that the other countries are afraid of being bombed internally and that they have not the means of retaliating. The moment the Germans know the others have a force for retaliating, it may change the whole situation.

HM, Jr: The President is back of you, but this is the position he is in. He says to me, I haven't got time to do this.

Mr. Monnet: I realize 100% the difficulties, so I am not surprised. What surprises me is they have not made trouble for you before this.

HM, Jr: They can't make any trouble for me. As long as it is in this position, I would wait for their cable. If it turns out the Douglas bomber is too far off for delivery, it makes this thing much easier.

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