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JUN 5 1940

Mr. Donald M. Nelson,
Washington, D. C.

Sir:

You are hereby appointed, effective June 5, 1940,
an Assistant to the Secretary, in the Office of the Sec-
retary. For such services as you may perform during
the period of your appointment you will be paid the sum
of \$1.00, from the appropriation, "Salaries, Office of
the Secretary".

You are hereby authorized, until further notice,
to perform the duties of Acting Director of Procurement.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

RENT:ms

Orig. file to Thompson



THE SECRETARY OF THE TREASURY
WASHINGTON

June 5, 1940.

My dear Mr. McReynolds:

On Monday, June 3rd, while lunching with the President, we came to a mutual understanding as to the future procurement of airplanes and engines for the Government. In this connection I am enclosing a copy of the President's remarks on the subject at his press conference on June 4th.

There is much of this business pending and I think it important that the instructions which the President gave to the Secretary of War and the Secretary of the Navy on May 24th be revised so that the authority which the President placed in me in coordinating these matters will, in the future, be vested in Mr. Knudsen.

In order to expedite this matter, I am enclosing herewith for your ready convenience copies of the President's memorandum of May 24th to the Secretary of War and to the Secretary of the Navy, which instructed that pending the setting up of final machinery this coordination would clear through the Secretary of the Treasury direct to the President.

In view of the great responsibility which I have been carrying in connection with these airplane and airplane engine problems I would like to receive formal notice from the President relieving me of this.

Yours sincerely,

Secretary of the Treasury.

File to Burdette
6-22-40

Honorable Willis H. McReynolds,
Administrative Assistant to the President,
The White House.

Copy to:

Mr. Knudsen
Secretary of War
Assistant Secretary of War
Chief of Staff, U.S.A.
Secretary of the Navy
Assistant Secretary of the Navy

Chief of Naval Operations
Admiral Towers
General Arnold
General Brett
Captain Kraus
Colonel Burns
Dr. George Mead

(with enclosure - copy of verbatim report of the President's press conference of June 4th)

May 24, 1940

MEMORANDUM FOR

THE SECRETARY OF WAR
THE CHIEF OF STAFF

Please let me have on Monday the program of requirements in aircraft by types which will be ordered as soon as possible as a result of the new legislation. I understand that the Army has placed orders for all of the 5,500 planes under last year's expansion program. I understand that the new legislation authorizes the purchase of 2,400 additional planes.

I understand that such a program of requirements by types has been initiated.

It is of the utmost importance that no contracts be entered into from now on either for planes or engines or for the development of new types of planes or engines without coordinating this with the general program as a rule.

For the time being, until the final machinery is set up, this coordination will be cleared through the Secretary of the Treasury to me as Commander-in-Chief.

Please see that this is carried out in toto.

F. D. R.

1-C

EXCERPT FROM PRESIDENT ROOSEVELT'S
PRESS CONFERENCE OF JUNE 4, 1940:

Oh, look! There is one thing I want to get in the record. You needn't bother to listen to it but I want Kannee to put this in the records of the press conferences. It has to be said and it doesn't affect the newsmen here at all.

About three weeks ago, about a week before I went up to the Hill with a message on National Defense, we started in to do some very quick surveying on certain subjects. One of them, for example, was the question of personnel. I asked Harry Hopkins to handle that, temporarily. Well, we got everything tied together so that we were able to get a general program. Another thing I turned over to him, temporarily, was this question of getting these materials together that we were short of in the country. Well, I worked on that for about a week and that was all solved and settled, practically.

At the same time I asked the Secretary of the Treasury to do a quick survey job for me on airplane engines, temporarily, and also on machine tools, temporarily. This was merely a survey so that we could put together with some intelligence our requests for appropriations for national defense. Now, the newsmen were not responsible in any way but there were certain commentators and certain editorial writers who proceeded to write absolutely false statements of fact against Hopkins and Morgenthau that they were going to run the national defense. Of course, they

knew that was not so, every one of them who wrote these stories. They were told, incidentally, that it was not so, that these various things would be turned over to the machinery which was being prepared at that time. When the Commission of the Council (for National Defense) was set up last week, of course, the original intention of the previous three weeks was put into effect. On airplane engine business, there had been a lot of work, very excellent clearing work had been done by Morgenthau and that was turned over to Mr. Knudsen, and the machine tool work was turned over to Mr. Knudsen, and Mr. Hopkins is turning over the personnel to Sidney Hillman and the materials--what do you call the materials?

Q. Strategic materials.

A. Strategic materials. The only thing that now remains outside the Commission of the Council is the coordination of the foreign government purchases in this country, which has, primarily, a financial aspect and that will remain in the general coordinating field of the Treasury Department, of course, letting both Mr. Knudsen and Mr. Stettinius know at all times what is proposed in the way of additional orders and also how the actual production and deliveries are going, of course, in accordance with schedule. The reason for keeping that in the Treasury is, of course, it is primarily financial and, secondly, because--what do you call it? The Allied Purchasing Commission has been working with the Treasury since the beginning of their purchasing program. So we proceeded in accordance with plan outlined a month ago and

I don't believe, on the part of these commentators or editorial writers, that there will be any apology or any retraction of the false news that they have been disseminating for three weeks.

Q. Thank you very much.

June 5, 1940

My dear General Watson:

I am inclosing herewith a memorandum which I would appreciate your reading yourself and then putting it in the hands of the President.

To get this surplus material cleared has been one of the most difficult undertakings and I am pleased to be able to report that at last the materiel is rolling.

Yours sincerely,

General Edward M. Watson,
The White House.

June 5, 1940

My dear General Watson:

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Yours sincerely,

General Edward M. Watson,
The White House.

Recy kept orig. of this 5
list & we made a
rubber copy to Jule Watson

CONFIDENTIAL

June 5, 1940

To: The Secretary
From: Mr. Young

Attached herewith is a list of the ordnance material released for sale or exchange by the War Department. The Anglo-French Purchasing Board has agreed to take every item listed, including the additional items added by the Chief of Ordnance.

Colonel MacMorland issued telegraphic instructions to the various Army depots last night to pack and ship the material listed to Raritan Arsenal (New Jersey) immediately.

Mr. Purvis made an urgent plea for tremendous quantities of additional small arms ammunition and for additional rifles if they could be released.

PT:bj

ORDNANCE MATERIAL TO BE RELEASED FOR SALE OR EXCHANGE

<u>Quantity</u>	<u>Item</u>	<u>Unit</u> <u>Sales Price</u>	<u>Condition (Estimated)</u>	
			<u>Serv.</u>	<u>Unserv.</u>
1,157	Cal..30, Lewis mach. gun, ground, M1917	\$ 33.92	18%	82%
7,071	Cal..30, mach. gun, Vickers, ground type	131.23	43%	57%
2,602	Cal..30, Marlin tank machine gun	74.35	67%	33%
15,638	Cal..30, Marlin airer. machine gun	23.16	94%	6%
5,124	Cal..30, Vickers airer. machine gun	33.92	70%	30%
38,040	Cal..30, Lewis aircraft machine gun	33.92	34%	66%
10,000	Cal..30, Browning machine gun M1917	215.49	Unmodified	
25,000	Cal..30, Browning automatic rifle M1918	60.76	Unmodified	
500,000	Cal..30, Rifle M1917 (Enfield), used	7.50	Serviceable	
395	75 mm Field Guns (British)	1,527.60	Serviceable	
308	3" Stokes Trench Mortars	12.50	Serviceable	
100,000,000	Rounds Cal..30 Ball Ammunition - per M	30.00	Deteriorated	
20,000	Cal..45 Revolvers	7.25	Serviceable	
1,000,000	Rounds 75 mm H.E. Shell	10.45	Deteriorated	
10,000,000	Lbs. TNT (per pound)	.15	Deteriorated	
8,693,000	Lbs. Smokeless Powder (bulk) for 155 mm Gun (per pound)	.42	Deteriorated	
1,000,000	Lbs. Smokeless Powder (bulk) for 155 mm How. (per pound)	.42	Deteriorated	
97,680	Rounds Shell H.E. for 3" Stokes Mortar	1.26		

ADDITIONAL ITEMS ADDED BY CHIEF OF ORDNANCE 6-4-40Accessories for Browning Machine Gun M1917

100,000	Ammunition Belts	1.81
100,000	Ammunition Chests	3.60
10,000	Water Chests	12.90
10,000	Steam Condensing Device	1.96
3,333	Belt Filling Machines	48.69
10,000	1918 Tripods	26.00

Accessories for Browning Automatic Rifle M1918

1,000,000	20-Round Magazines	.95
-----------	--------------------	-----

Accessories for 75 mm Field Gun (British)

600	Caissons	125.00
600	Caisson limbers	75.00

NOTE: All prices are "as is" and "where is", exclusive of packing, handling, and shipping charges. Any reconditioning must be effected without expense to the U. S. Government subsequent to sale and removal from War Department depots and by non-War Department agencies.

June 5, 1940

part of the material left by Purvis with Hon at 10 am meeting today.

My dear Cordell:

I am inclosing herewith photo-static copies of the two memoranda on alloy steel and molybdenum for Italy about which I spoke to you on the telephone this morning.

Yours sincerely,

Hon. Cordell Hull,
Secretary of State.

June 5, 1940

My dear Cordell:

I am inclosing herewith photostatic copies of the two memoranda on alloy steel and molybdenum for Italy about which I spoke to you on the telephone this morning.

Yours sincerely,

Hon. Cordell Hall,
Secretary of State.

June 5, 1940

My dear Cordell:

I am inclosing herewith photostatic copies of the two memoranda on alloy steel and molybdenum for Italy about which I spoke to you on the telephone this morning.

Yours sincerely,

Hon. Cordell Hull,
Secretary of State.

Washington, D. C.

June 5, 1940.

ALLOY STEEL FOR ITALY

We are advised that Italy has outstanding in the United States Alloy Steel orders of vital importance to her war potential. The fact that, against her standard practice, she is now buying these steel alloys in the finished form is a proof of the urgency of her needs. It is understood they are required for aeroplane manufacture and the extent to which Germany's requirements are involved is of course difficult to assess.

The orders on hand with the five most important steel companies, i.e. with Republic Steel, Crucible Steel, U. S. Steel, Bethlehem Steel and Timken Roller Bearing of Canton, Ohio, have a total value between \$4,000,000 and \$5,000,000.

It has been ascertained that the steel companies in question would be prepared not to ship this steel if it were intimated to them that it is against the United States Administration policy that such aircraft steel should be shipped out to Italy.

Actually the Allied Governments are prepared to buy this steel themselves as they themselves have need of it for aircraft purposes.

MOLYBDENUM FOR ITALY

Italy has already purchased this year enough Molybdenum to take care of more than her total domestic requirements. There is every reason to believe in fact the producers themselves strongly suspect) that she is buying for Germany.

There are two shipments projected in the near future amounting to some 200 tons which it is understood the producers would be quite willing to refrain from shipping if they thought this was in accord with U. S. Administration policy.

In the present circumstances, would it be possible to stop these shipments?

It may be of interest to note that all the producers have recently agreed not to accept any further orders for Italy, so only the outstanding shipments referred to are in question.

Washington, D. C

June 5, 1 40.

CONFIDENTIAL

June 5, 1940

To: The Secretary
From: Mr. Young

THOMPSON SUB-MACHINE GUNS

I have been advised by the Office of Admiral Spear that the Navy has on hand 426 new Thompson sub-machine guns at a book value of \$321.00 each. If orders were received from the proper authority, these guns would be released for transfer, provided that the Navy received the money for replacement orders.

Under existing legislation, it is possible for these guns to be transferred from the Navy to the Army, but the pending Army authorization bill would have to become law before the Navy could receive the exchange value of these guns for replacement orders.

Colonel Burns informed me that the Army has no Thompson sub-machine guns to release.

TNT

Colonel Burns informed me tonight that, although the War Department could not release delivery on 1500 tons of new TNT as requested by the Anglo-French Purchasing Board, it would release immediately 3500 tons (7 million pounds) of grade 3 TNT. It is my understanding that this TNT to be released, although old, is in serviceable condition.

ARMY MACHINERY

I was advised by Colonel Burns that the War Department had no objection to the release of the powder machinery, including the nitro-cellulose and ammonia oxidization equipment, over and above that machinery needed for the new Army

- 2 -

powder plants. I have not yet been able to determine how much of this machinery will be so utilized.

Mr. Cox is working with General Gullion and Colonel Cramer of the Army on a procedure for the legal transfer of such equipment.

A.Y.

CONFIDENTIAL

June 5, 1940

To: The Secretary
From: Mr. Young

CURTISS-WRIGHT CORPORATION

The British have exercised an option dated May 31, 1940, for 1,450 propellers (three different models), including 10 per cent spare parts. This contract has a total value of \$7,456,000 with delivery scheduled from September 30, 1941, through December 31, 1941.

The French exercised an option dated May 31, 1940, for 1,890 propellers (two models). Total value of the contract amounts to \$8,240,000 with delivery to be made some time during 1941 (exact schedule not yet available).

The total value of these contracts amounting to \$15,696,000 includes \$1,000,000 of development costs heretofore incurred by United States Government.

In addition to this total value, \$2,080,000 has been contracted for expansion of plant capacity, \$245,000 for personnel training and overtime, and \$336,000 for income taxes.

The total value of these contracts plus capital assistance items amounts to approximately \$18,357,000.

NORTH AMERICAN AVIATION

On May 28, 1940, the French contracted for 450 NA-76 trainer airplanes, and 550 Pratt & Whitney 1340 S-3H1 engines. Delivery of this order to start August, 1941, and to be completed in June, 1942, (for the airframes) and August, 1942, (for the engines). Total value of the contract amounts to \$16,386,000; no capital commitment involved.

Ry.

June 5, 1940

CONFIDENTIAL

Dear General Arnold:

Based upon your conversation with Mr. George J. Mead this morning, and at his direction, I am returning herewith your memorandum to the Assistant Secretary of War under date of June 1, 1940, in which you discussed the advisability of placing an educational order with the Ford Motor Company for the fabrication of P-38 (Lockheed) two-engine pursuit airplanes, together with a letter from Assistant Secretary Johnson addressed to Secretary Morgenthau of the Treasury.

It is Mr. Morgenthau's understanding that this disposition of the matter is satisfactory to you as you do not desire any action to be initiated at present.

Sincerely yours,

(Signed) S. M. Kraus

S. M. Kraus

Enclosures

Major General H. H. Arnold
Chief of the Air Corps
War Department
Washington, D. C.

cc: Hon. Henry Morgenthau, Jr.

G
O
P
X

June 3, 1940

Dear Mr. Secretary:

What do you think of attempting to give Ford the educational order set forth in the attached memorandum?

Sincerely yours,

(Signed) Louis Johnson

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department

CONFIDENTIAL

War Department
Office of the Chief of the Air Corps
Washington

17

June 1, 1940

MEMORANDUM FOR: The Assistant Secretary of War

SUBJECT: Educational Order for Ford Motor Company.

1. The discussed emergency airplane procurement programs indicate a requirement for approximately 2600 two engine pursuit airplanes. The P-38 airplane manufactured by the Lockheed Company is the only airplane of this type now in production in this country. The Lockheed Company's capacity is largely obligated for the production of export bombers.
2. The immediate placing of an educational order for this model of airplane is essential to expand productive capacity to meet indicated requirements. Statistical data indicate that the P-38 airplane as now fabricated by the Lockheed Company requires an excessive number of man-hours compared with other similar types. The Ford Motor Company's previous experience in the construction of all metal airplanes and their experience in mass production in the automotive industry is considered to qualify the company as a logical source of additional capacity for this type of airplane.
3. It is recommended:
 - a. That authority be granted to negotiate with the Ford Motor Company for the placement of an educational order for the fabrication of the P-38 (Lockheed) two engine pursuit airplane.
 - b. That the negotiations provide options which may be exercised to secure the necessary production tools.
 - c. That funds in the amount of \$750,000 be made available to provide for the cost of re-engineering to facilitate the application of mass production methods.
4. If the foregoing be approved it is recommended that no announcement be made pending the completion of negotiations with all interested individuals, including the Lockheed representative.

H. H. Arnold
Major General, Air Corps
Chief of the Air Corps

June 5, 1940.
10:15 a.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Bloch-Laine
Mr. Ballantyne
Colonel Jacquin
Mr. Nelson
Mr. Young
Admiral Spear
Colonel Burns

H.M.Jr: Shall we start right in? What I have done is this: I have invited for 10:30 Colonel Burns, who has been put on this committee in place of the Quartermaster General and Admiral Spear, so they are coming in. I thought they could sit here, and incidentally, Colonel Burns has been assigned to be Aide to both Knudsen and Stettinius, so that makes it perfect.

Purvis: Yes, perfect.

H.M.Jr: So they are coming in to sit in on this meeting.

Young: May I make one comment?

H.M.Jr: Please.

Young: The telegraphic orders to start the T.N.T. and the smokeless powder rolling were not issued due to the objection by the Chief of Staff that he did not wish to have a hundred and twenty carloads of T.N.T. sitting in such a congested area as Raritan for an uncertain period of time. However, warning telegrams were sent to have the stuff ready for shipment, so all they have to do is just put it on the car and it will come.

H.M.Jr: In other words, it is up to the Allies to let them know when they have got a shipment ready.

Purvis: From my knowledge, that sounds extremely sensible.

- 2 -

- Bloch-Laine: The first thing would be who would we put in charge to get in touch with all those movements of trains and things. We can't --
- H.M.Jr: Well, may I make a suggestion? No. 1, that I would work out with Mr. Nelson afterward and with Colonel Burns that situation.
- Nelson: Yes, sir. Can we not, Mr. Secretary, use Mr. Budd and his group in arranging that?
- H.M.Jr: Fine. This thing, if the Allies will appoint somebody and then afterwards, Mr. Nelson has the room next to Philip Young, and afterwards -- just that question --
- Nelson: We can take all those questions and get them settled.
- H.M.Jr: Mr. Nelson and Mr. Young. The two of them will continue it. As they say, I will pass that one. Anything else, Phil?
- Young: No, sir.
- H.M.Jr: Now, Agenda. "Supplies: Small Arms Ammunition.... (See memorandum)."
- Purvis: Would you like to glance at those? They are, none of them, long. I thought we would just take a series of things.
- H.M.Jr: "Amongst the stocks which we arranged to purchase yesterday were some 80,000 machine guns, 25,000 Browning automatic rifles, 500,000 Lee Enfield rifles." And those are all .30 calibre. "Normally a minimum of 10,000 cartridges per machine gun and 1,000 cartridges per rifle are required.
- "The complement of small arms ammunition for the above would therefore be of the order of one billion three hundred million cartridges."
- Purvis: That would bring us to three hundred fifty million against what would be a normal complement of one billion three hundred million, but on the other hand we realize there is a shortage

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and it is only an appeal for a little further help in that very important line.

H.M.Jr: Again, take that up with Burns.

Purvis: Yes.

H.M.Jr: And don't think I am just side tracking - go ahead, Phil.

Young: This particular problem of small arms ammunition, .30 calibre is now being studied and looks hopeful even since last night.

Purvis: Thank you very much. We entered that plea but I thought that as everything else had gone very well --

H.M.Jr: But I want from now on twenty-four hour service instead of one day.

Purvis: Incidentally, he has been doing pretty well.

H.M.Jr: Who?

Purvis: This fellow.

H.M.Jr: Oh, Phil? He is swell, I am talking about the Army. I think the Treasury is good.

Purvis: I think the Treasury is fine.

H.M.Jr: No, I am talking about the Army. I mean, there is no reason why a question like that can't get an answer in twenty-four hours.

Young: It looks hopeful.

H.M.Jr: All right.

Airplanes: "We have received further cables expressing great anxiety as to the possibility of obtaining immediate release of 100 or more Al7A Northrop Dive Bombers, 200 P36 along with any quantities of pursuit planes and bombers which could be made available."

Now, where are those Northrops? Are those Army or Navy?

Bloch-Laine: Army.

H.M.Jr: The reason I wanted Colonel Jacquin was this, Colonel. I don't think you can get these Northrops, but you can take it up with the - this committee when you leave the room, but I have got another idea which I want to handle alone; and if you will tell me about it - I am seeing, very confidentially, at a quarter of twelve, Admiral Towers, and I have asked him whether he would look over and let me know - Admiral Towers and Captain Kraus - if they would start with their oldest dive bombers that they have got, the very oldest, and how many of those could they spare, give them to manufacturers, and get other ones for immediate release.

Jacquin: Yes.

H.M.Jr: Are you familiar with what the Navy has?

Jacquin: No, I am not familiar with that.

H.M.Jr: Would you mind being back in Mr. Young's office at a quarter of twelve in case I say - in case they say this is what they have got, I can tell it to you.

Jacquin: Yes.

H.M.Jr: But if it is fairly recent stuff, wouldn't you - and you could get it at a reasonable price, wouldn't you be glad to get it?

Purvis: I should think the answer is definitely yes.

H.M.Jr: I mean, the dive bombers are a Navy creation, you know, it is not an Army creation. It is a Navy creation. If I could start with the stuff that they have on hand and could get that for you immediately - they turn it in to the manufacturer and the manufacturer would give it to you. That, I think, is feasible. This other thing we can try, but I am not very hopeful.

Jacquin: On this paper you will see that we are asking delivery dates on the Navy dive bombers.

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- H.M.Jr: We will have to study this, but I was thinking of something that I might be able to get you in the next day or two.
- Purvis: Yes, quite.
- H.M.Jr: But this combat thing, we will have to study. This is the best shape you have ever presented it to me in. I think you did it to make a good impression on Mr. Nelson.
- Purvis: That is a thought there. I said the same thing this morning. You let the cat out of the bag. The only thing is, they changed the paper on me on the way, after I had changed it another way.
- H.M.Jr: Now, this comes from the President at 9:35. Here is a message from Mr. Bullitt.
- "I urgently request Thompson Machine Guns. Can you take 5,000 from the stocks of the Navy or at least a thousand -" I mean he says, "well, I will take a thousand - five thousand or at least a thousand - and send them in the most rapid manner to Paris." Well, I will take this up with Admiral Stark, myself, see.
- Purvis: Yes.
- H.M.Jr: I will take this up with Admiral Stark myself. I take it if we can get it, the fact that Bullitt asked for it three times now --
- Purvis: A check will be in the hands --
- H.M.Jr: This is Thompson sub-machine guns.
- Purvis: We are trying to get every one we can.
- H.M.Jr: Now, the next thing, "A certain amount of bombs, and ammunition, as otherwise the planes would be of no use for a long time." Is that the same stuff?
- Purvis: It is the same stuff, and the Chief of Staff said last week - and that is the reason I am

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bringing it up again - it means much earlier deliveries and he was much more hopeful, apparently, that something could be done, because after all, he said, this was bought for an emergency and yet it seems impossible to get it direct since it is potentially there for the Army to use, and if ever an emergency arose, this is the one.

H.M.Jr: Well, I think after you gentlemen get through here, if you adjourn down to Mr. Nelson's room and take Admiral Spear and Colonel Burns with you, and take this memorandum with you --

Nelson: We will go through it, piece by piece.

Purvis: My understanding is that both - I don't know about the Navy, but the Services are very anxious to get it. It is purely one of these legal works which is holding this thing up.

H.M.Jr: If it is legal, then get our good friend Ed Foley in this.

Young: That is just what I had in mind. I would like to see our own legal staff working on that question.

Purvis: The Chief of Staff thought that one very hopeful thing might be that the United States Administration might own the equipment in the plants of the makers in special circumstances.

H.M.Jr: In the room, it is our own legal staff who worked out this surplus thing, you know that.

Purvis: I suspected it.

H.M.Jr: That opinion was written - the opinion of the Solicitor General was written at the other end of this hall.

Purvis: I see.

H.M.Jr: So I mean, when you get ready, get Ed Foley in to be with you.

"Trinitrotoluol: When I last saw General Marshall

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on May 31st, he indicated - ", incidentally, I talked to General Marshall this morning and he is simply delighted that Colonel Burns is going to work on this committee. He says he is the best man and it is going to be helpful to him to have Colonel Burns.

Purvis: Yes, quite. We are delighted.

H.M.Jr: "When I last saw General Marshall on May 31st, he indicated that in addition to the 5,000 tons of old stock trinitrotoluol (which we have since been given the opportunity to acquire) it might be possible to let us have priorities during the next few months on delivery of 1,500 tons of new trinitrotoluol with the understanding this will be replaced in a few months' time when our new factories come into production.

"It would be very valuable if this priority could be granted us."

Purvis: That would enable us to make use of it for shells. The others are good for shells.

H.M.Jr: Did you see that Mr. Parrish from the Standard Oil of New Jersey said he could make T.N.T. - the president of Standard Oil of New Jersey said that he could make any quantity of it?

Purvis: We are going to need a great deal. Bombs have got to be made on this side of this side of the water and we have got to add tremendously to the quantities. I will follow that up.

H.M.Jr: Standard Oil of New Jersey.

Purvis: They can make toluol, too. Of course, they have cracking refineries and the trinitrotoluene is merely another step.

Nelson: He said yesterday they were prepared to make any quantity for the Government that they want.

H.M.Jr: Just let me stop here a minute before these other people come in. The other thing that I wanted was this, Mr. Edsel Ford telephoned yesterday that he - he has changed his mind and his engineers now say that they can do

Rolls Royce. They have changed their mind, although we have this - this Hispano is on its way over.

Jacquin: I don't know.

H.M.Jr: Oh, I got the cable.

Jacquin: You have an answer on that?

H.M.Jr: Yes, didn't we give it to you?

Purvis: You told me yesterday, yes.

H.M.Jr: It is coming over, the Hispano, but we here feel - we may be wrong - that the Rolls is better. What do you think?

Jacquin: Oh, I think the Rolls is better.

H.M.Jr: Good. Well, then, would you - could you get me an answer by Monday morning that if we go into production in Rolls, whatever the latest model is - I guess it is the --

Jacquin: The Merlin --

H.M.Jr: It is one we have got here.

Bloch-Laine: The Merlin?

H.M.Jr: Yes. Pieces of it are right downstairs here, if you want to see it. Incidentally, we have got the crankshaft of the Rolls alongside the crankshaft of the Allison. They are downstairs if you care to see them. It is very, very interesting to see them and the connecting rods. They are both there.

Purvis: The Merlin 20, I think, was what you had. However, that is details.

H.M.Jr: Well, you could get - arrange, Phil, that he (Jacquin) sees George Mead so he will know which one it is. It is the one which is over here now. Which is the one we have over here now?

Purvis: I am not sure whether you have a Merlin 12 or a Merlin 20 has since come in or whether the

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things are the same.

H.M.Jr: Well, get the thing, because what I would like to know more than anything else, is how many would the Allies like to have, if any, per month, of Rolls Royce engines, see. Edsel Ford is supposed to be coming back here Tuesday, and again, very much in this room, he dropped a remark that he might be willing to make it for the United States Government. He didn't know whether he would make it for the Allies. I told him that the British Government had done me the honor of giving me the patents, and I wouldn't give him the patents unless he would make them for the Allies, and furthermore - he said, "Well, I will tell you, we could maybe sell them to you and then you could sell them." I said, "Nothing doing, I want a yes or no." He wants to manufacture for the Allies or he doesn't. If he doesn't want to manufacture for the Allies, I certainly wouldn't give a license to Ford to manufacture an English engine which he wouldn't make for the Allies.

Purvis: What is his objection to us?

H.M.Jr: Well, look at the decoration his father has from Hitler. What do they call it, "Black Eagle" or something? He and Lindbergh both have the same.

Bloch-Laine: I think they have the same.

H.M.Jr: They have the same, but we are doing a little gossiping here, but by Monday, gentlemen, do you think we could have an answer?

Purvis: I was speaking on the telephone this morning and he was all prepared to come down and talk - but this you want especially for Monday --

H.M.Jr: I want to know Monday if we go into production, how many you want per month.

Jacquin: I know the number for the French, eight hundred.

Purvis: Eight hundred a month, well, it will be easy--

H.M.Jr: You want eight hundred a month?

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Jacquin: Yes.

Purvis: It will be easy to do that. My experience with Jacquin, when he says he knows what the French want, he knows it very well.

H.M.Jr: Well, I don't have to wait until Monday. I love to be rushed.

Purvis: Well, we will see if we can get it in a rush.

H.M.Jr: Can't you get it right from Lord Beaverbrook?

Purvis: I have already got some of it.

H.M.Jr: There is no trouble. I mean - this fellow Olley, he is here, he knows. He knows what we have got and he knows - he talked 45 minutes, \$247.50 worth of my time to his factory, so he ought to know.

Purvis: I gathered it was a long telephone message.

H.M.Jr: Yes. I don't know what was the matter with the British Embassy telephone. He must like mine better. But you want 800 a month?

Jacquin: Eight hundred a month.

Purvis: Beginning when?

H.M.Jr; Tomorrow?

Jacquin: Yesterday.

H.M.Jr: "Recently we have found difficulty in getting machine tool manufacturers to accept orders we have wished to place with them.

"We now see from press notices that the Administration has put an embargo on the export of machine tools from the United States. If interpreted as applying to Allied orders, such an embargo might have a vital effect in slowing up production in Allied countries, and so make a material difference to the war situation."

Well, the answer is this: In order to be strictly

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neutral, most likely they are going to take one tool that is going to the Allies that you most likely couldn't possibly use, and one tool that is going to France, and then they can say they have taken a little bit of everything, but the orders that they have got is not to take your stuff.

Purvis: I see.

H.M.Jr: This is on machine tools. I say, the orders are they may take one French tool and one English tool and then say, "Look how neutral we are," but I think you have got to watch that Navy crowd. This Captain Almy - this again would be Knudsen, but this Captain Almy has got a long arm. I think he might grab something. His orders were not to grab your stuff.

Purvis: Thank you, that is all we want.

H.M.Jr: But I wouldn't guarantee it. I think --

Purvis: We should be watchful.

Young: Japan and Russia don't like it either.

Purvis: That will break my heart.

H.M.Jr: I read this "B" before, Combat Planes.

Purvis: This is the one that was changed. That is probably where you got it. I gave you an extra one. This is the one that was changed when I was on the telephone.

H.M.Jr: Then this should come out, shouldn't it?

Purvis: I think I shall have to fix up your sheets by mail and give them back to you.

H.M.Jr: But that is the wrong one, isn't it?

Purvis: This is the right one, but you have got another copy of it. I gave you another copy.

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H.M.Jr: Is this the right one?

Purvis: No, the second sheet.

H.M.Jr: "We are advised that Italy has outstanding in the United States, Alloy Steel orders of vital importance to her war potential. The fact that, against her standard practice she is now buying these steel alloys in the finished form is a proof of the urgency of her needs. It is understood they are required for airplane manufacture and the extent to which Germany's requirements are involved, is, of course, difficult to assess."

Mr. Nelson, ask any questions you want.

Nelson: Thank you, sir.

(Admiral Spear and Colonel Burns entered the conference.)

H.M.Jr: Let these gentlemen read this thing. While you are reading this, I am going to ask to be excused. I want to get a little guidance on Italy, and I will be back in the room in a minute. So possibly - Colonel Burns and Admiral Spear, what we are trying to do here, we are doing a little bit differently. The Allied Purchasing Commission have come in and given us an Agenda, and we are going over it. They I give them my reaction and then I thought you would adjourn down the hall with Mr. Nelson and Mr. Young and sit down and take pieces of this at a time, and then we could follow through and work that way. Some of it has to go over to Knudsen and some goes to Stettinius, and so forth and so on, but I know if we can work this way we can get results. If you will just excuse me a minute, I will be back.

(The Secretary and Mrs. Klotz retired briefly from the conference.)

H.M.Jr: Mr. Purvis, do you know where there are any shipments in the next couple of days on Alloy Steel for Italy?

Purvis: The one that was going immediately, I understand on the telephone from Mr. Blume, they had decided to sell to us, that particular shipment. There was a car on the road to the Seaboard, 50 tons. He held it over Sunday. I got a cable Sunday morning. They agreed this morning to sell it to us.

H.M.Jr: Anything else?

Purvis: There is nothing, I think, that wouldn't have taken a week or so to build.

H.M.Jr: Because if, as I understand it, the bill will pass in two or three days, so if there is any particular shipment that you think might slide through this week, we would be glad to help you.

Purvis: I think we can probably take care of it under those conditions. May I count on you if I need you and not if I don't?

H.M.Jr: If you need any help, until we get this law through Congress, we will help you. But then, as of today, you don't need any help, is that right?

Purvis: I think that is right. It is up to us to come to you if we really need it for the next two or three days.

H.M.Jr: That takes care of Alloy Steel.

Now, molybdenum. Are there any shipments on that?

Purvis: There are two shipments. I have managed to get the producers to agree not to take any more orders, but there are two shipments at the moment which are very near to going. One of them, I think, will not go until the 15th, which will be all right from the point of view of what you are talking about. The other one I had better check again in the light of what you are saying. Let us perhaps come to you only if it is really essential. I will check on the other shipping date.

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H.M.Jr: Right. In other words, what I am asking is, between now and Monday if there is any shipment of either molybdenum or special steel and you would like us to use our offices behind the scenes --

Purvis: I see exactly.

H.M.Jr: We are ready to do it.

Purvis: I will check immediately on that, and we will hope it doesn't become necessary.

H.M.Jr: Okay.

Purvis: Fine. That answers point three, perhaps, the status of legislation.

Spear: That was on your C-2, your Agenda here.

Purvis: Yes. C-3 was to ask the status of legislation and you told us that.

H.M.Jr: C-4 is tungsten.

Purvis: Tungsten is merely a report. There is nothing to be done there. It is merely a report -- I cabled immediately last night.

H.M.Jr: Going back to it again, this thing gets down to planes and ammunition.

Purvis: Small arms ammunition, planes, and their equipment and the trinitrotoluene.

Burns: You would be just as well pleased to get some more of that TNT?

Purvis: Absolutely, anything that you can release we will take it all just like that.

H.M.Jr: Well --

Purvis: And nitrocellulose, probably the same way.

H.M.Jr: Well, the next thing to do is to go down to Mr. Nelson's office.

Nelson: And we will arrange the details of it.

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- H.M.Jr: And Mr. Young will go with you. Did you (Jacquin) learn anything about the engines?
- Jacquin: About what?
- H.M.Jr: You don't know anything about the engines?
- Jacquin: You mean the number of engines?
- H.M.Jr: Oh, one other thing, weren't you going to talk about engines for Canada?
- Purvis: Well, I am a little worried about Canada in this way. I have delivered to Mr. Mead last night the memorandum on the trainer situation for France, Canada, Australia. England hasn't got any demands or requests to make, so he now has that. I don't want to --
- H.M.Jr: I want it, please.
- Purvis: Yes. All right, I didn't want to bother you about it until he had digested it, but I will give it to you immediately.
- H.M.Jr: No, if you don't give it to us, we can't push it.
- Purvis: True. I will see that copies are delivered immediately. I am a little worried about Canada for this reason, that the new munitions supply has come in very well in a very co-operative manner, but it just happens that the first two things he has asked whether we could help him with, we have really been the cause of his being held up. Otherwise, his Jacobs engine order is held up. I wondered whether it would be possible to let them put it all over the Jacobs, say for the next two or three months. The quantities are very small while the thing is being worked up.
- H.M.Jr: Could you, while you are back, send for a copy of this memorandum and put it in the laps of these gentlemen?
- Purvis: We couldn't get it photostated, I suppose, because I don't think we have any more copies over here.

H.M.Jr: Well, Mead's offices are still in the building.

Purvis: Yes, have you a copy by any chance, Bloch-Laine?

Young: Do we have a copy of it?

H.M.Jr: No.

Purvis: What happened, Mr. Young, is this: When the Secretary called for me yesterday on the telephone, they were preparing the memorandum. As I ran to the elevator to try to catch a plane, they handed me the only copy which was finished, and that was the original which was addressed to me and that was the one I showed you yesterday afternoon, but the copies haven't come down because of the confusion of our leaving last night.

Young: I gave it to Mead this morning. We can get that back.

H.M.Jr: I think while you have everybody together you ought to make the most of this opportunity.

Purvis: Very good.

H.M.Jr: And if it is a question of clearing for a couple of months, I am sure you can get a clearance. You ought to get it right away.

Purvis: I think it would be a very good thing.

H.M.Jr: For the morale.

Purvis: Yes.

H.M.Jr: I think you ought to get a clearance right away, and I am afraid - you see, Mr. Knudsen just coming down - they tell me he is so bogged down and Mr. Mead, I think his group will all move over there, so if you just want a few engines, I don't see why you can't get a clearance on them.

Purvis: It is really all it is, is tell Jacobs they can go ahead for the time being for the next two or three months.

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- H.M.Jr: I should think they could get a clearance on Jacobs, because the figures that I have seen so far, neither the Army or Navy want anything from Jacobs, what I have seen so far.
- Purvis: Well, if we may take that up with - Mead along that line of thought, I think it would be --
- H.M.Jr: Well, I would give it to this group.
- Nelson: We will take care of it.
- H.M.Jr: Mr. Nelson, Colonel Burns, Admiral Spear, give it to them so that they can fight your battle.
- Purvis: Yes, excellent. The only reason we sent it to Mead was that after we left your room the other day before Mr. Nelson came, we went straight to his and he asked us to put this memorandum on the table, but now the circuit is duly filled.
- H.M.Jr: Do you want to ask anything, Admiral Spear?
- Spear: I have nothing, no sir. Of course, the smaller ammunition, that is passed right back in the Army because the Navy gets all its smaller ammunition through the Army.
- H.M.Jr: Colonel Burns?
- Burns: No comment.
- H.M.Jr: Mr. Bloch-Laine, anything you want to ask?
- Bloch-Laine: Only this, that you will think we are extremely well stocked with questions.
- H.M.Jr: The only thing we haven't asked for is the thing the President sent me this morning from Ambassador Bullitt, can we get 5,000 sub-machine guns, if not from the Navy - if not 5,000, at least a thousand, and I have a special memorandum from the President on it. How about that, Admiral?
- Spear: I will have to look it up, sir. That is the Thompson.

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Purvis: The Thompson.

H.M.Jr: The Thompson. Now, couldn't I have an answer so I could reply to the President by tomorrow morning?

Spear: I will get it to you this afternoon, sir.

H.M.Jr: Wonderful. Well, the best way - on those sort of things, would you send them to Philip Young, please, and he will get them to me.

Spear: To Mr. Young, yes..

H.M.Jr: But I would like to answer the President. They say they want 5,000.

Spear: Or any part.

H.M.Jr: Or any part. I don't know why - doesn't the Navy have Thompson sub-machine guns?

Spear: The Army.

Burns: Yes, sir. All we have are in the hands of troops right now. We don't have any reserve.

H.M.Jr: Does the Navy have any reserve?

Spear: I think there are some at the Naval Aircraft Factory. I don't think they are the latest.

H.M.Jr: They don't care. And then the question of munitions, too. In fact, if it isn't the latest, it is all the better from the standpoint of the Navy, because you can turn them in to the manufacturer and let him turn them over to the Allies, and you can place an order for new ones.

Spear: I will find out the whole situation.

Purvis: We have large orders on hand, but it is just a question of - Mr. Hitler won't wait.

H.M.Jr: If you could give me a picture for the President --

Spear: I will give you the whole picture.

H.M.Jr: And, Phil, you hang on to the President's

memorandum, will you, and then when you get the one from Admiral Spear, put the two together and then I can see them.

Well, I think this is very good.

Purvis: Very. Might I have one word about that special message that came in to me?

H.M.Jr: Sure.

A G E N D A

Discussion with The Secretary
10 A.M., June 5th, 1940

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A. Supplies

1. Small Arms ammunition - ex stock (See memorandum)
2. Aeroplanes - ex stock and priorities (See Memorandum)
3. Spare manufacturing equipment for explosives and small arms ammunition (See memorandum)
4. Trinitrotoluol - Priority on 1500 tons (See memorandum)

B. United States Defense Programme

1. Machine Tools - projected embargo (See memorandum)
2. Aeroplanes
 - (a) Trainer planes (Memorandum already given to Dr. Mead)

C. Strategic Materials

1. Alloy Steel for Italy (See memorandum)
2. Molybdenum for Italy (See memorandum)
3. Status of legislation to control exports and re-exports
4. Tungsten Co-operative Purchase (See memorandum)

Washington, D. C.

June 5, 1940.

SMALL ARMS AMMUNITION - EX STOCK

Amongst the stocks which we arranged to purchase yesterday were some -

80,000 machine guns
25,000 Browning automatic rifles
500,000 Lee Enfield rifles

- all .30 calibre.

Normally a minimum of 10,000 cartridges per machine gun and 1,000 cartridges per rifle are required.

The complement of small arms ammunition for the above would therefore be of the order of 1,300,000,000 cartridges.

The actual complement of ammunition which has been included in our purchases for these machine guns and rifles is but 100,000,000 rounds. In order to render the purchase effective further quantities of .30 calibre ammunition are very urgently desired.

Would it be possible to enable us to acquire say an additional 250,000,000 - .30 cartridges?

Washington, D. C.

June 5, 1940.

COMBAT AEROPLANES

We have received further cables expressing great anxiety as to the possibility of obtaining immediate release of -

100 or more A 17 A Northrop Dive Bombers
200 P-36

along with any quantities of pursuit planes and bombers which could be made available.

If it be impossible because of training requirements to release existing pursuit planes from stock, is there any chance of our obtaining some additional priorities even if comparatively small for -

Curtiss P-40 pursuit planes which will be delivered very soon
Douglas Navy dive bombers which are now under deliveries

and/or

Douglas A 20 and Glenn Martin B-26 which will be delivered during the next three or four months

If some of the above planes are available, it will be necessary to have at the same time their normal combat equipment, i.e.

Arms for all the planes
Bomb racks, release mechanism, bomb and/or gun sights,
A certain amount of bombs and ammunition,

as otherwise the planes would be of no use for a long time.

Washington, D. C.

June 5, 1940

TRINITROTOLUOL - PRIORITY ON 1500 TONS

When I last saw General Marshall on May 31st, he indicated that in addition to the 5,000 tons of old stock Trinitrotoluol (which we have since been given the opportunity to acquire) it might be possible to let us have priorities during the next few months on delivery of 1500 tons of new Trinitrotoluol, with the understanding this would be replaced in a few months time when our new factories come into production.

It would be very valuable if this priority could be granted us.

Washington, D. C.

June 5, 1940.

MACHINE TOOLS - PROJECTED EMBARGO

Recently we have found difficulty in getting machine tool manufacturers to accept orders which we have wished to place with them.

We now see from press notices that the Administration has put an embargo on the export of machine tools from the United States. If interpreted as applying to Allied orders, such an embargo might have a vital effect in slowing up production in Allied countries and so make a material difference to the war situation.

Can it be assumed that Allied requirements will not come under this embargo?

Washington, D. C.

June 5, 1940.

ALLOY STEEL FOR ITALY

We are advised that Italy has outstanding in the United States Alloy Steel orders of vital importance to her war potential. The fact that, against her standard practice, she is now buying these steel alloys in the finished form is a proof of the urgency of her needs. It is understood they are required for aeroplane manufacture and the extent to which Germany's requirements are involved is of course difficult to assess.

The orders on hand with the five most important steel companies, i.e. with Republic Steel, Crucible Steel, U. S. Steel, Bethlehem Steel and Timken Roller Bearing of Canton, Ohio, have a total value between \$4,000,000 and \$5,000,000.

It has been ascertained that the steel companies in question would be prepared not to ship this steel if it were intimated to them that it is against the United States Administration policy that such aircraft steel should be shipped out to Italy.

Actually the Allied Governments are prepared to buy this steel themselves as they themselves have need of it for aircraft purposes.

Washington, D. C.

June 5, 1940.

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Excerpt from meeting of June 5, 1940
at 10:15 a.m.

Present: Mr. Purvis
Mr. Bloch-Laine
Mr. Ballantyne
Colonel Jacquin
Mr. Nelson
Mr. Young
Admiral Spear
Colonel Burns

H.M.Jr: Just let me stop here a minute before these other people come in. The other thing that I wanted was this. Mr. Edsel Ford telephoned yesterday that he - he has changed his mind and his engineers now say that they can do Rolls Royce. They have changed their mind, although we have this - this Hispano is on its way over.

Jacquin: I don't know.

H.M.Jr: Oh, I got the cable.

Jacquin: You have an answer on that?

H.M.Jr: Yes, didn't we give it to you?

Purvis: You told me yesterday, yes.

H.M.Jr: It is coming over, the Hispano, but we here feel - we may be wrong - that the Rolls is better. What do you think?

Jacquin: Oh, I think the Rolls is better.

H.M.jr: Good. Well, then, would you - could you get me an answer by Monday morning that if we go into production in Rolls, whatever the latest model is - I guess it is the --

Jacquin: The Merlin --

H.M.Jr: It is one we have got here.

Bloch-Laine: The Merlin?

H.M.Jr: Yes. Pieces of it are right downstairs here, if you want to see it. Incidentally, we have got the crankshaft of the Rolls alongside the crankshaft of the Allison. They are downstairs if you care to see them. It is very, very interesting to see them and the connecting rods. They are both there.

Purvis: The Merlin 20, I think, was what you had. However, that is details.

H.M.Jr: Well, you could get - arrange, Phil, that he (Jacquin) sees George Mead so he will know which one it is. It is the one which is over here now. Which is the one we have over here now?

Purvis: I am not sure whether you have a Merlin 12 or a Merlin 20 has since come in or whether the things are the same.

H.M.Jr: Well, get the thing, because what I would like to know more than anything else, is how many would the Allies like to have, if any, per month, of Rolls Royce engines, see. Edsel Ford is supposed to be coming back here Tuesday, and again, very much in this room, he dropped a remark that he might be willing to make it for the United States Government. He didn't know whether he would make it for the Allies. I told him that the British Government had done me the honor of giving me the patents, and I wouldn't give him the patents unless he would make them for the Allies, and furthermore - he said, "Well, I will tell you, we could maybe sell them to you and then you could sell them." I said, "Nothing doing, I want a yes or no." He wants to manufacture for the Allies or he doesn't. If he doesn't want to manufacture for the Allies, I certainly wouldn't give a license to Ford to manufacture an English engine which he wouldn't make for the Allies.

Purvis: What is his objection to us?

H.M.Jr: Well, look at the decoration his father has from Hitler. What do they call it, "Black Eagle" or something? He and Lindbergh both have the same.

Bloch-Laine: I think they have the same.

H.M.Jr: They have the same, but we are doing a little gossiping here, but by Monday, gentlemen, do you think we could have an answer?

Purvis: I was speaking on the telephone this morning and he was all prepared to come down and talk - but this you want especially for Monday --

H.M.Jr: I want to know Monday if we go into production, how many you want per month.

Jacquin: I know the number for the French, eight hundred.

Purvis: Eight hundred a month, well, it will be easy --

H.M.Jr: You want eight hundred a month?

Jacquin: Yes.

Purvis: It will be easy to do that. My experience with Jacquin, when he says he knows what the French want, he knows it very well.

H.M.Jr: Well, I don't have to wait until Monday. I love to be rushed.

Purvis: Well, we will see if we can get it in a rush.

H.M.Jr: Can't you get it right from Lord Beaverbrook?

Purvis: I have already got some of it.

H.M.Jr: There is no trouble. I mean - this fellow Olley, he is here, he knows. He knows what we have got and he knows - he talked 45 minutes, \$247.50 worth of my time to his factory, so he ought to know.

Purvis: I gathered it was a long telephone message.

H.M.Jr: Yes. I don't know what was the matter with the British Embassy telephone. He must like mine better. But you want 800 a month?

Jacquin: Eight hundred a month.

Purvis: Beginning when?

H.M.Jr: Tomorrow?

Jacquin: Yesterday.

(Admiral Spear and Colonel Burns entered the conference after the above had taken place.)

MOLYBDENUM FOR ITALY

Italy has already purchased this year enough Molybdenum to take care of more than her total domestic requirements. There is every reason to believe, in fact the producers themselves strongly suspect, that she is buying for Germany.

There are two shipments projected in the near future amounting to some 200 tons which it is understood the producers would be quite willing to refrain from shipping if they thought this was in accord with U. S. Administration policy.

In the present circumstances, would it be possible to stop these shipments?

It may be of interest to note that all the producers have recently agreed not to accept any further orders for Italy, so only the outstanding shipments referred to are in question.

Washington, D. C.

June 5, 1940.

Young has carbon
See this. 6/5/40!

A G E N D A

Discussion with The Secretary
10 A.M., June 5th, 1940

--

A. Supplies

1. Small Arms ammunition - ex stock (See memorandum)
2. Aeroplanes - ex stock and priorities (See memorandum)
3. Spare manufacturing equipment for explosives and small arms ammunition (See memorandum)
4. Trinitrotoluol - Priority on 1500 tons (See memorandum)

B. United States Defense Programme

1. Machine Tools - projected embargo (See memorandum)
2. Aeroplanes
 - (a) Trainer planes (Memorandum already given to Dr. Mead)
 - (b) Combat planes (See memorandum)

C. Strategic Materials

1. Alloy Steel for Italy (See memorandum)
2. Molybdenum for Italy (See memorandum)
3. Status of legislation to control exports and re-exports
4. Tungsten Co-operative Purchase (See memorandum)

SMALL ARMS AMMUNITION - EX STOCK

Amongst the stocks which we arranged to purchase yesterday were some -

80,000 machine guns
25,000 Browning automatic rifles
500,000 Lee Enfield rifles

- all .30 calibre.

Normally a minimum of 10,000 cartridges per machine gun and 1,000 cartridges per rifle are required.

The complement of small arms ammunition for the above would therefore be of the order of 1,300,000,000 cartridges.

The actual complement of ammunition which has been included in our purchases for these machine guns and rifles is but 100,000,000 rounds. In order to render the purchase effective further quantities of .30 calibre ammunition are very urgently desired.

Would it be possible to enable us to acquire say an additional 250,000,000 - .30 cartridges?

Washington, D. C.

June 5, 1940.

We have received further cables expressing great anxiety as to the possibility of obtaining immediate release of -

100 or more A 17 A Northrop Dive Bombers
200 P-36

along with any quantities of pursuit planes and bombers which could be made available.

If it be impossible because of training requirements to release existing pursuit planes from stock, is there any chance of our obtaining some additional priorities even if comparatively small for -

Curtiss P-40 pursuit planes which will be delivered very soon

Douglas Navy dive bombers which are now under deliveries

and/or

Douglas A 20 and Glenn Martin B-26 which will be delivered during the next three or four months

If some of the above planes are available, it will be necessary to have at the same time their normal combat equipment, i.e.

Arms for all the planes

Bomb racks, release mechanism, bomb and/or gun sights,

A certain amount of bombs and ammunition,

as otherwise the planes would be of no use for a long time.

Washington, D. C.,

June 5, 1940.

SPARE MANUFACTURING EQUIPMENT FOR EXPLOSIVES AND
SMALL ARMS AMMUNITION

It is understood that certain spare new equipment is held in reserve by the U. S. Army for emergency purposes. We have reason to believe that this equipment includes machinery required for the production of -

Nitrocellulose Powder
Nitric Acid - Ammonia Oxidation process
Small Arms Ammunition (this may be old equipment)

If this equipment could be installed by U. S. manufacturers who are building new plants for the Allies, some months could be saved in increasing the output of Nitrocellulose Powder, Trinitrotoluol and Small Arms Ammunition.

Some legal difficulties have arisen in getting this equipment into circulation, though I understand from General Marshall it would suit the U. S. Army very well indeed (now the emergency for which it was bought has arisen) to see such equipment installed ready for use.

General Marshall on May 31st indicated that further efforts were being made to overcome the legal difficulties. One thought was that the U. S. Government might own such equipment as it released to United States manufacturers for immediate installation to increase the productive output of the country.

We believe the possibilities in this regard represent a very important contribution to building up United States potential.

It would be most helpful if a way could be found promptly to overcome the existing difficulty.

TRINITROTOLUOL - PRIORITY ON 1500 TONS

When I last saw General Marshall on May 31st, he indicated that in addition to the 5,000 tons of old stock Trinitrotoluol (which we have since been given the opportunity to acquire) it might be possible to let us have priorities during the next few months on delivery of 1500 tons of new Trinitrotoluol, with the understanding this would be replaced in a few months time when our new factories come into production.

It would be very valuable if this priority could be granted us.

MACHINE TOOLS - PROJECTED EMBARGO

Recently we have found difficulty in getting machine tool manufacturers to accept orders which we have wished to place with them.

We now see from press notices that the Administration has put an embargo on the export of machine tools from the United States. If interpreted as applying to Allied orders, such an embargo might have a vital effect in slowing up production in Allied countries and so make a material difference to the war situation.

Can it be assumed that Allied requirements will not come under this embargo?

TUNGSTEN - CO-OPERATIVE PURCHASE

On receipt of the advice of the United States Administration's willingness to join in a co-operative purchase of Chinese Tungsten, I cabled London asking for concrete suggestions.

In replying London has asked me to inform Mr. Morgenthau how delighted the Allied Governments are to learn of the U. S. Administration's intention.

The Allied Governments are approaching the Chinese Government in the immediate future with a view to buying Chinese Wolfram for their own requirements.

They are at the same time ascertaining what can be expected to be available for purchase and will cable a definite proposal for joint action as soon as possible.

Washington, D. C.

June 5, 1940.

*photostated to
Recy Hull.*

ALLOY STEEL FOR ITALY

We are advised that Italy has outstanding in the United States Alloy Steel orders of vital importance to her war potential. The fact that, against her standard practice, she is now buying these steel alloys in the finished form is a proof of the urgency of her needs. It is understood they are required for aeroplane manufacture and the extent to which Germany's requirements are involved is of course difficult to assess.

The orders on hand with the five most important steel companies, i.e. with Republic Steel, Crucible Steel, U. S. Steel, Bethlehem Steel and Timken Roller Bearing of Canton, Ohio, have a total value between \$4,000,000 and \$5,000,000.

It has been ascertained that the steel companies in question would be prepared not to ship this steel if it were intimated to them that it is against the United States Administration policy that such aircraft steel should be shipped out to Italy.

Actually the Allied Governments are prepared to buy this steel themselves as they themselves have need of it for aircraft purposes.

*photostated
to Percy Hall, C-2*

MOLYBDENUM FOR ITALY

Italy has already purchased this year enough Molybdenum to take care of more than her total domestic requirements. There is every reason to believe in fact the producers themselves strongly suspect) that she is buying for Germany.

There are two shipments projected in the near future amounting to some 200 tons which it is understood the producers would be quite willing to refrain from shipping if they thought this was in accord with U. S. Administration policy.

In the present circumstances, would it be possible to stop these shipments?

It may be of interest to note that all the producers have recently agreed not to accept any further orders for Italy, so only the outstanding shipments referred to are in question.

Washington, D. C

June 5, 1940.

June 5, 1940

Leaving the meeting in his office with the Allied Purchasing group, Mr. Nelson, Admiral Spear and Colonel Burns, HM, Jr went into Mrs. Klotz' office and spoke to Secretary Hull at about 25 minutes of 11. The following is HM, Jr's end of the conversation:

"The Allied Purchasing Board made-a request of me in connection with molybdenum and alloy steel going to Italy. Are we pro-Mussolini today or anti-Mussolini?"

"I will send you the two memoranda which they have given me over to you personally.

"In both cases I don't think you would have to do anything. I think a word to both of these companies and they would be willing to do it on their own initiative. Would this be agreeable to you, if I ask these companies to hold off for the rest of the week? I will do it so that the Italian Ambassador will not come around to see you. Then in a couple of days you will know better."

(Mr. Hull said that he will know better in a few days. He hopes to get something through Congress which will permit him to put on an embargo.)

June 5, 1940

After the meeting at 10:00 a.m., with the Allied purchasing group, Purvis stayed behind and asked the Secretary whether they could have any of our destroyers. The Secretary told him that he would ask for an appointment immediately to see the President and when he returned he would call Mr. Purvis, who was going to wait in Mr. Nelson's office.

Upon his return, at 11:30 a.m. from seeing the President, H.M., Jr., sent for Mr. Purvis and said, "I saw the President and spent 20 minutes with him, although I had only asked for 45 seconds. He stopped everything. He said I could tell you this, and you only, although I see no reason why you cannot repeat this to Lord Lothian. There is a slight ray of hope. The trouble is with Admiral Stark. On the Hill, he was asked the question about selling destroyers. "Did they need them all?" And he answered yes.

The President ordered Stark over at 1:45 and he will try to find out a way to work out getting ten for you. That is the first time he has ever given me any ray of hope. If there is any way possible he is going to do it. He is using the opinion of the Attorney General as a basis for it.

THE WHITE HOUSE
WASHINGTON

Rec'd 59
June 6
3141

June 5, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION.

F. D. R.

JUN 4 1940

The President,
The White House.

Dear Mr. President:

In accordance with your letter of June 4, 1940, concerning the substitution of the Executive Assistant to the Assistant Secretary of War for The Quartermaster General on the Committee to represent the American Government in its contacts with interested foreign governments in all matters pertaining to the purchase of war materials in the United States, I have this date designated Colonel James H. Burns as a member of this Committee in place of General Gregory.

Respectfully yours,

(Sgd.) Harry H. Woodring

HARRY H. WOODRING,
Secretary of War.

June 5, 1940.

Dear Mr. Knudsen:

The Secretary has asked me to transmit the enclosed photostats. They include memoranda and figures from the Department of the Navy, as well as a confidential memorandum submitted to the Secretary of State from the American Consulate at Birmingham, England. I am very glad to send these in accordance with Mr. Morgenthau's request.

Sincerely yours,

H. S. Klets,
Private Secretary.

Mr. William S. Knudsen,
Adviser on Industrial Production,
Advisory Commission to the Council
of National Defense,
Federal Reserve Building,
Washington, D. C.

Enclosures.

GEF/abc

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Mr. William S. Knudsen,
Adviser on Industrial Production,
Advisory Commission to the Council
of National Defense,
Federal Reserve Building,
Washington, D. C.

Enclosures.

GHY/dbs

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Phot Copy
to Knudson

THE ASSISTANT SECRETARY OF THE NAVY
WASHINGTON

17 May 1940

MEMORANDUM TO SECRETARY MORGENTHAU

In compliance with our former conversations, I am transmitting, herewith, two preliminary programs of expansions in facilities and structures in private ordnance and shipbuilding plants that the Navy would like to finance out of any funds that may become available in addition to the \$250,000,000 allotted to the Navy to meet supplementary emergency requirements.

Naval ordnance equipment that might be needed for installation on Coast Guard vessels might logically be financed from this same fund, if and when it becomes available.

Respectfully


Lewis Compton

Attachments (2)

PRIVATE PLANT EXPANSIONS

TO BE FINANCED FROM PRESIDENT'S \$100,000,000 FUND, OTHERWISE FROM ITEM B

(1) For 5"/38 Single Mounts - Destroyers 1941 Program + 11% Expansion

General Electric Erie Plant	
Buildings already up, need machine tools, etc...	\$700,000
Goss Printing Press (Chicago).....	400,000
For Twin Mounts for battleships, cruisers, and aircraft carriers, and	
For 900 - 3" gun conversion to AA	
Baldwin Locomotive	500,000
Allis Chalmers	500,000
Blaw Knox (Union Steel Casting, Pittsburgh)	500,000
William Engineering Co. with Otis Steel Co.	500,000
Torpedo Flask Forgings	
Midvale Draw Bench	50,000
National Tube, Forging Press	500,000
Bomb Sights	
Norden Co.	500,000
Robbins & Meyers (subcontractor of Norden).....	500,000
	<u>4,650,000</u>

(2) Government Plants

New York in Fire Control Shop	100,000
Newport in Torpedo Station Shops	500,000
	<u>600,000</u>

(3) Armor Facilities for Private & Government Plants

In Authorization Bill now pending 6,000,000SUMMARY

(1) Private small guns, etc.	\$4,650,000
(2) Government machine tools, etc.	600,000
(3) Armor Plants <u>now</u> pending	6,000,000
(4) Govt. plant facilities gun factory Charleston private operation	5,000,000
	<u>\$16,250,000</u>

(5) Mine Assembly Plant Mare Island & improvements Yorktown 915,000

Coast Guard Ordnance \$10,135,000 ←

\$17,165,000

10,135,000

15,000,000

Shipyard facilities \$42,300,000 Total.

NAVY DEPARTMENT
WASHINGTON

C O N F I D E N T I A L

May 17, 1940.

M E M O R A N D U M

For: The Assistant Secretary of the Navy.

Subject: Machine Tools.

1. It is estimated that the Navy will find it necessary to finance the machine tool program of certain shipbuilding and Navy contracting firms to the extent of about \$15,000,000.00 as follows:

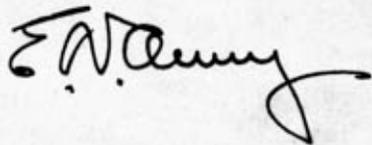
Bethlehem Shipbuilding Company (Quincy)	\$2,500,000.00
Bethlehem Shipbuilding Company (Staten Island)	1,000,000.00
Bethlehem Shipbuilding Company (Union Plant)	500,000.00
New York Shipbuilding Company	2,000,000.00
Newport News S.B. and D.D. Company	3,500,000.00
Electric Boat Company	1,500,000.00
Bath Iron Works	<u>500,000.00</u>
Total	\$11,500,000.00

In addition it is expected that Navy machinery and equipment manufacturers will require financing for purchase of machine tools, total of about \$3,500,000.00. These firms will be General Electric, Westinghouse, Allis Chalmers, De Lavel, Worthington, Farrel Birmingham, Falk, Hyde Windless, American Engineering and others.

2. In obedience to your orders, I have proceeded with the task of acquiring machine tools being manufactured in this country for export. Through an understanding with the manufacturers, this equipment now ready for shipment is being held for one reason or another until the Navy can complete the machinery of requisition. The stop orders now total about \$6,000,000.00 of heavy machinery suitable for heavy gun manufacture.

- 2 -

3. In this connection it may be of interest to Mr. Morgenthau that the gun lathes being manufactured by General Machinery Corporation, in which he is interested and which will be ready for shipment to a foreign Government within a week, will not be exported.



Copy to:
Coordinative Shipbuilding.

Phot copy
to

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Krusa

American Consulate,
Birmingham, England, March 19, 1940.

CONFIDENTIAL

69

Subject: Birmingham Area Shadow Factories and
Character of Work Done Thereat.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor, with reference to the Department's telegram no. 3 dated March 1, 1940, herewith to transmit a memorandum treating of Birmingham area shadow factories and character of work done thereat.

While the enclosure represents the final of a series of memoranda prepared in line with the suggestions contained in the Department's telegram, the Consulate will endeavor to supply the Department with supplementary or additional information bearing on the subjects dealt with in those memoranda as and when such becomes available.

Memoranda in the series previously submitted were transmitted with Birmingham despatches nos. 381, 383, and 384, dated, respectively, March 7, 13, and 14, 1940 (file 824.2).

As can readily be imagined, considerable difficulty was encountered in obtaining information on the subject

with/

- 2 -

with which the enclosed memorandum deals. It was found that many of the statements made by persons interviewed were conflicting or at material variance, but it was considered unwise to go too far in the direction of getting at the precise facts by cross questioning.

An attempt was made to exclude from the memorandum discussions or treatments of controversial points, and it is believed that the memorandum does not give a very inaccurate picture of the general situation of which it treats.

Respectfully yours,

James R. Wilkinson
American Consul

Enclosure : Memorandum

JRW:mec

824.2

-71

American Consulate,
Birmingham, England,
March 19, 1940.

CONFIDENTIAL

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**BIRMINGHAM AREA SHADOW FACTORIES
AND CHARACTER OF WORK DONE THEREAT**

Census.

In so far as it has been possible to ascertain, the only true shadow factories in the Birmingham area are one and all directly or indirectly engaged in operations looking towards the completion of fighting aircraft. The following is a list of these factories:

The Austin Shadow Factory, Birmingham,
The Nuffield (Morris) Shadow Factory,
Birmingham,
The Rover Shadow Factory, Birmingham,
The Standard Shadow Factory, Coventry,
The Daimler Shadow Factory, Coventry,
The Rootes Shadow Factory, Coventry.

The name of each of these factories indicates the private enterprise with which the factory is identified. For example, the Austin Shadow Factory is identified with the Austin Motor Company, Limited, manufacturer of motor vehicles.

Moreover, each of these factories is managed on behalf of the Government by a comptroller prominently associated with the private enterprise with which the factory is identified. For example, Lord Nuffield, who is prominently associated with the Morris automotive interests, manages the Nuffield Shadow Factory.

What Birmingham Area Shadow Factories Do.

Fighting aircraft, ready to take off, emerge

from/

from the ends of assembly lines at the Austin and Nuffield factories. However, were these completely unassembled and the parts and components separated into two piles, one representing what was and the other representing what was not manufactured at these factories, the result would clearly indicate what a relatively small contribution the factories had made, in the actual manufacturing fields, towards the completion of the machines.

At the Nuffield factory, the pile representing what that factory had manufactured would contain little other than fuselage members fashioned at the factory from metal bars, blocks, rods and sheets produced elsewhere from raw material. At the Austin factory the corresponding pile would be much smaller but would consist largely of similar members.

At the Rover, Daimler, and Rootes shadow factories, aircraft motors are assembled from parts and components most of which are manufactured elsewhere. The complete power units emerging from the ends of production lines at these factories are sent to shadow factories and to private plants and are there incorporated into fighting aircraft. The Standard Shadow Factory manufactures carbureters.

Principal Feeders.

The Austin Motor Company produces a great many of the parts and components which find their way into aircraft completed at the Austin Shadow Factory. At the Nuffield Shadow Factory, however, fewer parts and

components/

components come from the private interests with which that factory is identified.

Many of the motor parts and components which find their way into the motors assembled at the Rover, Daimler, and Rootes shadow factories come, respectively, from the private enterprises with which these factories are identified.

Sub-Feeders.

Motors assembled at the Rover, Daimler, and Rootes shadow factories by no means consist entirely of parts and components manufactured either at those factories or at the private enterprises with which those factories are identified. In many instances the task of manufacturing parts of larger parts and components of larger components are farmed out by big producers to little producers. For example, a magneto attached to the motor in a shadow factory aircraft may be assembled from parts and components manufactured by a dozen private enterprises most of which, before the shadow factory scheme came into being, had never engaged in the production of those magneto parts and components. However, since shadow factory production began, the tendency has been towards rather than away from cutting down the number of producers who in one manner or another contribute to the task of making all the things which are found in a shadow factory aircraft. But it is understood that the clamor among small enterprises for a larger share in war contract work may in the near future reverse this tendency.

Shadow Factories Supplementary.

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While it is true that some shadow factories completely assemble aircraft, the same is true of some private enterprises. Moreover, private enterprises perform operations which are virtually duplicative of or comparable with most operations performed by shadow factories. But certain shadow factories confine their assembling activities to the completion of certain types of fighting aircraft - the Hurricane and Spitfire types, for example. However, it need not necessarily follow, just because a shadow factory makes or assembles a given thing, that no private enterprise does the same.

Shadow Factory Limitations.

The motor in a Rover automobile is not composed of parts and components all manufactured by the Rover company. The oil seals, the gaskets, and the poppet valves, as well as other parts and components in the Rover motor, may be manufactured for the Rover company by others. However, the Rover motor is not known in trade parlance as an "assembly job". But the aero motor which is completed at the Rover Shadow Factory is known as an "assembly job" because, although the factory may manufacture a few of the parts or components in that motor, the main function of the factory is to assemble into the complete propulsion unit parts and components most of which are obtained by the factory from outside sources.

From the foregoing, it will be clear why the Rover Shadow Factory is not, in the same sense that the Rover company/

company is, manufacturing motors. What has just been said applies with about equal force to the Daimler and the Rootes private enterprises and shadow factories at Coventry. Moreover, for comparable reasons, the Austin and Nuffield shadow factories at Birmingham cannot be considered as aircraft manufacturing plant.

Birmingham Area Aircraft Output Expansion.

While it is true that the output of aircraft in the Birmingham area has tremendously increased in the last year or so, outside of plant expansion necessitated by the shadow factory scheme, there has been relatively little plant expansion in the area for aircraft production purposes. In private industry, the situation has been largely taken care of through plant adaptation. In the latter connection, it should be pointed out, the falling off of the demand for industrial products has gone a certain way towards freeing workmen as well as plant for aviation production by private enterprises.

The Principal Contributions of Local Shadow Factories.

(a) Facilitation of Assembly.

Owing to such factors as frequent change in design and type and the nature of fighting aircraft, it was never envisaged that such could be turned out on a mass production basis comparable with that upon which motor cars are. However, spheres existed in which there was promise of plant being able greatly to lower tremendous costs and to speed up operations by introducing mass production methods. Considerable technical success was achieved at local shadow

factories/

factories in the spheres referred to. In one such factory's assembly plant, for example, machinery was designed and installed which rendered it feasible substantially to reduce the percentage of uninterchangeable metal fuselage members. In another's plant, assembly procedure was made the subject of scientific study and mechanical obstacles in the way of orderly and quick assembly largely removed. But the full benefits of efforts in these directions have not, on account of serious labor difficulties, as yet accrued.

(b) Feeder Control.

The fact that shadow factories are encountering little difficulty in promptly obtaining from private enterprise all they need in the way of parts and components shows what they have contributed in the realm of feeder control.

(c) Part and Component Stocks.

The gradual building up of part and component stocks is another contribution. These stocks not only allow gradual improvement in labor conditions fully to be taken advantage of along assembly lines but also much facilitate the maintenance of aircraft used in the fighting services.

(d) Public Confidence.

The very existence of the shadow factories has served much to fortify public confidence. While it is true that rumors as to their inefficiency constantly circulate, it is also true that the public believes

that/

that should the war take on a horrible aspect, the shadow factories would at once begin to function according to original plan and keep the air forces supplied with craft as needed.

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In Conclusion.

Even among local industrialists who, when the shadow factory plan was in the making, loudly protested that it simply would not work, there has been some revision of attitude. In so far as are concerned functions which private industry could not, in all the circumstances, quickly adapt itself to perform, the original opponents of the whole scheme concede that the shadow factories, though they are not yet making a good enough showing, are gradually doing better. These opponents further concede that the technical side of the shadow factory plan has been splendidly executed and that labor difficulties are very largely responsible for the fact that the plan has not produced the results promised. They fear, however, that those difficulties will continue very adversely to affect shadow factory operations as long as the war situation does not develop into one which, in the opinion of the Government, leaves the Government no course other than that of using special powers to force labor to do the Government's bidding in the matter. If things come to such a pass, the Government, in their opinion, will have to meet labor shortage by drafting workmen from private industry and will have to overcome the obstacles which labor union rules constitute by suspending them.

James R. Wilkinson,
American Consul.

June 6, 1940
11:20 a.m.

H.M.Jr: Hello.

Operator: Purvis. Go ahead.

H.M.Jr: Hello.

Arthur
Purvis: Good morning. Arthur, I got your message and, frankly, checked with Mr. Early about this.

P: Yes.

H.M.Jr: I asked what he'd do if he was over there, and he said he doesn't -- what he would do is simply say that the English Government has a purchasing mission over here and they are buying whatever planes, or guns, or surplus material that they can buy.

P: Yes, exactly.

H.M.Jr: Yes. See?

P: I think that's very good. Yes, I'll ring Monnet. Monnet just wanted to be super-careful, you see.

H.M.Jr: Well, I appreciate it. He said that's what he'd say if it was his responsibility.

P: Yes. Now, then, up at this end the reporters are rushing us a lot and, of course, we refuse to do anything. What -- shall we go on just

H.M.Jr: I urged Mr. Early to get in touch with Woodring and get him to give a statement.

P: Then we can follow on that and be comparatively safe. Yes, it would be awfully helpful, of course.

H.M.Jr: I think I'd sit tight another day.

P: Sit tight another day.

H.M.Jr: Yes.

P: We'll do it, with a kick. By the way, on that little matter of the daily report, that will come to you every day with the greatest pleasure.

H.M.Jr: Thank you. Now, thank you so much. Look, I called up Knudsen this morning and told him that by tonight

P: Yes.

H.M.Jr: I wanted an answer on these 2,000 engines.

P: Yes, yes, yes. I see.

H.M.Jr: And I don't know where Mead got the figures from, but Mead told them that you people wanted 1400 Rolls Royce a month.

P: It was -- I think as a matter of fact it's 1800. It was 800 for the French and 1,000 for the British.

H.M.Jr: Well, I didn't know that.

P: We -- I got the British number from Self on the telephone immediately after we talked yesterday. Now for instance, we understood it a preliminary so that you can build up the program.

H.M.Jr: Yeah. Ah -- do you want to see me this afternoon?

P: Well, the only thing that -- that, I mean, I will fly up to New York and come back again unless there is something on that very, very vital matter that I mentioned -- ah -- that you made a special visit on.

H.M.Jr: No. No.

- 3 -

P: Nothing yet.

H.M.Jr: No, and -- do you want to have a laugh?

P: I'd love to have a laugh?

H.M.Jr: I told Mr. Knudsen this morning that I thought he'd better see -- ah -- Mr. Ford rather than I on Tuesday.

P: Yes, yes.

H.M.Jr: And he said, what you want me to tell him, by golly, he's going to build those for the Allies and no fooling. I says, you've got it.

P: (Laughs) He'll do it, too.

H.M.Jr: I says, you've got it. I said, that's just right. I said, I want you to tell him.

P: Very good.

H.M.Jr: What?

P: Very good. (Laughs) Is there anything that I could usefully talk over with you or am I better to leave you alone? I have nothing special except -- ah -- the going on getting all we can. You see?

H.M.Jr: Well, just -- I'm trusting hard on the Canadian thing.

P: Yeah.

H.M.Jr: I have no memorandum just what you want on that.

P: Well, now, the copy of the Mead memorandum is rather too long for that purpose.

H.M.Jr: Couldn't you give me a one-page?

P: I'll give you a half-page one and send it over.

H.M.Jr: Will you?

P: I will.

- 4 -

H.M.Jr: That's all I need right now.

P: Thank you very much, indeed. And then in that case, I'll just run back to New York, get myself a little straightened out because I gather that the skies have fallen down there, and then be ready to come down any instant you can tell me anything on that very important question.

H.M.Jr: Good.

P: Thank you very much.

H.M.Jr: Good luck.

P: Thanks. Good-bye.



TREASURY DEPARTMENT
WASHINGTON

82

June 5, 1940.

MEMORANDUM FOR THE SECRETARY:

The Italian Steamship ARSA is scheduled to sail for Italy June 8th, carrying 778 barrels of molybdenum concentrates.

Basil Harris

PARAPHRASE OF TELEGRAM RECEIVED

83

Paris

Secretary of State,
Washington.

1036, June 5, 11 a.m.

SECRET AND PERSONAL FOR THE SECRETARY OF THE TREASURY
AND THE PRESIDENT.

According to absolute and authoritative information received by the Ministry of Blockade which was just telephoned to me by Charles Rist, the transshipment during the past few months to Germany of 175,000 tons of oil products has been effected by the Italian Government. The Ministry states that all the good lubricating oil imported by Italy originates in the United States and considers especially serious such shipment of lubricating oils by the Italians. I was asked by Professor Rist whether it might be possible for the United States to cease shipment of oil and petroleum products to Italy at this moment when Mussolini had definitely stated he was about to make war on England and France, even though the date was not fixed.

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THE SECRETARY
OF STATE
RECEIVED
JUN 5 11 24

June 5, 1940.

My dear Mr. Compton:

I was about to write you this morning in regard to a letter just received from Mr. Purvis when your letter of June 4th came to my desk.

I am sending you a copy of Mr. Purvis' letter, which is self-explanatory. In accordance with his request, I would appreciate it if you would advise me as to the names and rank of the Navy officials you select as available for observation work with the British Fleet. I can then in turn pass on this information to Mr. Purvis for him to convey to the British Admiralty.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Lewis Compton,
Assistant Secretary of the Navy,
Navy Department,
Washington, D. C.

By Messenger

4¹⁵ on 6/6

Enclosure. ↙

GWF/dbs

June 5, 1940.

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Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Lewis Compton,
Assistant Secretary of the Navy,
Navy Department,
Washington, D. C.

By Messenger 4¹⁵ on 6/6

Enclosure.

GHF/dbe

THE ASSISTANT SECRETARY OF THE NAVY
WASHINGTON

86

4 June 1940

My dear Mr. Morgenthau:

Thank you so much for your thoughtful letter of May 31. I regret very much indeed that my attendance at the launching of the U.S.S. WASHINGTON in Philadelphia precluded the possibility of my receiving your telephone message on Friday.

I want you to know how much the Navy appreciates your efforts with the British Admiralty through Mr. Purvis. It will be very helpful to us to have Observers in the British Fleet at this time.

Sincerely yours



Lewis Compton

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury

May 31, 1940

My dear Mr. Compton:

I attempted to get in touch with you by telephone today, but I was advised that you were out of the city until Monday. Mr. Purvis, Chairman of the Anglo-French Purchasing Board, has just informed me that the British Admiralty has reversed its decision as to the desirability of receiving Naval Observers in the British Fleet.

I believe you will encounter no difficulties in this respect in the future.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Lewis Compton,
Assistant Secretary of the Navy,
Navy Department,
Washington, D. C.

By Messenger 10¹⁵ am

P.Y.

PI:bj

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Assistant Secretary of the Navy,
Navy Department,
Washington, D. C.

PY:bj

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Sincerely,

(Signed) H. Worswathau, Jr.

Honorable Lewis Compton,
Assistant Secretary of the Navy,
Navy Department,
Washington, D. C.

FT:bj

May 9, 1940

My dear Mr. Compton:

I have your letter of May 3rd in which you suggest that I take up with the Allied Purchasing Commission the desirability of having United States Naval Observers with the British Fleet.

I have made the request of Mr. Purvis, the Chairman of the Commission, and just as soon as I hear from him I will communicate with you further.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Lewis Compton,
Assistant Secretary of the Navy,
Navy Department.

By Messenger

2¹⁵ pm

May 9, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Lewis Compton,
Assistant Secretary of the Navy,
Navy Department.

By Messenger 2¹⁵ pm

May 9, 1940

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Yours sincerely,

(signed) H. Morgenthau, Jr.

Honorable Lewis Compton,
Assistant Secretary of the Navy,
Navy Department.

By Message. 2¹⁵ pm

THE ASSISTANT SECRETARY OF THE NAVY

WASHINGTON

3 May 1940

Curtis 93

Red Smith

22, 1940

My dear Mr. Secretary:

With further reference to our recent conversation on the subject of obtaining Naval Intelligence information from Great Britain and France, I am advised by the Office of Naval Intelligence that from time to time the British Admiralty has been approached as to its willingness to permit one or more United States Naval Observers with the British Fleet. Comparatively recently this has been politely refused.

I believe you could be most helpful in this connection if you could find it possible to have the British Purchasing Commission convince the British Admiralty of the desirability of receiving Naval Observers in the British Fleet in consideration of steps taken in the United States to facilitate the British Defense Procurement program.

Please accept my sincere thanks for your thoughtful consideration of the Navy in this regard.

With kindest personal regards, I am

Sincerely yours

Handwritten note: Mr. Curtis

Lewis Compton

Lewis Compton

Handwritten scribbles at the bottom of the page.

ANGLO-FRENCH PURCHASING BOARD

NEW YORK:
15 BROAD STREET

WASHINGTON:
725 15th ST., N. W.

Cony
86
29
7
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1

This letter from

June 1, 1940

Dear Mr. Secretary,

On May 14th at your request I asked the assistance of the Anglo-French Co-ordinating Committee in obtaining a reversal of the decision previously given by the British Admiralty to the request that one or more of the United States observers be allowed to be with the British fleet. I am glad to confirm the message which I sent you yesterday that the British Admiralty has agreed to reverse its previous decision and that I am authorized so to advise you.

I assume the United States Navy will be in touch with the British Admiralty as regards personnel. However, I would like in due course to be able to advise M. Monnet in this regard so that we can make doubly sure of the appropriate welcome.

Yours sincerely,

Arthur B. Purvis

Arthur B. Purvis
Chairman

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



June 8, 1940.

My dear Mr. Secretary:

I want to acknowledge your letter of May 29th, which has reference to the different types of engines used by the Army Air Corps.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Harry H. Woodring,
Secretary of War,
Washington, D. C.

GEF/dbs

WAR DEPARTMENT

WASHINGTON

MAY 28 1940

*Photostat
& copy 5 oct
to me [Signature] 88
6/7/40*

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

With reference to the general subject of types of airplane engines which came up at the last Cabinet meeting, a conference with the Chief of the Air Corps indicates the following types of engines used by the Army Air Corps:

There are four classes of engines utilized by the Army Air Corps -- the 1500 horsepower class; the 1000 horsepower class; the 600 horsepower class; the 400 horsepower class; and the 200 horsepower class. These are used for respective types of training and operations in accordance with the class of aviation and the airplane used.

Within the 1500 horsepower class there are two types -- the Pratt and Whitney R-2800 and the Wright Corporation R-2600.

Within the 1000 horsepower class there are three types -- the Allison liquid-cooled 1710, the Pratt and Whitney R-1830, and the Wright Corporation R-1820.

Within the 600 horsepower class there is only one type -- that is the Pratt and Whitney R-1340.

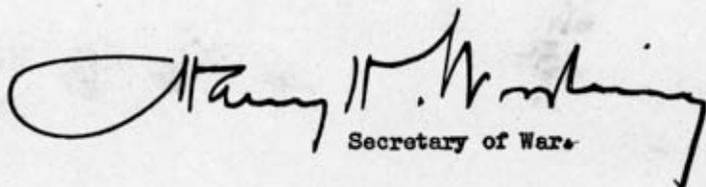
Within the 400 horsepower class there is only one -- that is the Pratt and Whitney R-985.

Within the 200 horsepower class there are the Lycoming, the Jacobs, the Continental, etc.

To clarify, there may be many models of the same type of engine. These models are necessary to meet installation requirements, questions of supercharging, carburetion, ignition, etc. The question of right-hand rotation and left-hand rotation in propellers may cause a slight change in type to affect the model. The question of whether the engine flies at low altitude or high altitude may make a difference, therefore causing a change in model.

For purposes of mass production, there are only five classes of engines which can be reduced to four by combining the 400 to 600 class. However, in doing this, productive capacity of plants producing different types would have to be converted in order to produce the same type.

Sincerely yours,


Secretary of War

No. 86

AMERICAN CONSULATE

Yunnanfu, China, June 5, 1940

STRICTLY CONFIDENTIAL

SUBJECT: Removal of Industrial Enterprises
to Unoccupied Areas by the Chinese
Government.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to submit for the Department's information a table containing information concerning the removal of industrial enterprises to the interior of China under the supervision of the Industrial and Mining Adjustment Commission of the Ministry of Economics. It should be noted that the table relates only to enterprises removed under the supervision of this Commission and does not include those removed without its assistance. It should also be noted that the item "Number of Workers Removed" refers to the number of workers actually removed to the interior, and does not necessarily indicate the total number of persons now employed by the enterprises in question.

It

- 2 -

It is requested that this information, which was obtained through the courtesy of a member of the faculty of Nankai University in Yunnanfu, be kept strictly confidential.

Respectfully yours,

Troy L. Perkins,
American Vice Consul.

Enclosure:-

- 1/- Table of the number of factories and mines removed to and reconstructed in the interior.

In sextuplicate to the Department.
Copy to Embassy, Peiping.
Copy to Embassy, Chungking.
Copy to Commercial Attache, Shanghai.

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SCB:Epy

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RECEIVED
COMMERCIAL
ATTACHE

Enclosure to despatch No. 86, dated June 5, 1940, from Vice Consul Troy L. Perkins, Yunnanfu, China, to the Department of State, entitled: "Removal of Industrial Enterprises to Unoccupied Areas by the Chinese Government".

Number of Factories and Mines
Removed to & Reconstructed in the Interior

	As of the end of Dec, 1938	As of the end of June 1939	As of the end of Dec. 1939
Number of Factories & Mines Removed	304	386	418
Total Weight of Machinery (tons)	51,182.50	67,254.30	70,037.30
Number of Workers Removed	1,793	8,015	11,413
Number of Factories & Mines Reconstructed	81	229	274
Value of Production	NC\$5,512,541	NC\$16,079,810	NC\$34,268,223
Average Monthly Value of Production per Factory or Mine	NC\$11,682	NC\$14,749	NC\$17,721

Number of Factories and Mines
Removed to and Reconstructed in the Interior
(Classified according to provinces
and kinds of industry)

Kind of Industry	Total	Szechwan	Hunan	Kwangsi	Shensi	Others
Iron & Steel	1	1	—	—	—	—
Machinery	168	96	50	11	3	8
Electrical Ins- truments Manu- facturing	28	18	6	3	—	1
Chemical	54	34	9	1	3	7
Textile & Dye	92	20	52	3	16	1
Food & Beverage	22	12	1	1	4	4
Educational supplies	31	26	1	3	—	1
Others	14	12	—	1	—	1
Mining	8	4	3	—	1	—
Total	418	223	122	23	27	23

Rangoon, Burma, June 5, 1940.

SUBJECT: Burma's Transit Trade with China in
Supplies Other Than War Materials
During April, 1940.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D. C.

SIR:

I have the honor to report that the transit trade of Burma with China in supplies other than war materials during April, 1940, the first month of the current fiscal year, amounted in value to Rupees 11,034,807, or approximately \$3,310,442 at average rates of exchange for the period.

As is shown in the enclosed detailed table, these re-exports were received from the following countries listed in order according to the value of materials supplied: United States, Hong Kong, French Indo-China, Netherlands East Indies (exclusive of Java), Italy, China, Germany, United Kingdom, Straits Settlements, Java, and Russia. The motorcars received from Indo-China were re-shipped to Burma because of the impracticability of delivering them to China from Indo-China. Goods of German origin were ordered before the outbreak of war in Europe, and permission to import them through Rangoon was granted by the British Government. Shipments from the Netherlands East Indies were mostly of German origin and were brought to the Netherlands East Indies by German ships

taking

-2-

taking refuge in ports there.

Respectfully yours,

W. Leonard Parker
American Vice Consul

Enclosures:

Statistics of Burma's transit trade with China.

Distribution:

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

800-600
WLP/cp

BURMA'S TRANSIT TRADE WITH CHINA DURING APRIL, 1940

(Sources of Supplies, Quantities, and Values of Re-Exports from Rangoon)

<u>Commodities</u>	<u>United States</u> <u>Quantity</u> <u>(Value)</u>	<u>Hong Kong</u> <u>Quantity</u> <u>(Value)</u>	<u>French</u> <u>Indochina</u> <u>Quantity</u> <u>(Value)</u>	<u>Dutch</u> <u>East</u> <u>Indies</u> <u>Quantity</u> <u>(Value)</u>	<u>Italy</u> <u>Quantity</u> <u>(Value)</u>	<u>China</u> <u>Quantity</u> <u>(Value)</u>	<u>Germany</u> <u>Quantity</u> <u>(Value)</u>	<u>United Kingdom</u> <u>Quantity</u> <u>(Value)</u>	<u>Straits Settlements</u> <u>Quantity</u> <u>(Value)</u>	<u>Java</u> <u>Quantity</u> <u>(Value)</u>	<u>Russia</u> <u>Quantity</u> <u>(Value)</u>	<u>Total</u> <u>Quantity</u> <u>(Value)</u>
Condensed milk (Cwts.)	-	86	-	-	-	-	-	-	-	-	-	86
(Rs.)	-	(1,932)	-	-	-	-	-	-	-	-	-	(1,932)
Tinned or canned fish (Cwts.)	-	(5)	-	-	-	-	-	-	-	-	-	(5)
(Rs.)	-	(5)	-	-	-	-	-	-	-	-	-	(5)
Farinaceous foods (Cwts.)	-	(40)	-	-	-	-	-	-	-	-	-	(40)
(Rs.)	-	(40)	-	-	-	-	-	-	-	-	-	(40)
Cocoa & chocolate (Cwts.)	-	(5)	-	-	-	-	-	-	-	-	-	(5)
(Rs.)	-	(5)	-	-	-	-	-	-	-	-	-	(5)
Cigarettes (Lbs.)	-	1	-	-	-	-	-	-	-	-	-	1
(Rs.)	-	(9)	-	-	-	-	-	-	-	-	-	(9)
Oils, vegetables (Gals.)	-	280	-	-	-	-	-	-	-	-	-	280
(Rs.)	-	(1,979)	-	-	-	-	-	-	-	-	-	(1,979)
Chemicals, all sorts (Rs.)	(137,785)	(73,782)	-	(808)	(83)	(2,947)	-	-	-	(358)	-	(215,763)
Drugs & medicines, all kinds (Rs.)	(491,002)	(108,801)	-	-	-	(1,477)	-	-	(19,177)	-	-	(620,457)
Glue (Cwts.)	-	4	-	-	-	-	-	-	-	-	-	4
(Rs.)	-	(356)	-	-	-	-	-	-	-	-	-	(356)
Dyes (Lbs.)	-	-	-	-	-	6,500	-	-	-	-	-	6,500
(Rs.)	-	-	-	-	-	(6,869)	-	-	-	-	-	(6,869)
Painters' materials, not elsewhere specified (Cwts.)	700	54	-	-	-	-	-	-	-	-	-	754
(Rs.)	(48,392)	(1,151)	-	-	-	-	-	-	-	-	-	(49,543)

Commodities	United States Quantity (Value)	Hong Kong Quantity (Value)	French Indochina Quantity (Value)	Dutch East Indies Quantity (Value)	Italy Quantity (Value)	China Quantity (Value)	Germany Quantity (Value)	United Kingdom Quantity (Value)	Straits Settle- ments Quantity (Value)	Java Quantity (Value)	Russia Quantity (Value)	Total Quantity (Value)
Painters' & lithographers' ink	-	-	-	-	-	(61)	-	-	-	-	-	(61)
Oils, essential	-	237 (2,651)	-	-	-	(1)	-	-	-	-	-	237 (2,652)
Pneumatic motor covers	1,320 (110,600)	-	-	-	-	-	-	-	-	-	-	1,320 (110,600)
Pneumatic motor tubes	1,320 (10,634)	-	-	-	-	-	-	-	-	-	-	1,320 (10,634)
Cork manufactures	3 (83)	-	-	-	-	-	-	-	-	-	-	3 (83)
Rubber manufactures	(4,446)	(6,115)	-	(20,262)	(1,076)	(369)	-	-	-	-	-	(32,268)
Furniture, bedsteads	-	(60)	-	-	-	-	-	-	-	-	-	(60)
Paper manufactures	-	14 (508)	-	-	-	(1)	-	-	-	-	-	14 (509)
Leather manufactures	-	-	-	-	-	-	-	-	-	-	-	(119)
Cotton waste	-	9 (150)	-	-	-	-	-	-	-	-	-	9 (150)
Cotton twist & yarn, colored	-	42,975 (16,404)	-	-	-	128,756 (68,950)	-	-	-	-	-	171,731 (85,354)
Flax thread for sewing	-	251 (425)	-	-	-	-	-	-	-	-	-	251 (425)

Commodities	United States Quantity (Value)	Hong Kong Quantity (Value)	French Indochina Quantity (Value)	Dutch East Indies Quantity (Value)	Italy Quantity (Value)	China Quantity (Value)	Germany Quantity (Value)	United Kingdom Quantity (Value)	Straits Settle- ments Quantity (Value)	Java Quantity (Value)	Burma Quantity (Value)	Total Quantity (Value)
Cotton shirtings, white, dyed, & colored	(Yds.) 814,262 (Rs.) (408,341)	37,000 (6,998)	-	-	-	65,148 (14,123)	-	-	-	-	-	916,489 (429,462)
Cotton long cloth, white	(Yds.) - (Rs.) -	-	-	-	-	20,500 (4,043)	-	-	-	-	-	20,500 (4,043)
Cotton piece goods, dyed	(Yds.) - (Rs.) -	-	-	-	-	1,025 (340)	-	-	-	-	-	1,025 (340)
Cotton, other manufactures	(Yds.) - (Rs.) -	12 (4)	-	-	-	119 (274)	-	-	-	-	-	131 (278)
Ribbons	(Yds.) - (Rs.) -	-	-	-	-	66 (5)	-	-	-	-	-	66 (5)
Other textiles, manufactured	(Rs.) -	(36,170)	-	-	-	-	-	-	-	-	-	(36,170)
Balting for machinery	(Rs.) -	(3,642)	-	-	-	(715)	-	-	-	-	-	(4,357)
Apparel	(Rs.) -	(565)	-	-	-	-	-	-	-	-	-	(565)
Cotton blankets	(Lbs.) - (Rs.) -	1,500 (2,505)	-	-	-	-	-	-	-	-	-	1,500 (2,505)
Haberdashery & millinery	(Rs.) -	(463)	-	-	-	-	-	-	-	-	-	(463)
Boots & shoes, all sorts	(Pairs) (Rs.)	4 (18)	-	-	-	110 (84)	-	-	-	-	-	114 (102)
Petroleum, dangerous	(Gals.) 576,375 (384,093)	-	-	-	-	-	-	-	-	-	-	576,375 (384,093)
Oils, mineral, other than danger- ous petroleum	(Gals.) 1,200 (Rs.) (3,283)	178 (505)	-	-	1 (85)	-	-	-	-	-	32 (80)	1,411 (3,953)

Commodities		United States	Hong Kong	French	Dutch	Italy	China	Germany	United Kingdom	Straits Settlements	Java	Russia	Total
		Quantity (Value)	Quantity (Value)	Quantity (Value)	East Indies Quantity (Value)	Quantity (Value)							
Mineral grease	(Lbs.)	218,640	14,180	-	-	-	22,861	-	-	-	-	-	255,681
	(Rs.)	(69,702)	(3,369)	-	-	-	(5,657)	-	-	-	-	-	(78,728)
Building & engineering materials	(Rs.)	-	(3,084)	-	-	(40,320)	(1)	-	-	-	-	-	(43,405)
Glassware, all sorts	(Rs.)	-	(18,915)	-	-	-	(138)	-	-	-	-	-	(19,053)
Iron & steel bars, beams, hoops, tiles	(Tons)	1,688	327	-	361	44	114	-	21	-	-	-	2,555
pipes, plates, bolts, etc.	(Rs.)	(1,263,571)	(112,426)	-	(155,502)	(61,590)	(44,035)	-	(4,736)	-	-	-	(1,641,860)
Aluminum, ignots, sheets, plates etc.	(Cwts.)	259	185	-	100	-	-	-	-	-	-	-	544
	(Rs.)	(39,370)	(61,586)	-	(7,471)	-	-	-	-	-	-	-	(108,427)
Brass rods, sheets, wire, etc.	(Cwts.)	4,151	130	-	40	-	-	-	-	-	-	-	4,321
	(Rs.)	(99,227)	(3,676)	-	(3,698)	-	-	-	-	-	-	-	(106,601)
Copper, rods, tubes, wire, etc.	(Cwts.)	1	14	-	165	-	-	-	-	-	-	-	180
	(Rs.)	(180)	(852)	-	(8,351)	-	-	-	-	-	-	-	(9,383)
Zinc or spelter	(Cwts.)	16,634	-	-	-	-	-	-	-	-	-	-	16,634
	(Rs.)	(443,628)	-	-	-	-	-	-	-	-	-	-	(443,628)
Metals, un-enumerated	(Rs.)	-	(48)	-	-	-	-	-	-	-	-	-	(48)
Hardware, all kinds	(Rs.)	(79,480)	(118,386)	-	(30,715)	(86,799)	(2,041)	(842)	(2,931)	-	-	-	(321,194)
Machinery & parts, all kinds other than motor vehicles	(Rs.)	(4,409)	(274,487)	-	(274,267)	(52,580)	-	(40,064)	(1,844)	-	-	-	(647,645)
Cycles	(No.)	-	12	-	-	-	-	-	-	-	-	-	12
	(Rs.)	-	(870)	-	-	-	-	-	-	-	-	-	(870)
Motor cars	(No.)	-	5	-	-	-	-	-	-	-	-	-	5
	(Rs.)	-	(16,160)	-	-	-	-	-	-	-	-	-	(16,160)

Commodities	United States Quantity (Value)	Hong Kong Quantity (Value)	French Indochina Quantity (Value)	Dutch East Indies Quantity (Value)	Italy Quantity (Value)	China Quantity (Value)	Germany Quantity (Value)	United Kingdom Quantity (Value)	Straits Settlements Quantity (Value)	Java Quantity (Value)	Russia Quantity (Value)	Total Quantity (Value)
Instruments & apparatus, including electrical, scientific, etc.	(Rs.) (471,991)	(331,409)	-	(50,147)	(26,782)	(579)	(30,974)	-	-	-	-	(911,882)
Carriages, carts, for railways	(Rs.) (3,140)	-	-	-	-	-	-	-	-	-	-	(3,140)
Motor cycles	(No.) -	8	-	-	-	-	-	-	-	-	-	8
	(Rs.) -	(11,689)	-	-	-	-	-	-	-	-	-	(11,689)
Motor cars imported with bodies	(No.) -	202	264	-	-	3	-	-	-	3	-	472
	(Rs.) -	(672,389)	(1,547,911)	-	-	(11,330)	-	-	-	(14,552)	-	(2,246,182)
Motor chassis	(No.) 500	-	-	-	-	-	-	-	-	-	-	500
	(Rs.) (1,974,113)	-	-	-	-	-	-	-	-	-	-	(1,974,113)
Vehicles, parts of mechanically propelled vehicles	(Rs.) (322,762)	(14,463)	-	(7,840)	(2,912)	(862)	-	(133)	-	-	-	(348,972)
Vehicles - ships, parts of	(Rs.) -	(901)	-	-	-	-	-	-	-	-	-	(901)
Guns & raisins	(Cwts.) -	77	-	-	-	-	-	-	-	-	-	77
	(Rs.) -	(5,123)	-	-	-	-	-	-	-	-	-	(5,123)
Books & printed matter	(Cwts.) 1	5	-	-	-	-	-	-	-	-	-	6
	(Rs.) (22)	(1,430)	-	-	(7)	-	-	-	-	-	-	(1,459)
Clocks & watches, etc.	(Rs.) -	-	-	(3,967)	-	-	-	-	-	-	-	(3,967)
Cinema raw films	(Feet) -	36,000	-	-	-	-	-	-	-	-	-	36,000
	(Rs.) -	(44,048)	-	-	-	-	-	-	-	-	-	(44,048)
Provisions, canned & bottled	(Cwts.) -	9	-	-	-	-	-	-	-	-	-	9
	(Rs.) -	(861)	-	-	-	-	-	-	-	-	-	(869)
Stationery	(Rs.) -	(325)	-	-	-	(4,736)	-	-	-	-	-	(5,061)
Toilet requisites	(Rs.) -	(22)	-	-	-	-	-	-	-	-	-	(22)
All other articles	(Rs.) (4,109)	(3,135)	-	-	(698)	(809)	-	(25,492)	-	-	-	(34,168)
Total	(Rs.) 6,374,351	1,965,016	1,547,911	563,028	272,865	170,453	71,880	35,136	19,177	14,910	80	11,094,807
	(\$1,912,305)	(\$589,505)	(\$464,373)	(\$168,908)	(\$81,860)	(\$51,136)	(21,564)	(\$10,541)	(\$5,753)	(\$4,473)	(\$24)	(\$3,310,442)

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JUN 5 1940

APRIL 1940

UNITED STATES
DEPARTMENT OF THE INTERIOR
HAROLD L. ICKES, SECRETARY

BUREAU OF MINES
R. R. SAYERS, ACTING DIRECTOR

INFORMATION CIRCULAR

UTILIZATION OF NATURAL GAS FOR ~~CHEMICAL~~ PRODUCTS



BY

HAROLD M. SMITH

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INFORMATION CIRCULAR

UNITED STATES DEPARTMENT OF THE INTERIOR - BUREAU OF MINES

UTILIZATION OF NATURAL GAS FOR CHEMICAL PRODUCTS^{1/}

By Harold M. Smith^{2/}

Natural gas has been used as a fuel and source of energy almost from its discovery, but its use as a chemical raw material may be said to have begun in 1918, when Brooks and Humphrey^{3/} showed the presence of alcohols in the diluted acid oil obtained by the sulfuric acid treatment of cracked petroleum distillates. However, development of the utilization of natural gas for chemical syntheses was slow, partly because erroneous ideas existed regarding the nonreactivity of the hydrocarbons composing natural gas. Data accumulated by petroleum chemists throughout the world, particularly since about 1930, have shown that these hydrocarbons will react when activated by the effects of heat, pressure, chemical reagents, and light; also that the reactions can be made to proceed at practicable speeds and to provide good yields of useful products with moderate operating conditions, especially if catalysts are employed. As these results became known, the possibility of a synthetic organic chemical industry based upon these reactions became apparent, and today this industry is large and growing rapidly in importance.

In this paper the story of the manufacture of chemical products from natural gas is told simply in graphic form. The industry is developing so rapidly that some products may have been omitted, but every effort has been made to include all that are important or likely to become so. The difficulty of keeping information of this type up to date is shown by reference to an information circular^{4/} on the same subject published by the Bureau of Mines in 1930, in which the important products are shown on a single chart, whereas five charts are employed for the same purpose at present.

- ^{1/} The Bureau of Mines will welcome reprinting of this paper, provided the following footnote acknowledgment is used: "Reprinted from Bureau of Mines Information Circular 7108."
- ^{2/} Petroleum chemist, Bureau of Mines, Bartlesville, Okla.
- ^{3/} Brooks, B. T., and Humphrey, I., The Action of Concentrated Sulfuric Acid on Olefins, With Particular Reference to the Refining of Petroleum Distillates: Jour. Am. Chem. Soc., vol. 40, 1918, pp. 822-856.
- ^{4/} Smith, H. M., Possible Utilization of Natural Gas for the Production of Chemical Products: Bureau of Mines Inf. Circ. 6388, 1930, 5 pp.

It would be desirable to include brief descriptions of some of the processes, but operating conditions are so varied that no simple method of explanation seems possible. The subject of catalysts also is so complex that it cannot be covered adequately in a report of this type. The nontechnical reader is interested mainly in the general picture shown by the 10 charts; the technical reader will be able to obtain from the references given such chemical and engineering information as is generally available.

Chart I.

Chart I shows the general composition and major uses of natural gas. The percentage of the various components in natural gas varies greatly, but "wet" gas typical of much of that produced lies within the following limits in percent by volume: Methane, 80-90 percent; ethane, 5-10 percent; propane, 3-5 percent; isobutane and butane, 1-2 percent; pentanes and hexanes, 1-2 percent. Chart I also indicates that portion of natural gas, namely, "dry" and "liquefied" gas, with which this paper deals.

Chart II.

The upper graph of chart II shows the consumption of natural gas in 1938 for domestic, commercial, and industrial purposes. Unfortunately, figures for the quantity of natural gas used in the manufacture of synthetic chemicals have not been segregated, but are included under "other industrial" uses. The graph at the lower left shows the great increase in production of non-coal-tar synthetic organic chemicals from 1925 to 1938. However, statistics showing the proportion of increase due to synthesis from natural gas are not available. The graph on the right shows the consumption of liquefied propane and butane; statistics of the amounts used in chemical manufacture indicate a considerable increase from 1936 to 1938. The 31 million gallons used in 1938 would represent about 1 billion cubic feet in the gaseous state.

Chart III.

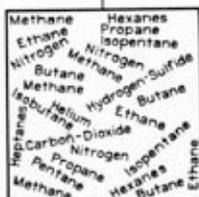
At present there are four basic methods of converting natural-gas hydrocarbons to other products. These are named, defined, and illustrated by examples in chart III. "Dehydrogenation" is considered as one type of "decomposition" and included under that heading. A few words concerning methane may be needed. Although it is the major constituent of natural gas, it was not chosen to illustrate the reactions because in most instances it requires severe operating conditions, and the reactions are difficult to control. Methane can be decomposed by heat to give unsaturated gases and aromatic liquids, but extreme temperatures are necessary, and the processes are not economically feasible at present. Oxidation of methane is being carried out at present, and chlorination of methane is possible, but it is difficult to control the conditions so as to give a good yield of a single product rather than a mixture of three or four products.

NATURAL GAS

NATURAL GAS IS A MIXTURE OF HYDROCARBON AND NON-HYDROCARBON GASES.

THE SEVERAL HYDROCARBON COMPONENTS MAY BE SEPARATED FROM EACH OTHER BY FRACTIONAL DISTILLATION.

IN THE FIRST SEPARATION THREE GROUPS OF PRODUCTS MAY BE MADE.

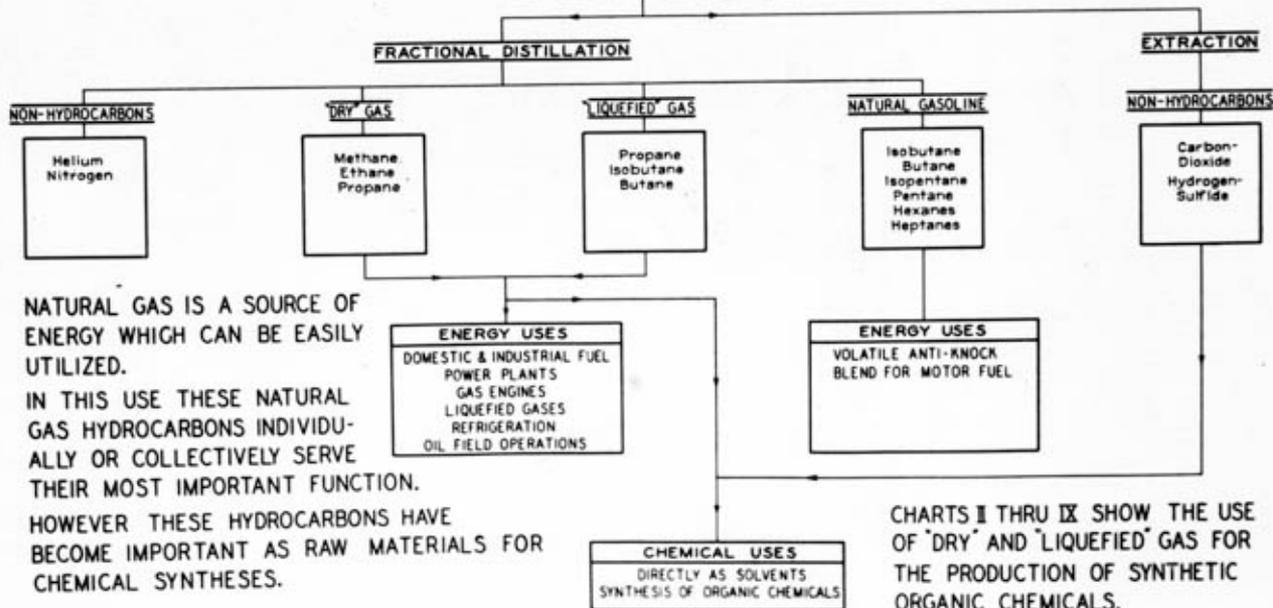


THERE IS SOME OVERLAPPING BETWEEN THESE GROUPS, AS SHOWN BELOW.

BY FURTHER FRACTIONAL DISTILLATION THE INDIVIDUAL COMPONENTS CAN BE ISOLATED WHEN DESIRED.

SOME NON-HYDROCARBON GASES ARE SEPARATED BY EXTRACTION WITH SOLVENTS.

GROUP SEPARATION



NATURAL GAS IS A SOURCE OF ENERGY WHICH CAN BE EASILY UTILIZED.

IN THIS USE THESE NATURAL GAS HYDROCARBONS INDIVIDUALLY OR COLLECTIVELY SERVE THEIR MOST IMPORTANT FUNCTION.

HOWEVER THESE HYDROCARBONS HAVE BECOME IMPORTANT AS RAW MATERIALS FOR CHEMICAL SYNTHESSES.

CHARTS II THRU IX SHOW THE USE OF 'DRY' AND 'LIQUEFIED' GAS FOR THE PRODUCTION OF SYNTHETIC ORGANIC CHEMICALS.

CHART II

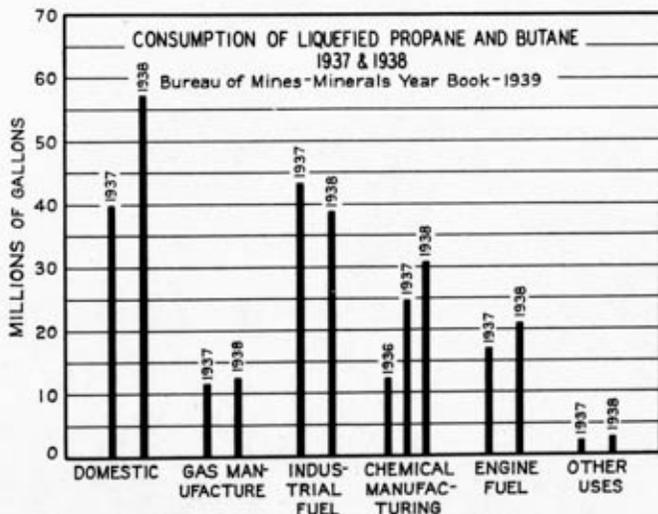
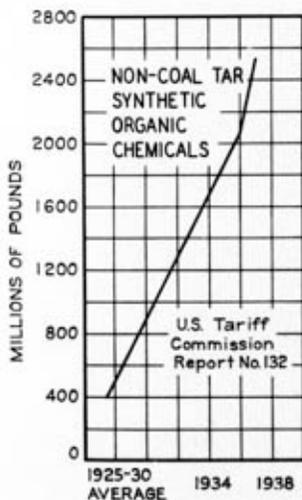
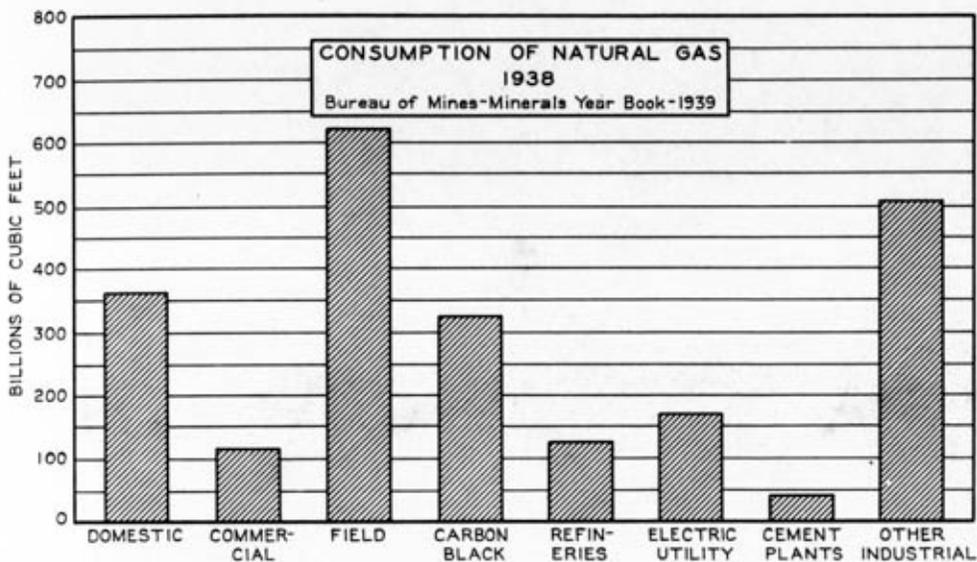
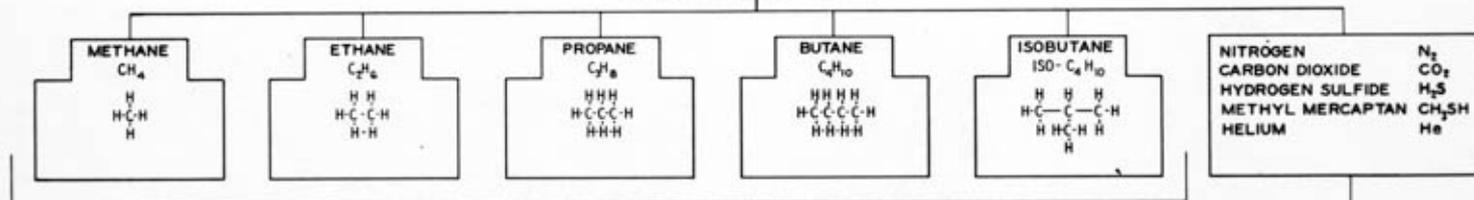


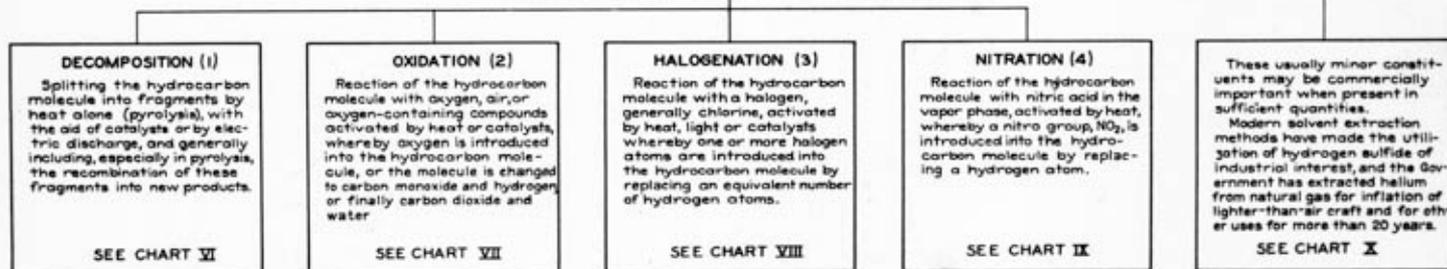
CHART III

"DRY" AND "LIQUEFIED" NATURAL GAS

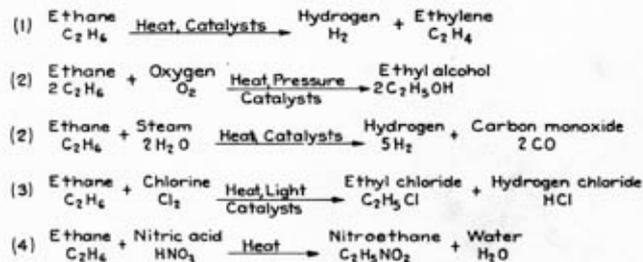
IS COMPOSED OF



THESE HYDROCARBONS
MAY BE CONVERTED TO OTHER PRODUCTS BY



EXAMPLES OF THESE REACTIONS WITH ETHANE ARE



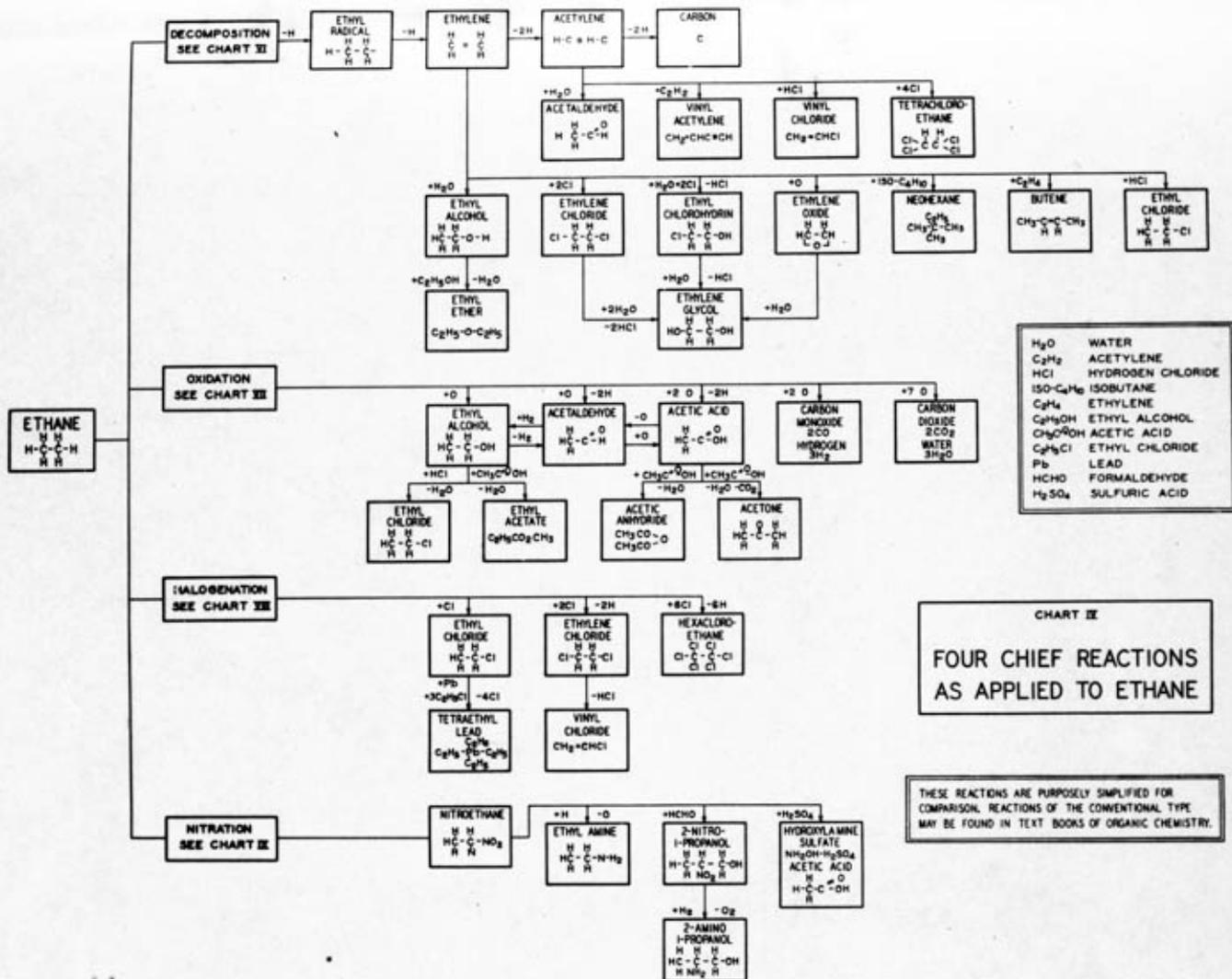
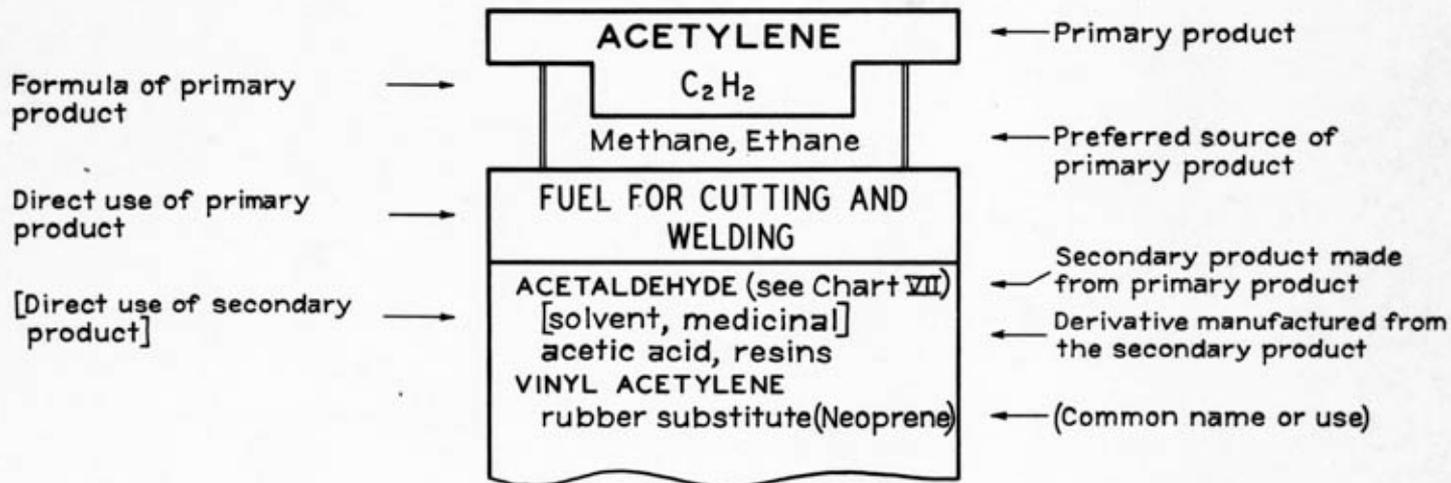


CHART V



Nitration of methane is possible if operating conditions are drastic enough. Thus, methane, the most prevalent of all hydrocarbon gases, is more resistant to chemical treatment than the others, and its reactions are less typical as is often true for first members of an homologous series of compounds. The utilization of methane other than as a gaseous fuel is still a problem awaiting solution.

This brief discussion regarding methane also brings out the fact that for each hydrocarbon there is one set of operating conditions - temperature, pressure, and contact time - that will provide optimum yields. For this reason it is often desirable to segregate the hydrocarbons as individuals or small groups. For example, if it is desired to decompose propane thermally to produce propylene, then any butane, pentane, or other higher-molecular-weight hydrocarbons should be removed. These heavier compounds react to produce undesirable products under conditions suitable for propane. On the other hand, methane and ethane would react very little, and would serve largely as diluents to decrease the extent of the propane decomposition.

Chart IV.

Chart IV gives in some detail the relationship between various reactions that may be applied to ethane. No attempt is made to show the mechanism of the reactions indicated - simply the over-all results. The (+) sign before a product name means that the product is added, and the (-) sign means that the product is removed. Text books on organic chemistry describe the conditions under which such reactions will occur. The chart is by no means complete and is presented only to illustrate the types of reaction possible in the synthesis of products from gaseous hydrocarbons.

Chart V.

Chart V should be used for reference in studying charts VI to X, as it indicates the significance of the several "boxes," brackets, and types of lettering used in them. In chart V the terms used have the following meanings:

Primary product.- A product obtained directly by the application of one of the four basic methods of conversion given in chart III.

Preferred source.- Not necessarily the only source, but the material reacting most easily or with the best yields.

Direct use.- A use, (1) in which no chemical change occurs in the substance, as when it is used as a solvent or anesthetic; or, (2) when the substance is completely destroyed, as when used for fuel. The direct uses of secondary products are indicated in brackets.

Secondary product.— A product made from the primary product. Common names and uses of secondary products and their derivatives are indicated in parentheses.

Charts VI - IX.

Charts VI, VII, VIII, and IX show the development of chemical syntheses from the primary products obtained by the application of the four methods of hydrocarbon conversion shown in chart III. Space does not permit naming all secondary products. For example, one company lists about 85 organic chemicals, of which they say: "In producing all these chemicals, olefins derived by processing natural gas are used either directly or indirectly as raw materials and in most cases as the most important raw material." Williams^{5/} shows a chart of 71 products that can be made, beginning with just one olefin, isobutylene. A company manufacturing nitration products lists 54 derivatives as an incomplete list of those that can be made available easily. These data show the impracticability of listing all the products, and indicate the magnitude of the industry being built with natural gas as a raw material. It should be mentioned that a well-established group of organic compounds also is being prepared from the pentanes, which are not constituents of "dry" or "liquefied" natural gas. They are present, however, in natural gasoline.

Chart X.

Certain constituents of natural gas are not hydrocarbons and usually are present in relatively small amounts. Some of these materials, such as helium, are valuable even when present only to the extent of a few percent. Others, such as hydrogen sulfide, are a source of trouble and must be removed even when they are present in small quantities. Hydrogen sulfide is an example of one of the generally objectionable nonhydrocarbon gases, which may become valuable when it is removed from the other components of natural gas and converted into useful products.

Some natural gases have a composition of nearly 100 percent carbon dioxide. Carbon dioxide from this source may be of value if the wells from which it is produced are geographically situated so that the gas may be utilized economically. So far, no economic use for nitrogen in natural gas has been developed.

ACKNOWLEDGMENTS

Collection and arrangement of the information presented in this paper were carried out under the general supervision of R. A. Cattell, chief engineer, Petroleum and Natural Gas Division, Bureau of Mines, Washington, D. C., and N. A. C. Smith, supervising engineer, Petroleum Experiment Station, Bartlesville, Okla.

^{5/} Williams, E. C., *Creating Industries, 1919-1939* - Petroleum: Chem. Ind., vol. 44, May 1939, p. 495.

CHART VI. PRODUCTS OBTAINABLE FROM NATURAL GAS HYDROCARBONS BY DECOMPOSITION

THERMAL-CATALYTIC-ELECTRIC

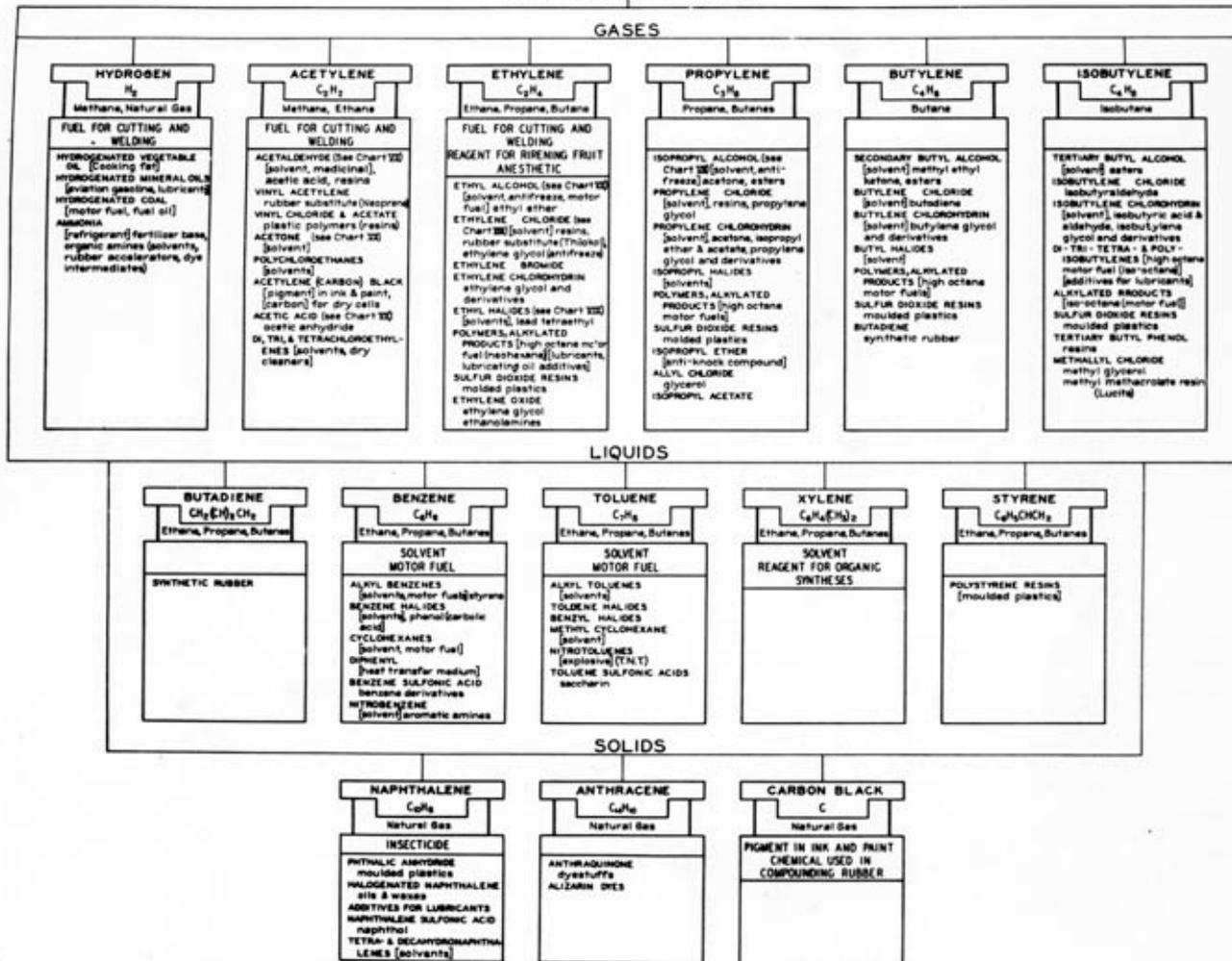


CHART VII
 PRODUCTS OBTAINABLE FROM NATURAL GAS HYDROCARBONS
 BY
 OXIDATION
 THERMAL-CATALYTIC-PRESSURE

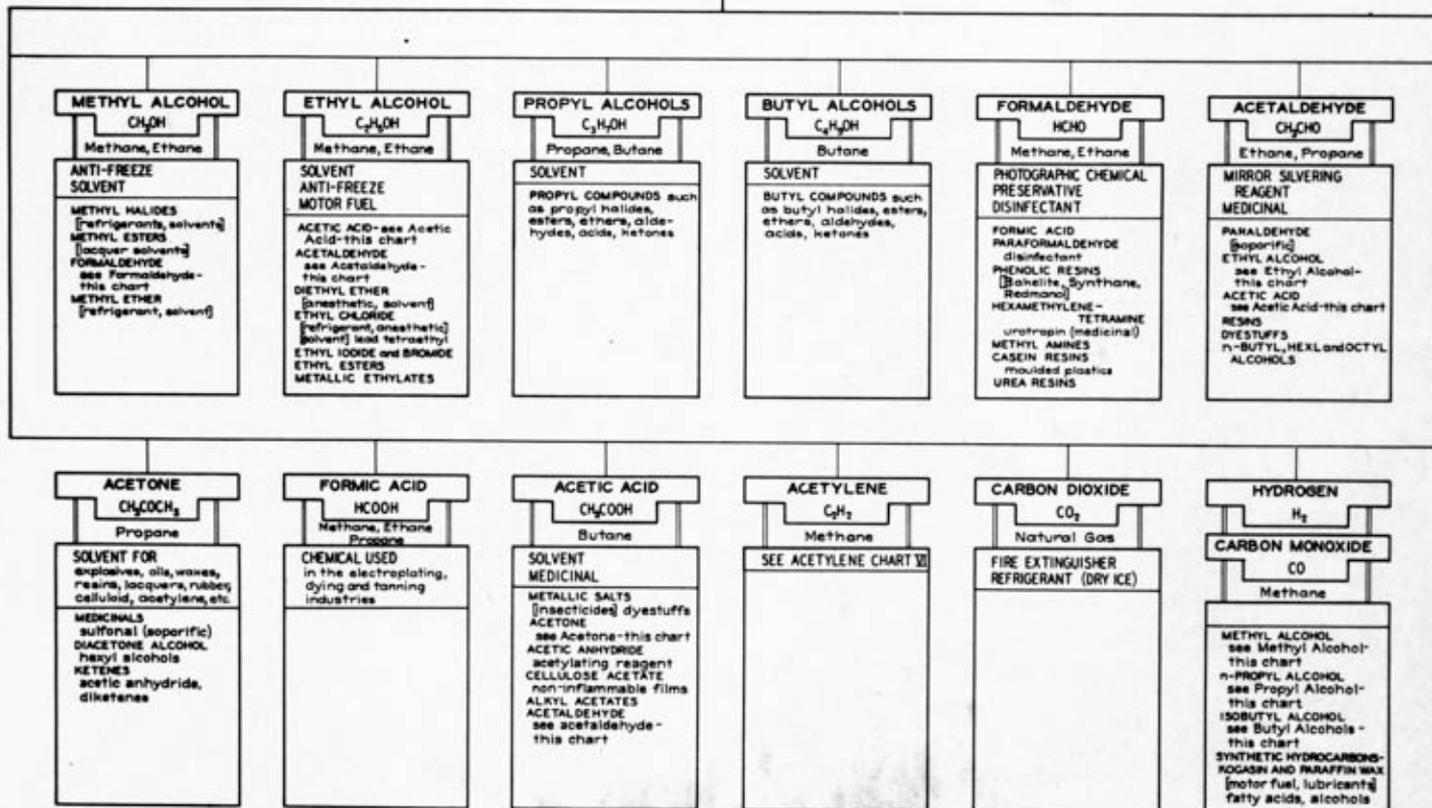


CHART VIII

PRODUCTS OBTAINABLE FROM NATURAL GAS HYDROCARBONS

BY

HALOGENATION

THERMAL - CATALYTIC - PHOTOSYNTHETIC

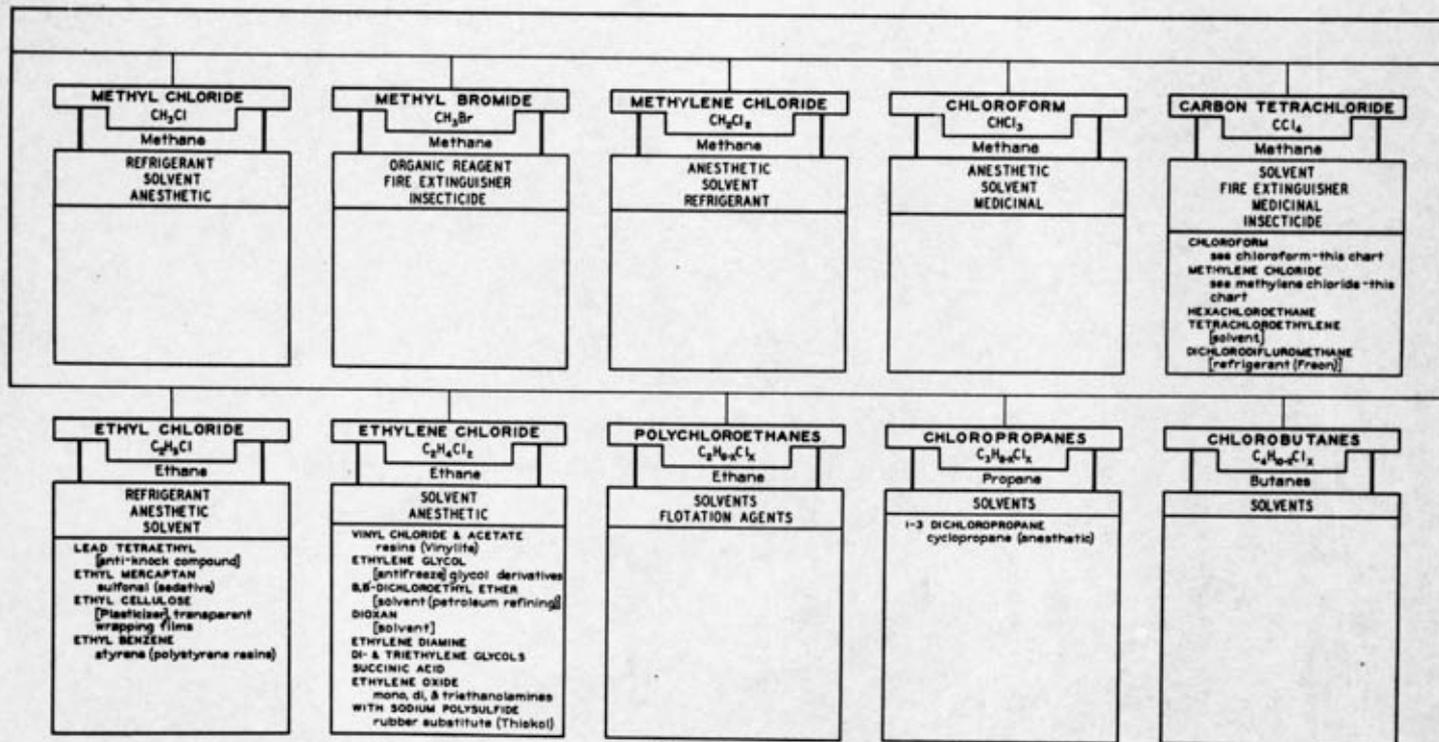


CHART IX
 PRODUCTS OBTAINABLE FROM NATURAL GAS HYDROCARBONS
 BY
 NITRATION
 THERMAL

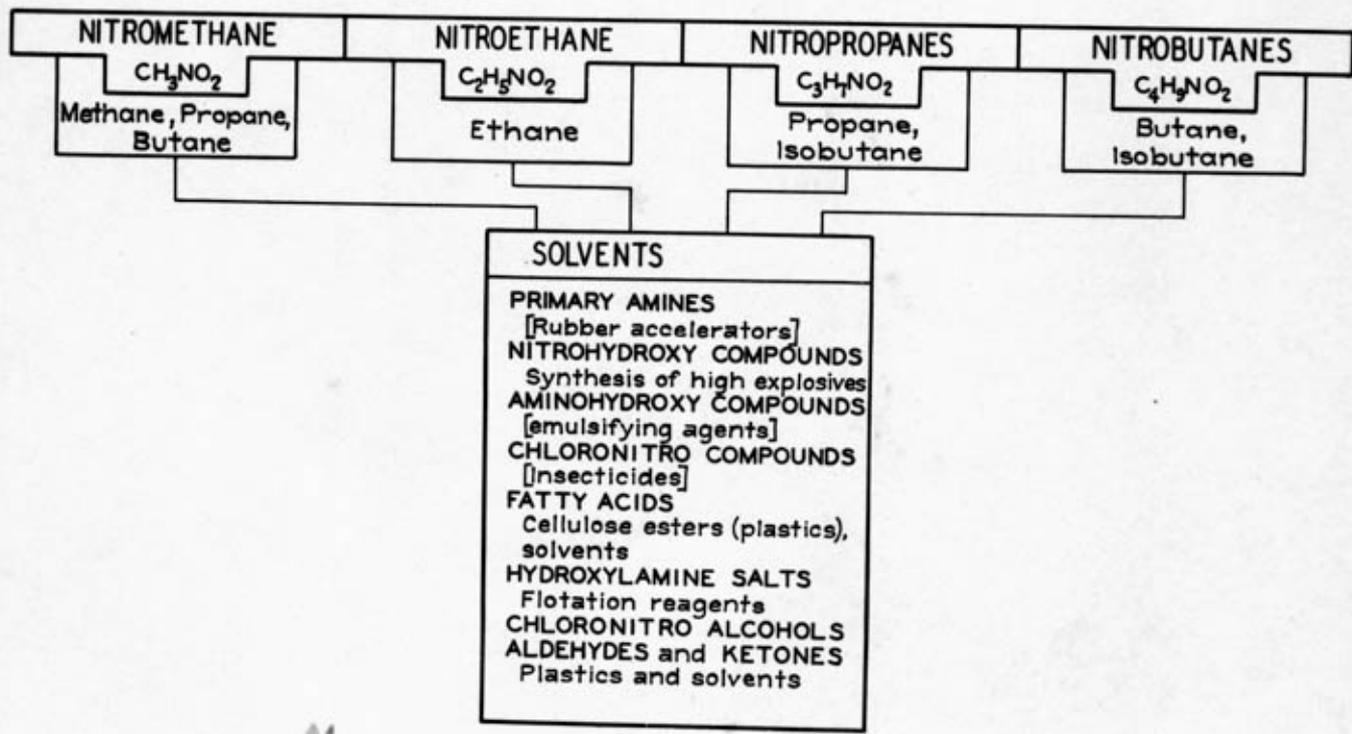
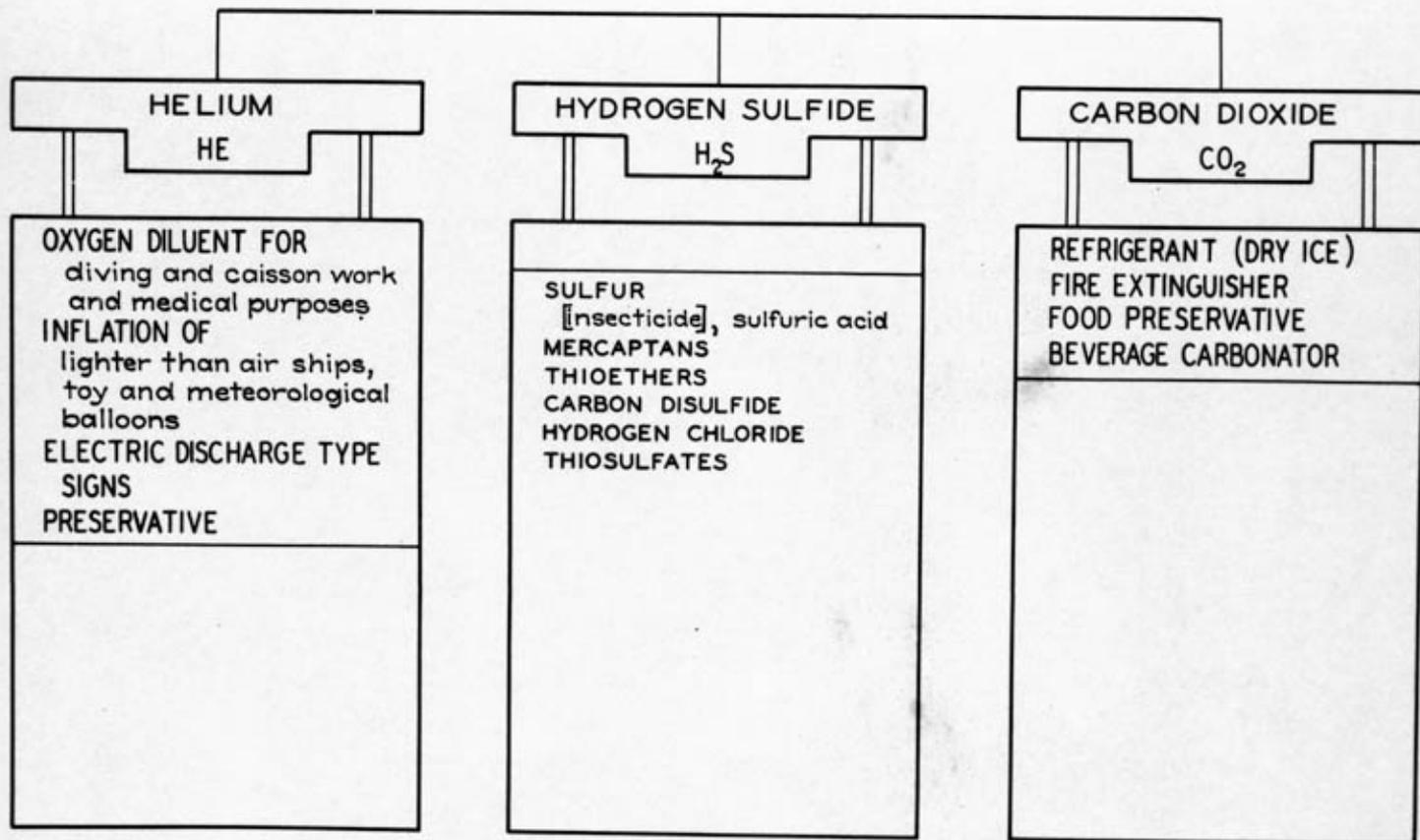


CHART X

USES OF NON-HYDROCARBON NATURAL GAS CONSTITUENTS



Much of the information contained in this circular was obtained directly from companies in the petroleum and chemical industries in reply to requests for data relating to hydrocarbon utilization. The response to these requests was gratifying, and the writer is pleased to acknowledge his indebtedness to all who contributed.

The writer is also particularly appreciative of the criticisms of the paper by members of the Petroleum Division both at Bartlesville and the other stations and field offices, by members of petroleum company laboratories, by Dr. H. B. Hass, head of the Department of Chemistry at Purdue University, Lafayette, Ind., and J. C. Walker, general superintendent, Chemical Division, Cities Service Oil Co., Bartlesville, Okla. The charts were drawn by Ralph Wright and Russell Himmelright of the Bartlesville Station.

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BUREAU OF MINES,
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

June 5, 1940

In reply refer to
FA 855.01/21

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a telegram from the American Ambassador at Paris concerning two decrees drafted at a meeting of the Belgian Cabinet at Paris on May 30, 1940.

Enclosure:

From Paris,
May 31, 1940.

MA

DEPARTMENT OF STATE

DIVISION (**FA**
BUREAU (.....

ENCLOSURE

TO

LETTER DRAFTED

ADDRESSED TO

Treasury
.....

JR

~~SECRET~~

Paris

Dated May 31, 1940

Rec'd 10:02 a.m.

Secretary of State,
Washington.

971, May 31, 1 p.m.

We understand that the 100 odd members of the Belgian Parliament meeting at Limoges this afternoon will approve two decrees said to have been drafted at a meeting of the Belgian Cabinet here last night.

The first decree will declare in the name of the Belgian people and in accordance with Article 82 of the Belgian Constitution that the King being under the power of the invader is in a position which makes it impossible for him to reign.

The second decree will give the Belgian Ministers assembled in council power to execute judgments and mandates in the name of the Belgian people.

The Belgian Cabinet will then proceed to Poitiers where this evening the Ministers will meet to promulgate the decrees.

DDM

BULLITT

RECEIVED DEPARTMENT

MAY 31 1940

SECRETARY OF THE TREASURY
OFFICE

REB

GRAY

Milan

Dated June 5, 1940

Rec'd 2:55 p. m.

Secretary of State,
Washington.

55, June 5, 5 p. m.

Today's market index 213. 77. Volume 70,725.

Further selling pressure continued decline in quotations
in moderate trading without marked characteristics.

SHOLES

HTM

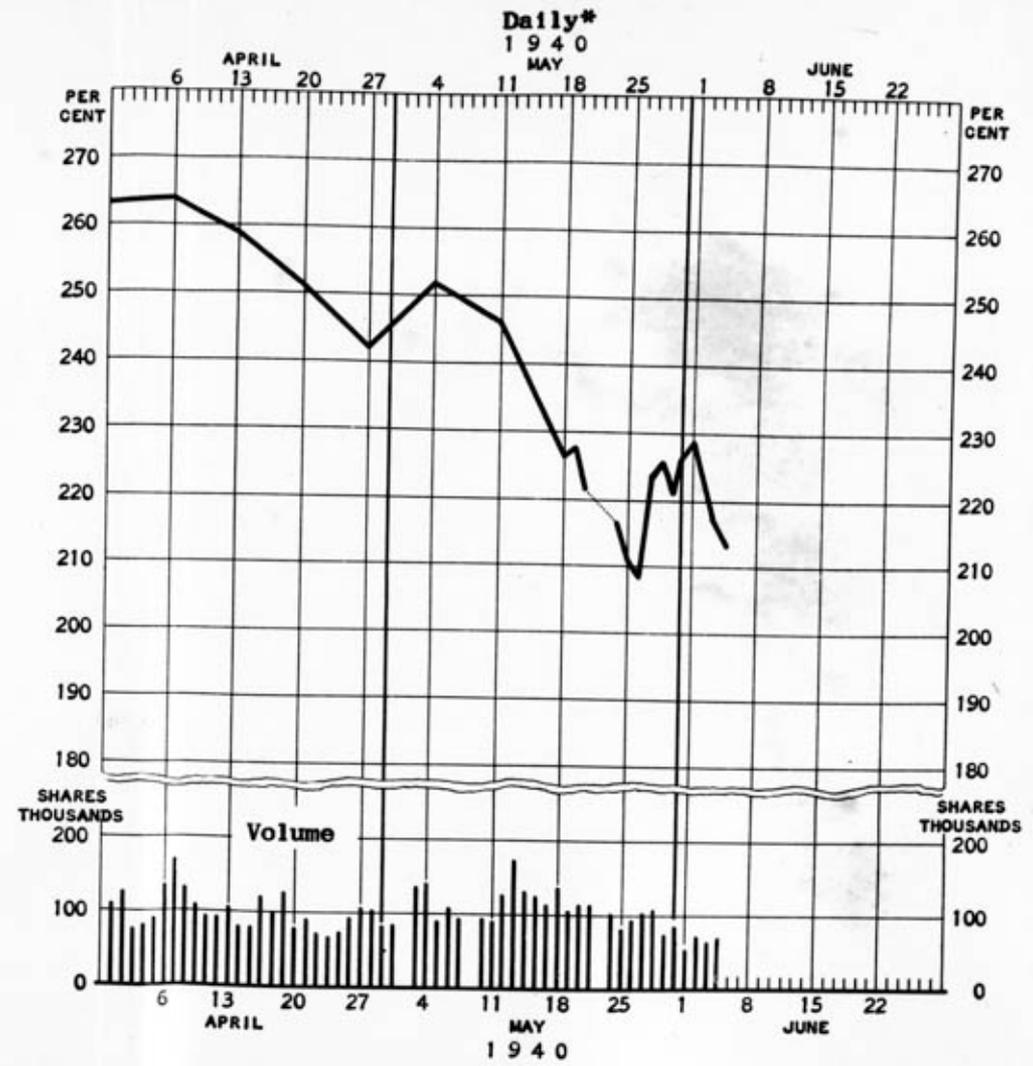
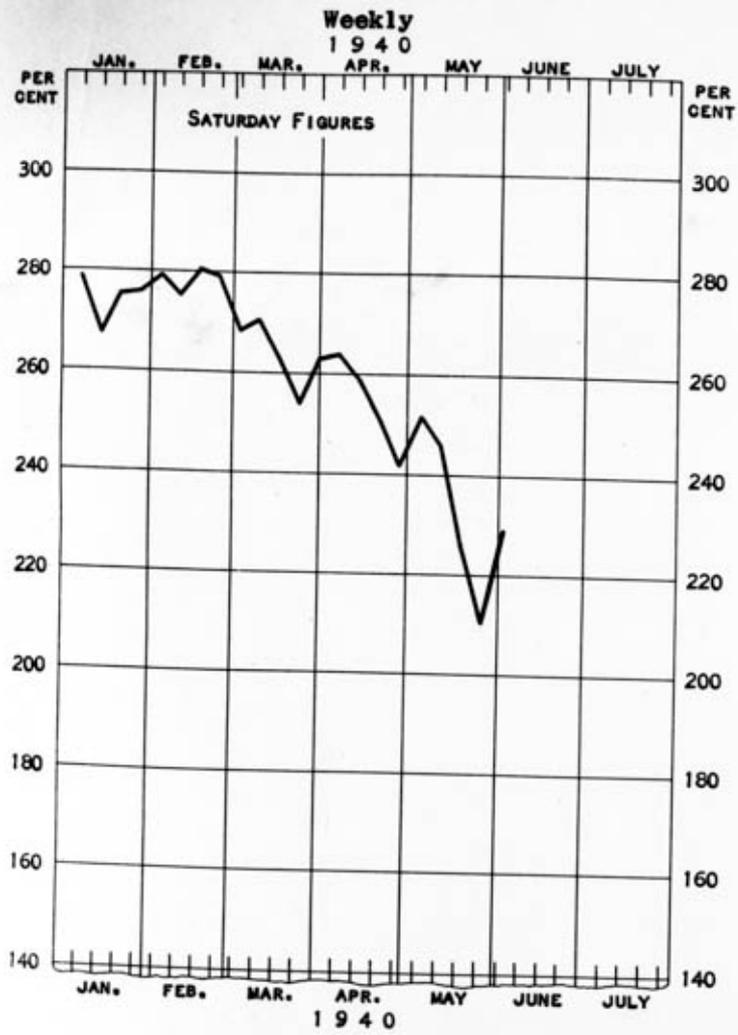
TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

640 JUN 2 6 14 PM '40

TECHNICAL ASSISTANT
RECEIVED

4/5/40
127

ITALIAN STOCK PRICES (Milan)



*SATURDAY FIGURES PRIOR TO MAY 20.

TREASURY DEPARTMENT

128

INTER-OFFICE COMMUNICATION

DATE June 5, 1940

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

Receipts of freight for export at New York increased again during the week ended June 1 to reach a new high level for the period covered by our records. Receipts at 9 other North Atlantic ports showed even more pronounced expansion. The total increase for the week was 812 cars, which compares with an increase of 872 last week. (See Chart 1 and table attached)

The volume of freight exported from New York increased last week by only 46 cars (see Chart 2), consequently the heavy volume of incoming export freight is tending to pile up at New York. The volume of lighterage freight in storage and on hand for unloading in New York harbor now totals 8,384 cars, an increase of 527 cars for the week. (See Chart 3)

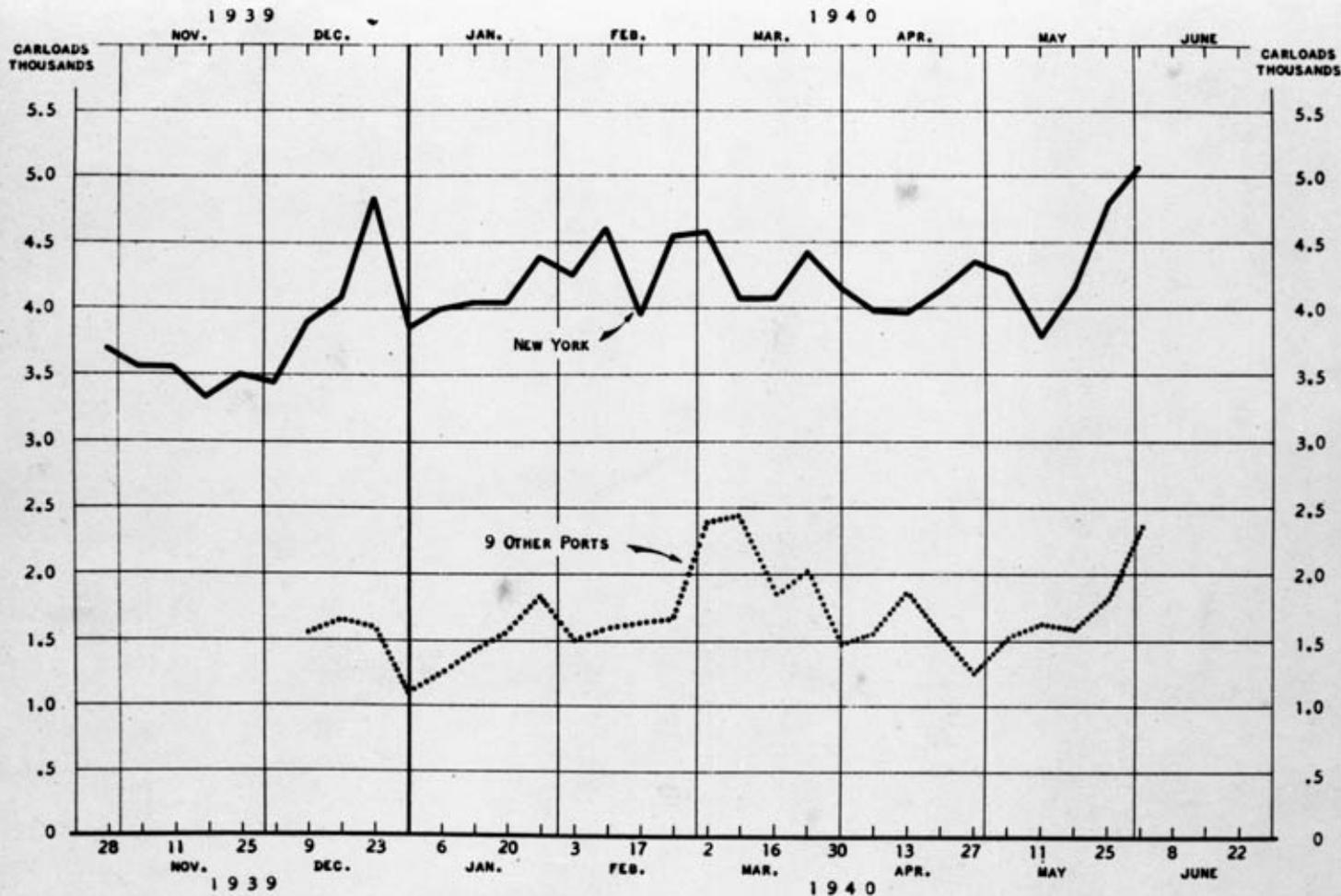
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York <u>1/</u> (-----)	9 other North Atlantic ports <u>2/</u> In carloads -----)	Total
December 2	3,435		
December 9	3,922	1,548	5,470
December 16	4,088	1,658	5,746
December 23	4,848	1,602	6,450
December 30	3,856	1,104	4,960
January 6	4,000	1,251	5,251
January 13	4,056	1,433	5,489
January 20	4,060	1,557	5,617
January 27	4,389	1,825	6,214
February 3	4,274	1,498	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594
May 4	4,255	1,522	5,777
May 11	3,793	1,619	5,412
May 18	4,165	1,583	5,748
May 25	4,794	1,826	6,620
June 1	5,071	2,361	7,432

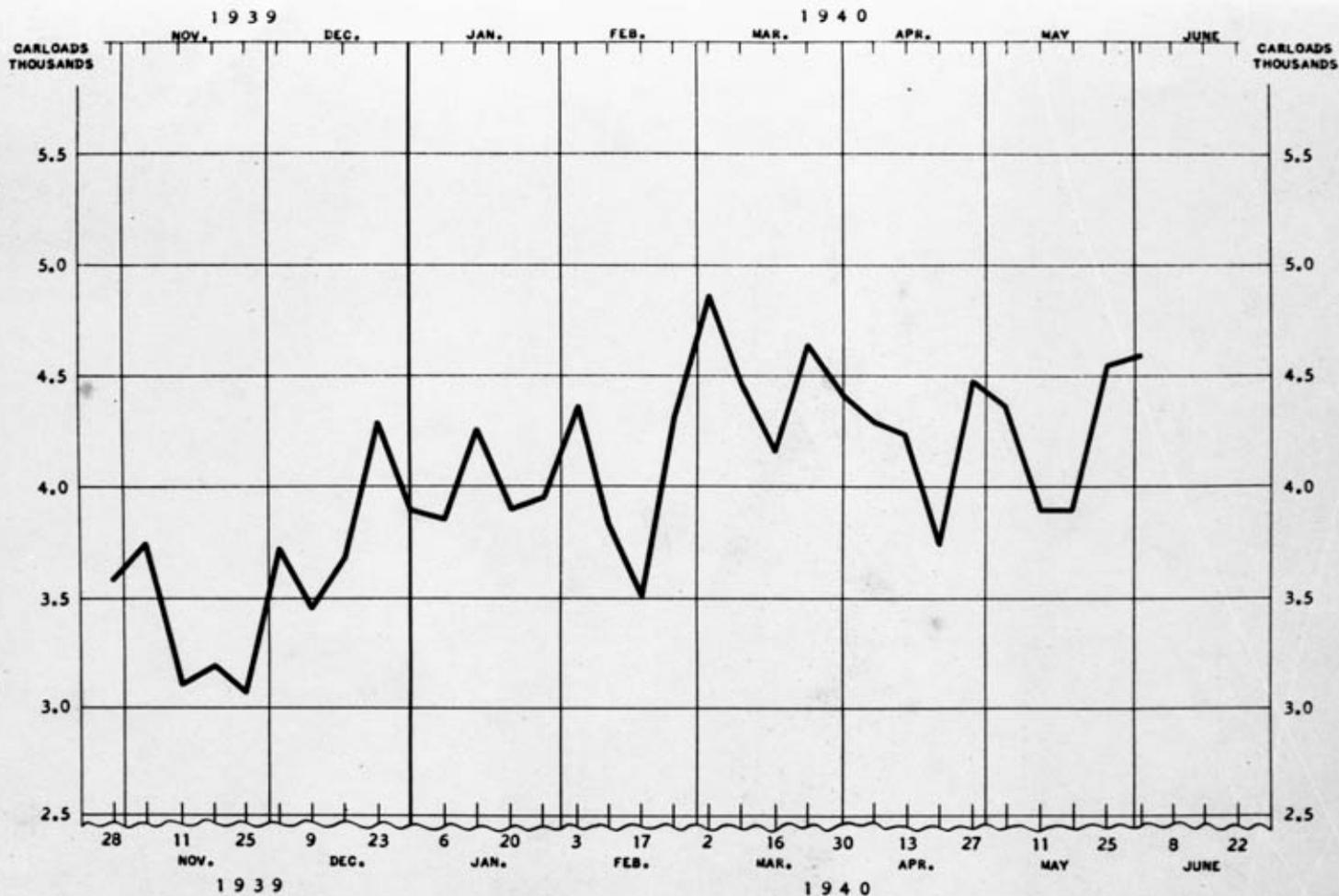
1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

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

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



CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *

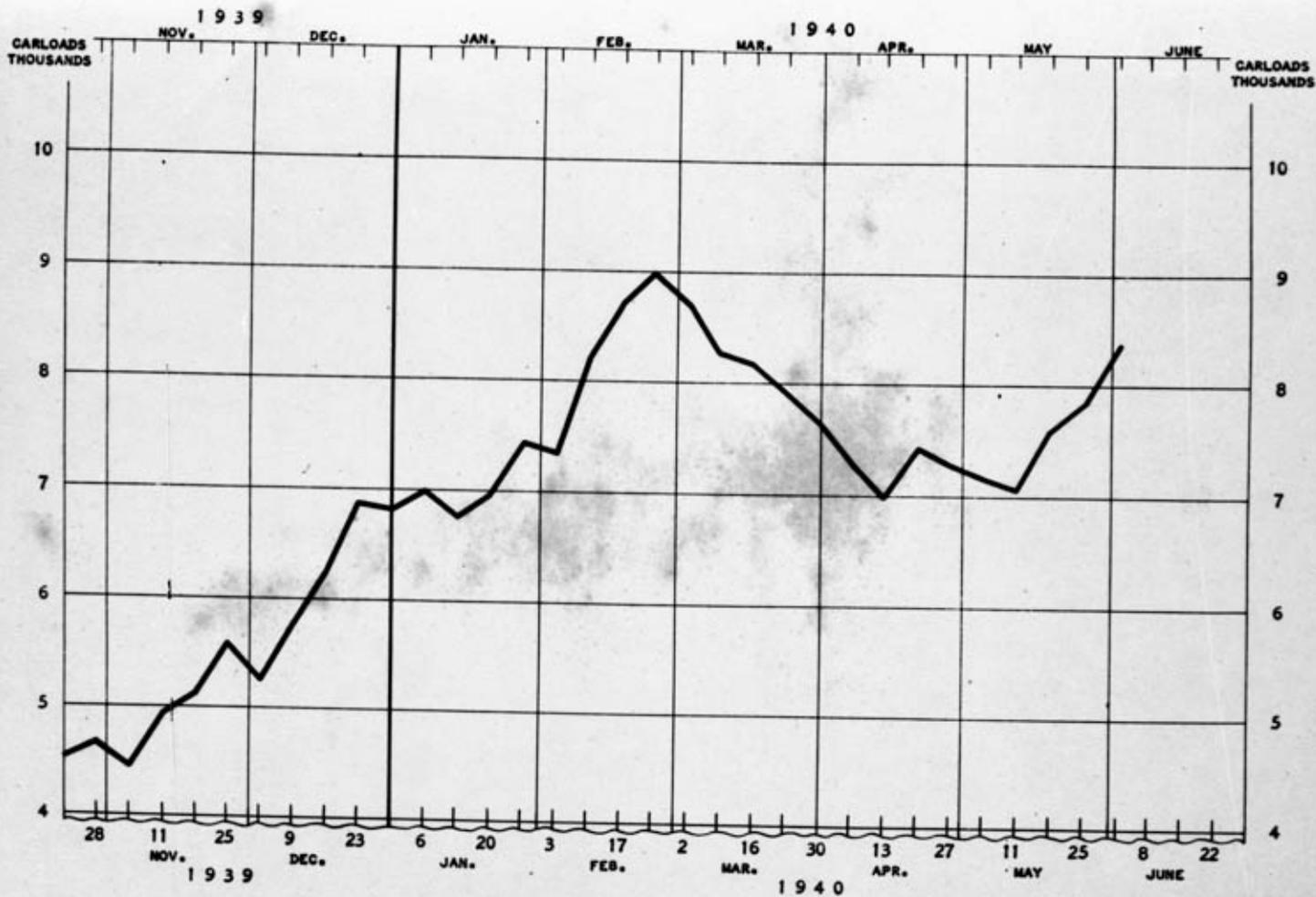


* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

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

131 Chart 2

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



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

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

132 Chart 3

June 5, 1940

Under Secretary Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Clayton, Assistant to Governor Eccles, telephoned me last night in regard to Mr. Dale Parker, who is recommended both by Governor Eccles and Mr. Clayton as an applicant for a position with the Treasury. Mr. Parker is said to have had experience in London with Samuels & Company and to have handled foreign exchange business with the Shell Oil Company and later with Brown Harriman. At present, Mr. Parker is practicing law in New York.

I told Mr. Clayton that the only opening which might exist here would be in the Foreign Funds Control. I stated that such positions were somewhat temporary and that the salaries were not above \$5,000. If in the circumstances Mr. Parker desires to submit his application, I suggested that it be sent directly to Mr. Bell. It could then be considered, and Mr. Parker requested to come to Washington for consultation if his record and experience seem to qualify him for a position in the Treasury.



JR

GRAY

Berlin

Dated June 5, 1940

Rec'd 11 a.m.

Secretary of State,
Washington.

1669, June 5, 9 a.m.

11695

My telegram 1344, May 16, 11 a.m.

The NATIONAL SOZIALIST ISCHELANDPOST of May 31, 1940 publishes an article by Under Secretary of Agriculture Backe for the announced purpose of refuting the "silly fairy tales" about the imminence of Germany's collapse for lack of food in the coming winter.

Germany will enter the new harvest year on August 1, 1940, with the same grain reserve that it possessed at the outbreak of the war Backe stated and asserting that no European country had ever held such a large grain reserve as Germany will have at the beginning of the new crop year. Backe stated that nothing could be said yet about the final outcome of this years crop but contended that the damage done by an unusually severe winter had been offset by a number of favorable factors. Thus it has been possible in spite of the war to supply farmers with the normal quantities of seed and fertilizers. Owing to sufficient supplies of motor fuel spring planting has been practically completed

-2- #1669, June 5, 9 a.m., from Berlin.

completed according to Backe who stated that by May 25 approximately 95 per cent sugar beet area and about 83 per cent of late potatoes had been planted.

Backe also claimed that owing to extraordinary efforts on the part of the farmers it had been possible to plant not only the usual spring acreage but also the acreage that could not be planted last fall owing to unsatisfactory weather conditions and that a decline in winter barley acreage had been offset by increased plantings of spring crops especially of root crops. The area in root crops has been expanded by 10 per cent over last year Backe asserted and the acreage under potatoes alone is 250,000 to 300,000 hectares higher than a year ago while the acreage under sugar beet has also been increased.

As regards the fat situation Backe claimed that actual developments had been more favorable than anticipated. Increased butter production has resulted in an upward revision of the butter ration and consequent saving of margarine. He announced that beginning July 1 the margarine ration will be entirely replaced by butter. Nevertheless at the beginning of the winter 1940-41 Germany will have "a much larger reserve of butter than at the outbreak of the war" Backe stated. He also announced that notwithstanding the increase in the cheese ration

-3- #1666, June 5, 9 a.m., from Berlin.

ation a month ago (which restored a like decrease made several months ago) there will be a further increase of 25% at the beginning of July.

It is also claimed that Germany will enter the winter 1940-1941 with stocks of eggs at least 50 per cent above those of September 1939.

Backe admitted that the hog population is being reduced to correspond to the available supply of feedstuffs but called attention to the large reserve of frozen pork created by such slaughter offsetting reduced supplies of fresh pork during the coming winter. In addition he claimed there will be available larger supplies of beef since the number of cattle which was already very large at the beginning of the war has increased in the meantime.

Finally in regard to supplies of vegetables Backe stated that the proposed increase of 25 per cent in the acreage planted will probably be reached. (END SECTION ONE)

HEATH

DDH

RECEIVED
 THE VERMONT DEVELOPMENT
 DIVISION

13352
Paraphrase of Sections 2, 3, 4, and 5 of telegram No. 1669
from Berlin dated June 5, 1940

137

Secretary of State,
Washington.

STRICTLY CONFIDENTIAL

CONFIDENTIAL.

The statement made by Backe to the effect that Germany's reserves of grain at the beginning of the second year of the war will be equal to those a year earlier refers for both years to the situation which obtained before the crops were harvested. The grain crop of 1939 was a good one and amounted to 27,400,000 tons, which amount according to estimates made by official sources in September 1939 was considered to be at least 1,400,000 tons in excess of the consumption of the Reich's requirement for a period of a year. It was made clear by Backe's statement however that these expectations were not fulfilled, and that no additional reserves were accumulated which was probably due to increased requirements in the part of Poland occupied by Germany. Backe, therefore, admitted tacitly that the prospects for this year's crop are unfavorable, though he apparently tried to divert attention from this fact by making claims that the farmers were well supplied with seeds, supplied with fertilizers, gasoline, etc., which it may be taken to mean at the most that the supply of these factors of production

-2-

production was more or less normal. According to some agricultural authorities it is practically certain that the harvest of grain this year in Germany will be very unfavorable. The publication "Wirtschaft und Statistik" in its April number reported that the crop prospects were poor for practically all non-German European countries, the customary forecast of German crops being omitted from the publication this year. This is taken to mean that neutral European countries which are her only other sources of imports while the war lasts will not be in a position in all probability to supply Germany with any substantial quantity of grain. Up to now according to one report Russia has exported to Germany only 25 percent of the one million tons of grain which was agreed upon. According to Backe Germany still possesses the same grain reserves as last year. At the beginning of the war Darre stated that these grain reserves amounted to 8.6 million tons which was equal to almost one third of the grain harvest of last year. It is doubtful, however, if the war should be prolonged beyond this summer, whether Germany could afford to consume this whole reserve in one year. Furthermore, in spite of the record crop, consumption requirements, which were so great this year that nothing could be added to reserves, will significantly increase. Possible additional requirements are indicated by the fact that

Denmark,

-3-

Denmark, Norway, Holland, Belgium and Luxemburg, imported approximately in 1937 6.5 million tons of grain. The wheat supply of Belgium according to one report is now sufficient for only 50 days.

The admission made by Baake to the effect that the hog population had to be reduced is confirmation of reports to that effect previously received. (In this connection see my telegram of March 26, 4 p.m., No. 743). This statement of Baake constitutes a tacit admission that the fodder situation is not as favorable as was claimed previously. Baake has also claimed an increase in the potato acreage which it is stated amounts to an expansion of 8 to 10 percent over last year which, nevertheless, seems to fall short somewhat of the plans. It may be noted for instance that Goering in his radio address to the farmers of Germany on February 15 demanded that the planting of potatoes should be augmented in Germany from 10 to 15 percent.

Apart from increased production resulting from sharp restrictions on milk consumption the improved butter situation is probably due to greater supplies from Denmark and Holland. The total fat rations have not been increased so far however although the allocation of butter has been augmented with proportionate decreases in the margarine ration. Since the ration of fat in Germany is admitted

to

-4-

to be inadequate the very fact that it has not been increased in spite of the greater supply of butter might lead to the conclusion that stocks of other fats are not quite as ample as is claimed officially.

With regard the question of Germany egg supply it may be said that the reserves are undoubtedly being built up and that present stocks of eggs in Germany are 70% above those of September last year. But the present improved situation with respect to dairy products and eggs is due largely however to supplies from * which countries will undoubtedly encounter shortages of fodder, notably shortages of oil cake on account of the blockade. In all probability the advantage accruing to Germany is therefore a temporary one from a half year to a year. Although the general impression of the food situation presented by Backe is favorable his admissions of weaknesses may be taken as serious enough and particularly in regard to bread and feed grains in which Germany's position when the war started was on the whole considered favorable. As feared in some quarters if this year's grain harvest turns out to be as poor as imagined and the war continues it is not seen how Germany will be able to maintain not only
her

* Apparent omission

-5-

her bread but her meat and fat rations at present levels throughout the winter which will ensue except by making a heavy demand on her reserve supplies.

HEATH

DGA:RHG:NEK

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

DND 10M 10 10 23

RECEIVED
DEPARTMENT

HSM

PLAIN

London

Dated June 5, 1940

Rec'd 1:03 p. m.

Secretary of State,
Washington.

1517, June 5.

FOR TREASURY FROM BUTTERWORTH.

1. In reply to a question in the House of Commons the Chancellor of the Exchequer announced that as a result of the decision to raise the excess profits tax to 100 percent on all businesses the limitation of dividends bill seemed no longer necessary and the proposal would be withdrawn, but the prohibition of bonus issues for the period of the war would remain.

2. In another reply the Chancellor of the Exchequer stated that under regulations passed under the provisions of the recent Emergency Powers Act (reported in my 1326 of May 22) he has the power to give directions to the Bank of England in the fixing of the bank rate. This statement is in contrast to past pronouncements on this question which have always emphasized that the matter lay in the discretion of the Bank of England.

3.

hsm -2- No. 1517, June 5, from London

3. Attlee in reply to a question on the Government's economic organization disclosed that an economic policy committee headed by the minister without portfolio (Greenwood) will replace the old committee presided over by the Chancellor of the Exchequer as reported in my 1981 of October 9. The new committee will conserve and direct general economic policy. Lord Stamp who is to continue his part-time duties will report to the new committee and his staff apart from their work on economic and financial plans will provide digests and statistics on the war effort and progress reports of departments.

KENNEDY

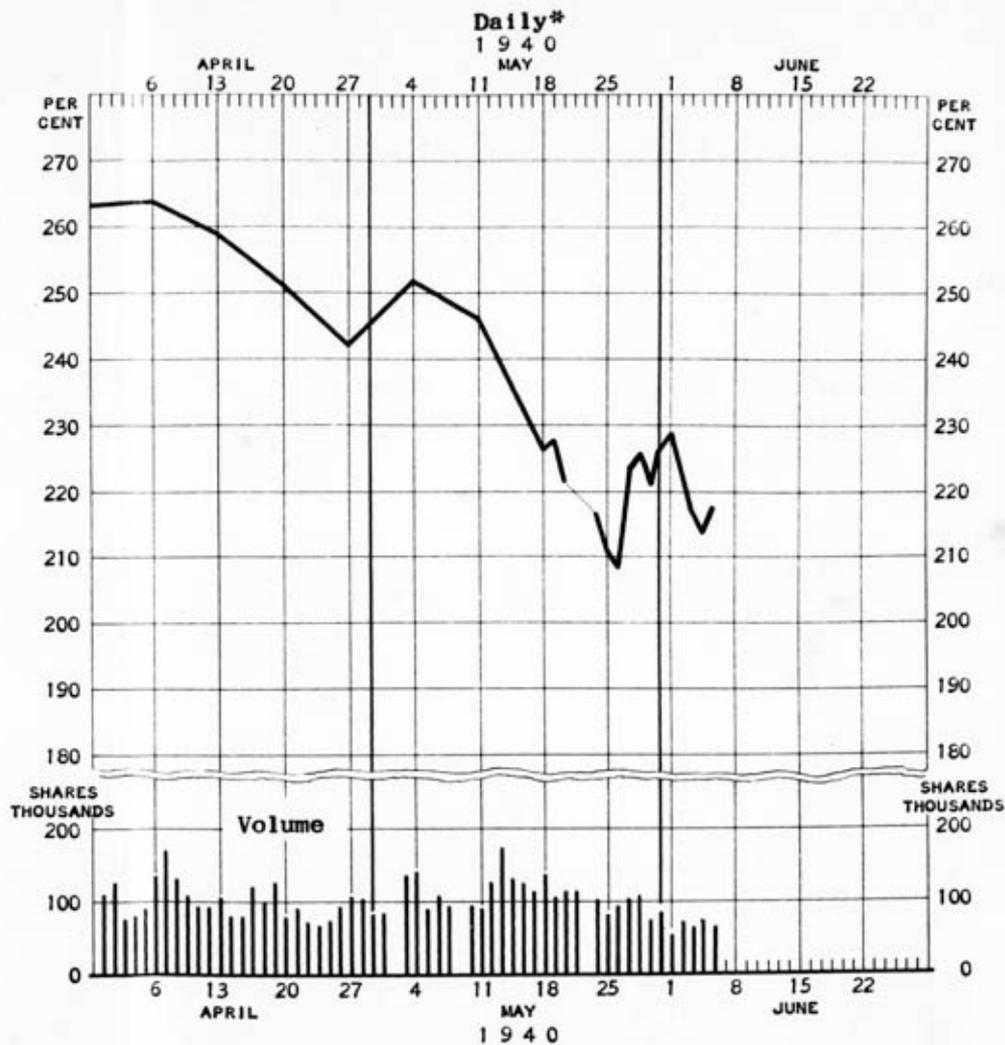
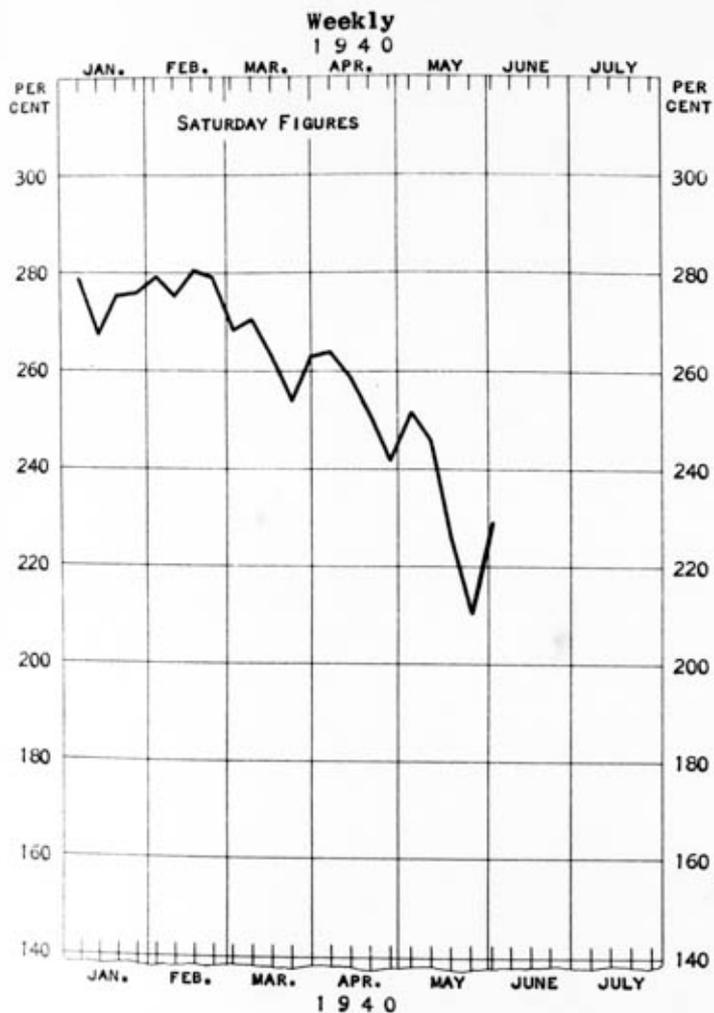
RR

TO THE
SECRETARY OF
STATE
WASHINGTON
D.C. 20520

NOV 2 5 1946

NO COPY
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ITALIAN STOCK PRICES (Milan)



*SATURDAY FIGURES PRIOR TO MAY 20.

June 5, 1940
8:45 a.m.

H.M.Jr: Hello.

Ambassador
Bullitt: Hello.

H.M.Jr: Hello, Bill?

B: Yes, Henry. How are you?

H.M.Jr: Oh, I'm fine, and I know you're all right.

B: Oh, yes. Top of the wave.
I want to thank you very much for that telegram.
I really appreciated it. I want to tell you it
sounded real.

H.M.Jr: Sounded what?

B: Sounded real.

H.M.Jr: Well, it came from the heart, Bill.

B: Henry, I really mean that, and I really appreciated
it tremendously.

H.M.Jr: Well, I've got a little good news for you.

B: Good.

H.M.Jr: You know this stuff that you've been so anxious
to get

B: Yes.

H.M.Jr: the surplus groceries

B: What?

H.M.Jr: the surplus groceries.

B: Yes, yes.

H.M.Jr: Well, the telegrams went out last night and the
stuff is -- with orders to begin to move it.

- 2 -

B: Oh, that's wonderful.

H.M.Jr: You never saw such a fight in your life or how I was blocked.

B: Oh, how perfectly wonderful.

H.M.Jr: And they've got a big lot of stuff and it's beginning to roll as of last night.

B: Well, I'm perfectly delighted. I can't thank you enough.

H.M.Jr: And I'm meeting with them again this morning to see if we can't help them some more.

B: Hello. Henry?

H.M.Jr: Yes.

B: Can you hear me?

H.M.Jr: What's that?

B: Can you hear me?

H.M.Jr: I hear you very well.

B: Henry, on another little matter that we're interested in -- ah -- the question of a certain title

H.M.Jr: Title?

B: the question of a certain title -- passing

H.M.Jr: Oh.

B: Hello.

H.M.Jr: I'm not sure -- yes! Yes, I know.

B: Well, that's all fixed.

H.M.Jr: Good.

B: And, however, concerning the technical question, the amount is one-third.

- 3 -

H.M.Jr: One-third of

B: You understand. One-third of

H.M.Jr: Oh, I get it. Yeah, I know what -- one-third of what we said.

B: Yeah.

H.M.Jr: I understand.

B: One-third of six.

H.M.Jr: I understand.

B: And the -- but that's all fixed now and you'll have an official word on the subject from me very shortly.

H.M.Jr: Well, use the same system of communication, Bill.

B: Yes, I'm doing so.

H.M.Jr: What?

B: I'm doing so.

H.M.Jr: Yeah.

B: I will send it by the same method of communication.

H.M.Jr: Ah -- did you talk to Joe?

B: No.

H.M.Jr: I mean, do you talk to Joe at all?

B: No.

H.M.Jr: You don't.

B: No.

H.M.Jr: O. K.

B: Henry?

H.M.Jr: No, I -- all right.

- 4 -

B: Henry, there's been some difficulty on -- on cables today.

H.M.Jr: Yes.

B: Ah -- and on ordinary cables so that this method will -- your method is much better.

H.M.Jr: I see.

B: Now, I suppose you know that the big general attack began this morning.

H.M.Jr: Oh, so I heard on the radio.

B: Yes, the big attack on the entire line.

H.M.Jr: On the entire line.

B: Yeah, all the way.

H.M.Jr: Does that include Maginot?

B: No, not there, but everything except that.

H.M.Jr: I see.

B: And they -- there's no real information yet.

H.M.Jr: Uh-huh.

B: There hasn't been bad information, there's just -- there's nothing. It's just terrific fighting, that's all.

H.M.Jr: I see.

B: And there you are.

H.M.Jr: Well, Bill, you can't believe the hurdles which

B:

H.M.Jr: What's that?

- 5 -

B: I'll hear from you on that particular matter of groceries in the near future.

H.M.Jr: Say that again.

B: I will hear from you on the matter of groceries in the near future.

H.M.Jr: Yes. Well -- ah -- right, but they -- but the stuff started to go to -- to move last night.

B: That's wonderful. I can't thank you enough.

H.M.Jr: Well

B: Henry?

H.M.Jr: Yes.

B: Were you able to do anything about that particular little matter which interested me particularly -- things that in the old days "Legs" Diamond used to carry down in

H.M.Jr: (Laughs) Well, I -- I haven't given up hope.

B: Yeah, but even if you can scrape up -- ah -- a very small quantity, it's very valuable.

H.M.Jr: I understand.

B: So if you can do that and get action immediately, it can be extremely valuable.

H.M.Jr: I understand. I'll do all I can Bill.

B: Well, Henry, God bless you, and thank you again.

H.M.Jr: Take care of yourself.

B: Ah -- good-bye, good luck.

H.M.Jr: Good-bye.

June 5, 1940
8:52 a.m.

Operator: Go ahead, please.

H.M.Jr: Hello.

William S. Knudsen: Hello.

H.M.Jr: Hello. Morgenthau.

K: Yes, sir.

H.M.Jr: George Mead is sitting here with me.

K: Yes.

H.M.Jr: Now, what I'm writing this morning -- I don't know whether you got a copy of what the President said at his press conference yesterday about the air plane business.

K: No.

H.M.Jr: Well, I'll take the liberty of sending you over a verbatim copy.

K: Uh-huh.

H.M.Jr: And -- ah -- my thought was -- I'm also writing a letter to the President -- McReynolds -- to ask him to put these orders in reverse, which made all this authority flow to me from the Army and Navy, and give it to you. Hello.

K: Yes. sir.

H.M.Jr: Now, it may take a day or two, but I thought pending that, I told George Mead to look to you. See?

K: Yes, sir.

H.M.Jr: And -- ah -- is that all right with you?

- 2 -

K: Yes, sir. Because he's coming over here this morning.

H.M.Jr: Fine. Well, he's sitting here now

K: We worked on the Army last night.

H.M.Jr: He told me that.

K: And we're going to work on the Navy this morning.

H.M.Jr: Yes, and Mr. Knudsen, I just want to say this thing to you and I'm sure that you'll be in agreement with me. George Mead tells me that Ford wants to go ahead with this Rolls Royce engine, but shows some hesitancy about wanting to manufacture it for the Allies. Hello?

K: Yes.

H.M.Jr: Well, I'm sure that the President will not want Mr. Ford or anybody else to manufacture anything -- especially an English engine, unless he's willing to sell it to the Allies.

K: I see. Well, Mr. Morgenthau, I thought that all these negotiations, of course, can be done over in this office now

H.M.Jr: That's right.

K: with George Mead and I and the contractors.

H.M.Jr: That's right.

K: And we'll try to get it cleared up.

H.M.Jr: Well, that's what I'm very anxious that you do.

K: And in the meantime, after Mr. Mead and I get through here this morning, I want to go over and look at that motor.

H.M.Jr: Oh, you mean over -- the

K: Wherever he's got it. He's got it somewhere.

H.M.Jr: He's -- it's in the Treasury.

K: Yeah.

H.M.Jr: We think it's so valuable. (Laughs)

K: (Laughs)

H.M.Jr: But don't you agree with me, I mean, if Ford is going to be choosy about who he sells to -- I mean, particularly an English motor which the Government -- the English Government has given us this license, if he doesn't want to sell to the Allies, we can't that the British Government let him make it.

K: (Laughs)

H.M.Jr: What?

K: I don't think that's serious, Mr. Morgenthau. I think if we get Edsel here we can straighten that out. Anyway, supposing he makes them for you and you elect to sell them to the Allies, what's the difference.

H.M.Jr: No, I won't -- I'm funny. I'm just like you.

K: Well, but I mean, I mean, he hasn't any jurisdiction over the order.

H.M.Jr: No. He's got to come clean. I'm sure the President will back you and me up on this 100%.

K: All right.

H.M.Jr: I mean, he's got to come clean.

K: Uh-huh.

H.M.Jr: We've got to find out where he stands.

K: I don't understand this. I never heard this before.

H.M.Jr: Well, it's just between George Mead, you and me.

K: I see.

- 4 -

H.M.Jr: O. K.

K: Yeah.

H.M.Jr: I'll be seeing you soon.

K: All right, sir.

H.M.Jr: Now from now on, it's your baby.

K: All right, sir. But you don't mind me getting a soother once in a while?

H.M.Jr: Getting a what?

K: A soother -- you know, what they give babies.

H.M.Jr: (Laughs) Just as long as you think I can give you them, I'm here.

K: All right, sir.

H.M.Jr: All right.

June 5, 1940
9:30 a.m.

H.M.Jr: Hello.

General
Marshall: Good morning, Mr. Secretary.

H.M.Jr: Good morning, General. I'm calling you to thank you for the splendid cooperation you gave us on getting that surplus material straightened out.

M: Well, thank you very much. The main thing that's happened there, Mr. Secretary, is getting Colonel Burns moved into the position he's in.

H.M.Jr: Is that the main thing?

M: The main thing that has helped out is by getting Colonel Burns into the position he's in now as a liaison between you and these other people, because there we have an effective basis for management that takes it out of the personal twists here and there, and I think that we've gotten the thing so that it will roll.

H.M.Jr: Well, he's in the position of being in touch with me and also, I gather, in touch with Stettinius and Knudsen.

M: Yes, that's exactly what it is.

H.M.Jr: So that will work out

M: And that enables us to move very much more rapidly, and also his judgment is excellent and he provided one of the immediate methods of getting at this thing without a very serious complication in the procedure

H.M.Jr: Fine.

M: which was quite critical and no one had been able to suggest a means of getting underway because of the various involvements that have to be first settled. He has gotten that so

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everything has been ordered and he's rolling today -- he'll begin rolling today as fast as he can get the cars in.

H.M.Jr: Thank you.

M: Our only trouble is finding a safe way to handle a large mass of powder. That's being fixed up.

H.M.Jr: Thank you.

M: All right, sir.

H.M.Jr: We'll be back for more requests.

M: Well, I know that.

H.M.Jr: All right.

M: Thank you.

June 5, 1940

11:45 a.m.

Present:

Admiral Towers
Captain Kraus
Lieutenant Anderson

Captain Kraus: Lieutenant Anderson did a fine job for us the other night.

HM, Jr: He did a good job, did he?

Captain Kraus: Yes, sir. A fine job.

HM, Jr: What these people want more than anything else are dive bombers, because the Navy created them, didn't they?

Admiral Towers: Yes.

HM, Jr: And I wondered if you started taking the oldest ones that you have and that are safe to fly, turn them over to the manufacturer and replace them with up-to-date bombers for yourself

Admiral Towers: Would not handicap us much more if it is indicated we should give up some of our planes, give up a modern type dive bomber.

HM, Jr: So much the better.

Admiral Towers: The situation is this. We have in our organized reserve squadrons, which are distributed throughout the country at reserve bases, a total of 91 modern Curtiss scout dive bombers. A combination of the two. They are dive bombers.

HM, Jr: What are they? Scout dive bombers?

Admiral Towers: Yes.

HM, Jr: That's what they are known as?

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Admiral Towers: That's what they are known as. The type we use on the carriers. They have very recently been delivered. We have been trying for years to get those reserve squadrons equipped.

HM, Jr: What do you call them?

Admiral Towers: SBC-4.

HM, Jr: Is that the same as the Curtiss Hall?

Captain Kraus: No. It is a considerably larger plane. It's Curtiss manufacture and is a bi-plane however.

HM, Jr: And you could do this?

Admiral Towers: We could spare those without seriously handicapping ourselves, primarily because a large percentage of the officers of those squadrons, the reserve officers, have been called to active duty as instructors in Pensacola. Therefore, they cannot now muster full strength for the reserve squadrons. We actually have more planes than reserves right now.

HM, Jr: Wonderful! And these could be replaced fairly quickly with something better?

Admiral Towers: We feel they could be replaced in about 8 months, but that reserve situation, the shortage of reserve officers, will continue because we are going to need more and more for instructors' duties at our additional aviation training stations. I have to add, however, that only this morning, after we had figured out that we could possibly make some of these available, the Army requested anywhere from one to three squadrons of dive bombers.

HM, Jr: Nuts on the Army! Excuse me.

I have just been to see the President on something else along the same lines.

Admiral Towers: The maximum that we could let go without having to admit that we have seriously

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handicapped ourselves would be 50.

HM,Jr: What does the Army want them for?

Admiral Towers: The Army has just realized that there is something in this type. They have had no tactical experience. They have officers with our carrier squadrons now observing the technique of dive bombers.

HM,Jr: Fifty is what you decided on?

Admiral Towers: Fifty, in my opinion, is the maximum we could release without greatly handicapping ourselves.

HM,Jr: And you would rather let these go than the old boys?

Admiral Towers: The old boys are divided into different categories, some of them are so old and slow I am afraid they would not be of any use. They are old and slow. The others are a little younger, but still old, and will be needed very shortly for training purposes due to our expanded training program and they are suitable about as much as the newer types.

HM,Jr: For pilots?

Admiral Towers: For pilot training at our training schools.

HM,Jr: What are you going to do with the other 41?

Admiral Towers: We have some of these reserves left and, after all, these reserve squadrons are a reserve for the field. They are replacement aircraft in the field.

HM,Jr: But you could recommend 50?

Admiral Towers: Admiral Stark told me I could say we would be willing to release the number that I figured. At that time I had not had a chance to figure.

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HM, Jr: Did you talk to Admiral Stark?

Admiral Towers: I did this morning. It is going to be a very difficult thing to do, of course, it's subject to agreement with the Curtiss Company. I think the Curtiss Company will agree. It's subject also to including in the turn in, I imagine, the equipment that is on them.

HM, Jr: Sure! Take them as is and pay for them. Are there any spare engines?

Admiral Towers: We must have some spare engines.

Lieutenant Anderson: Yes.

HM, Jr: Is there one or half a one to each plane?

Lieutenant Anderson: 50% -- no, 33-1/3% I think.

Admiral Towers: It's the standard engine. It's the 1820 engine -- 1820-54.

HM, Jr: What does that equal in horsepower?

Admiral Towers: 950 take-off horsepower; it's a 230 mile plane at altitude.

HM, Jr: Funny! The President had that figure and he was saying it wasn't fast enough.

Admiral Towers: You can't get everything in these planes.

HM, Jr: I know. I am just repeating.

Admiral Towers: Even the German dive bombers are not fast.

HM, Jr: Could I do this? Am I moving too fast? Call up General Watson -- I happen to know Admiral Stark is going to see the President at a quarter of two. Can I tell General Watson that you are here now and that you say you can spare 50 scout dive bombers if the thing can

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be worked out with the manufacturer -- and I am sure it can.

Admiral Towers: Of course, you realize we are subject to attack on the Hill.

HM, Jr: So are we all. Look what I went through a year ago. This fellow (Captain Kraus) saved my life.

Admiral Towers: That is, in this attitude if it is a National possibility to do that sort of thing, we will do it.

HM, Jr: I can say to General Watson that you are sitting here -- you will hear me -- and that you can spare these without

Admiral Towers: without serious detriment.

HM, Jr: Without serious detriment and you are willing to recommend that to the President.

Admiral Towers: Yes, sir.

The Secretary does not know anything about it.

HM, Jr: That's all right.

(At this point, HM, Jr placed a call for General Watson and spoke to his secretary in General Watson's absence.)

"Would you take this for General Watson and I will talk to him when he comes out?"

"Admiral Towers is here with me and Captain Kraus. They inform me that without serious detriment to the Navy they could swap 50 modern scout dive bombers, known as SBC-4. That's their actual title. Make a swap with the manufacturers for a more modern plane and the manufacturer to turn these 50 over to the Allies at once. These planes are part of the squadrons of the organized reserve of the Navy and at present are not in use."

(To Admiral Towers) Is that right?

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Admiral Towers: The whole squadron is in use. Make it temporary excess of requirements.

HM, Jr: (Resumed dictating to General Watson's secretary.)

"Instead of saying "and at present are not in use" make it "they are in temporary excess of requirements."

Admiral Towers: They carry -- they only have two machine guns, but they carry a thousand pound bomb. That's as big a bomb as any dive bombers.

HM, Jr: Do you mind, I have Colonel Jacquin down the hall, do you mind if I have him in? Do you know him?

Admiral Towers: No, sir, I would not mind. Both Kraus and I know him.

(At this point, General Watson's secretary read back to Admiral Towers what HM, Jr had dictated to her, and Admiral Towers made the following suggestion:

"I think we should add "This matter has not yet been discussed with the manufacturers, but it is believed this can be arranged."

(At this point, HM, Jr took the phone and said to General Watson's Secretary:

"What I would like you to do -- I know Admiral Stark is coming at a quarter of two and I want to be sure that the President gets this memorandum when he sees Admiral Stark. The President can decide whether he does or does not want it. You also might make a note -- put it on me -- that I have not had a chance to clear this with Mr. Edison, so if Captain Callaghan -- you might tell Captain Callaghan about this and then tell him to use his common sense and let him decide what to do, but tell him Mr. Edison does not know about it, but tell Captain Callaghan and fix it up so Admiral Towers and I don't get sent to Guam.")

HM, Jr: God! If I could do business the way you do business, life would be ten times easier!

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Admiral Towers: I did not have a chance to clear it with Edison.

HM, Jr: Callaghan will take care of it.

(Colonel Jacquin came in to the Secretary's office at this point.)

HM, Jr: Sit down, Colonel.

There is a possibility -- just a possibility -- that they may be able to get 50 modern dive bombers for you. Admiral Towers will tell you what they are.

Admiral Towers: Roughly, they are Curtiss SPC-4 model, new practically. They have a top speed of 230 miles at 18,000 feet; 214 miles at sea level; 950 horsepower at take off.

Colonel Jacquin: What speed?

Admiral Towers: 230 at altitude, 214 take off. They are big scout dive bombers.

Colonel Jacquin: That's a bi-plane?

Admiral Towers: Yes. They carry a very light gun equipment in that they have only one 30 caliber Fitch gun, but 50 can be put in, and one 30 caliber free but they carry one 1,000 pound bomb and two 100 pound bombs. It is really a dive bomber. Very sturdy plane.

Colonel Jacquin: Yes, I know him. I have seen him in construction at the Curtiss plant.

Admiral Towers: Just delivered to our reserve squadrons.

Colonel Anderson: That will be very interesting to us.

HM, Jr: That would be for the French? Or the English? Well, you decide.

Admiral Towers: They are quite long range, incidentally.

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HM, Jr: How much range have they?

Admiral Towers: As a bomber

Lieutenant Anderson: 590 miles.

Admiral Towers: Fully loaded.

Lieutenant Anderson: Yes, sir. 554 with the heaviest load they carry.

HM, Jr: If you get them you would be delighted?

Colonel Jacquin: I will. I will. Sure.

HM, Jr: Because this is something the President will say yes or no on within 24 hours. And they are available immediately.

Colonel Jacquin: I will be very pleased.

Admiral Towers: They have them scattered all over the country, but we could have them flown in.

HM, Jr: That would be a load for your aircraft carrier.

Captain Kraus: They are carrier airplanes.

HM, Jr: Carrier airplanes?

Admiral Towers: Yes.

HM, Jr: So it would be swell to send an aircraft carrier over. How many can they take?

Colonel Jacquin: 80 planes.

HM, Jr: Nothing settled yet and don't go to the manufacturer yet. Please!

While we are here, tell Colonel Jacquin which is this engine which we have got here. Rolls? Which Rolls are we fooling with?

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Captain Kraus: We have -- actually, the sample engines we have are the Merlin 10, which is, we understand, very slightly different from the Merlin 20 which is a higher horsepower, but all different dimensions with particular change in the supercharger.

Colonel Jacquin: Merlin 10 is 1200 horsepower.

HM, Jr: Not enough?

Colonel Jacquin: No.

HM, Jr: What are you (Captain Kraus) going to do in the next 15 minutes?

Captain Kraus: I don't know. I had expected to be here.

HM, Jr: Well, you know the Treasury well enough that you could sit down with Colonel Jacquin and talk about the Rolls Royce. Would you (Admiral Towers) be interested?

Admiral Towers: I was talking with Mr. Kraus this morning.

HM, Jr: Well, he's a customer for 800 a month so I would like him to know about it.

Captain Kraus: Yes, sir. I can take Colonel Jacquin.

HM, Jr: I don't know whether Admiral Towers wants to do it or not.

Captain Kraus: I can take Colonel Jacquin down and talk with Mr. Mead if he has any

Admiral Towers: I was talking about it this morning in the conference we had with Kraus.

HM, Jr: I don't know what the United States Government is going to do, but here is a customer who wants 800 a month.

Admiral Towers: I gathered they had not quite

-10-

made up their mind this morning as to what they were going to suggest.

HM, Jr: Could you

Admiral Towers: I would like to hear part of it at least. I have to go back to Mr. Knudsen's office for a conference this afternoon.

oOo-oOo

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

June 5, 1940

MEMORANDUM TO THE SECRETARY:

There are \$353,000,000 of 3-3/8% Treasury bonds maturing on June fifteenth. This security was issued on July 16, 1928, and was offered in connection with the refunding of the Third 4-1/4% Liberty Bonds. It is possible, therefore, that they are fairly well scattered over the country although the Federal Reserve Bank of New York advises me that they have information as to the holdings in New York City of more than half of the outstanding issue. The Federal Reserve System does not own any of these bonds.

In your call notice of February 14, 1940, you made this statement:

"Holders of these bonds may, in advance of the redemption date, be offered the privilege of exchanging all or any part of their called bonds for other interest-bearing obligations of the United States, in which event public notice will hereafter be given."

This has led the holders of these securities to believe that they will be given an exchange offering and the securities are now selling on that basis with a 17/32 negative yield. The past practice of the Treasury in extending the exchange privilege to holders of our maturing securities has given a "right" value to issues maturing over the next two or three years. For instance, the Treasury notes due December next are selling on a negative yield basis of 9/32 and the March, 1941, notes are selling on a basis of a negative yield of 6/32. Even the notes maturing in March, 1942, are selling on a basis to yield .15 of 1%, which shows that that maturity also has some right value attached to it.

To pay off these maturing obligations in cash at this late date I feel would affect the note market for a period of two or three years, and might even have its repercussions on

- 2 -

the whole market. Furthermore, I feel that you, personally, would have to take a great deal of criticism for this late action. I strongly recommend that you announce a refunding offering on Friday morning, June 7; and that the books be left open Friday and Saturday, with a possibility of providing that they may remain open longer than this period for any holding not in excess of \$10,000 for each individual. This would certainly take care of the small individual investor. All others would certainly receive notice of the exchange offering and have ample time to take advantage of it. The Federal Reserve Bank of New York, however, feels that the books should be open for only one day, with possibly a provision to take care of the small holder.

We could mechanically handle an offering which would be announced next Tuesday, but we would not be able to deliver the new securities. Instead we would have to issue interim certificates in those cases where the holder wanted to take his securities on June 15. However, if you go until Tuesday and then pay off in cash, I believe you would be criticized even more for allowing the issue to go right up to the maturity date before making any announcement of it.

We could do one of four things, or a combination. (1) We could issue a new note for five years at 1-1/8%, which would sell in the market at anywhere from 11/32 to 16/32 premium; (2) we could reopen the March 15, 1944 one per cent note (\$515,000,000 outstanding), which is selling in the market at about 14/32 premium; (3) we could open the September, 1944, one per cent note (\$283,000,000 outstanding -- and this is the note New York prefers), which would sell on the market at about 10/32 premium; or (4) we could reopen the 2% Treasury bonds of 1948-50 (\$571,000,000 outstanding), which is now selling in the market at 101-13/32. In this last case we would have to charge a premium of 1/2 or 3/4. On the other hand we could also offer a combination by reopening, say, the September, 1944, notes and the Treasury bonds of 1948-50, and give the holders a choice of either security on exchange. This last gives greater flexibility to the offering and should satisfy the market. New York prefers the re-offering at a premium of the 2% bonds of 1948-50, feeling that this section of the market is stronger than the note section. Intermediate bonds appear to have more buying support because of their higher interest return.

The working balance today is about \$1,200,000,000 and it is estimated that it will go below one billion by July first. If you pay off the \$353,000,000 in cash and raise an additional \$50,000,000 each week in bills beginning next week, the balance on July first would be about \$800,000,000.

swB

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau
FROM W. H. Hadley

Market Close

3-3/8s REFUNDING

REOPENING ISSUES:

<u>Issue</u>	<u>Amount Outstanding</u>	<u>Offering Price</u>	<u>Present Mkt. Price</u>	<u>Premium</u>
1% T/N 3/15/44 (3-3/4 years)	515 mil.	100	100.14	14/32nds
1% T/N 9/15/44 (4-1/4 years)	283 mil.	100	100.10	10/32nds
2% T/B 1948/50 (8 1/2-10 1/2 yrs.)	571 mil.	100-1/2 100-3/4	101.13 101.13	29/32nds 21/32nds

NEW NOTES:

<u>Term</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Possible Mkt. Price</u>	<u>Premium</u>
2-3/4 years (3/15/43)	5/8%	0.50	100	100.10	10/32nds
		0.53	100	100.8	8/32nds
	3/4%	0.50	100	100.21	21/32nds
		0.53	100	100.19	19/32nds
3-1/4 years (9/15/43)	7/8%	0.72	100	100.16	16/32nds
		0.75	100	100.13	13/32nds
1	%	0.72	100	100.28	28/32nds
		0.75	100	100.25	25/32nds
5 years	1-1/8%	1.02	100	100.16	16/32nds
		1.05	100	100.11	11/32nds
	1-1/4%	1.02	100	101.4	1 pt. 4/32
		1.05	100	101.	1 point

JT

PLAIN

BERLIN

Dated June 5, 1940

Rec'd 8:20 p.m.

Secretary of State,
Washington.

1684, June 5, 4 p.m.

My No. 1549, May 26, 4 p.m.

FOR TREASURY FROM HEATH, and also FOR THE INFORMATION
OF THE DEPARTMENT.

The Reichsanzeiger of June 4 has announced the
establishment of Reichskreditkassen in Brussels, Liege
and Namur.

HEATH

NPL

TO THE SECRETARY
OF THE TREASURY
WASHINGTON, D. C.

END TEL 9 14 15 01

RECEIVED
TREASURY DEPARTMENT

HSM

GRAY

Berlin

Dated June 5, 1940

Rec'd 11:25 p. m.

Secretary of State,
Washington.

1685, June 5, 5 p. m.

My 1566, May 29, 1 p. m.

FOR TREASURY FROM HEATH, AND ALSO FOR THE INFORMATION
OF THE DEPARTMENT.

The Reichsbank statement for May 31 shows a large increase in investments during the last week of May-- holdings of commercial and Treasury bills, collateral loans and securities having increased by 980,000,000 to 13,105,000,000 marks which is a record figure 302,000,000 above the position on April 30. Changes in individual investment items during the last week of May were as follows: commercial and Treasury bills increased by 963,000,000 marks to 12,568,000,000 marks; eligible securities decreased by 2,000,000 marks to 142,000,000 marks; collateral loans increased by 7,000,000 marks to 31,000,000 marks; miscellaneous securities showed practically no change. This large increase in investments was to a great extent offset by a large decrease in

miscellaneous

hsm -2- No. 1685, June 5, 5 p. m., from Berlin

miscellaneous assets (in which the Reichsbank's operating credit to the Reichsbank appears) which in contrast to the usual end of the month increase showed a sharp decline of 359,000,000 marks to 1,434,000,000 marks.

Circulation of Reichsbank notes again reached a new high at 12,594,000,000 marks compared with 11,767,000,000 marks a week earlier and 12,480,000,000 marks on April 30. Furthermore additional coins in the amount of 45,000,000 marks were placed into circulation, holdings of the Reichsbank having declined to 440,000,000 marks on May 31. Holdings of Rentenbank notes also decreased by 7,000,000 marks during the last week of the month to 261,000,000 marks. Sight deposits decreased during the same period by 168,000,000 marks to 1,470,000,000 marks.

(?) there has been no increase in coinage since March 30 when it amounted to 2,115,000,000 marks and that the total issue of Rentenbank notes is the same as at the end of March and April, i. e. 1,200,000,000 marks the total net monetary circulation in Germany after subtracting the Reichsbank's holdings amounted to 15,208,000,000 marks compared with 14,755,000,000 marks on March 31. However, considerable amounts of Reichskreditkassenscheine have undoubtedly been put into circulation in the occupied areas since the beginning of April so that these figures alone do not give a complete picture of the situation.

HEATH

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

In very light trading, sterling opened at 3.19-1/2 and moved within a narrow range all day. The final quotation of 3.19-1/4 was 1/2¢ lower than yesterday's close.

Sales of spot sterling by the six reporting banks totaled £180,000, from the following sources:

By commercial concerns.....	£108,000
By foreign banks (Europe and South America).....	£72,000
Total.....	£180,000

Purchases of spot sterling amounted to £225,000, as indicated below:

By commercial concerns.....	£69,000
By foreign banks (Far East, Europe and South America).....	£156,000
Total.....	£225,000

The Guaranty Trust Company reported that it had sold cotton bills totaling £2,000 to the British Control on the basis of the official rate of 4.02-1/2.

Spot sterling in the amount of £27,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£16,000 by the Bank of Manhattan (for whisky and rubber)
11,000 by the Guaranty Trust Company (for rubber)
£27,000 Total

The French franc moved with sterling and closed at .0181.

The other important currencies experienced little movement during the day. They closed as follows:

Swiss francs	.2242
Canadian dollars	21-3/4% discount
Lira	.0505
Reichsmark	.4000

Today's discount of 10-9/16% for the Cuban peso represented a moderate improvement over yesterday's quotation. The Mexican peso was unchanged at .1672.

The yuan was quoted at 5-1/4¢ in Shanghai, up 3/16¢.

The Federal Reserve Bank of New York purchased 130,000 French francs for account of the National Bank of Belgium.

There were no gold transactions consummated by us today.

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

\$2,246,000 shipped by Lloyds & National Provincial Foreign Bank, London, to the Bank of London & South America, New York.
 143,000 shipped by the Chase National Bank, London, to its head office at New York.
 14,000 shipped by the Westminster Bank, London, to the Chase National Bank, New York.
\$2,403,000 Total

On the report of May 29 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$19,602,000, an increase of \$473,000 in the short position. The net changes in the positions are as follows:

Country	Short Position May 22	Short Position May 29	Increase in Short Position
England	\$ 6,388,000	\$ 6,077,000	\$ 311,000 (Decrease)
Europe	8,505,000	9,144,000	639,000
Canada	614,000 (Long)	226,000 (Long)	388,000 (Decrease in Long Position)
Latin America	221,000	178,000	43,000 (Decrease)
Japan	3,404,000	3,463,000	59,000
Other Asia	1,099,000	955,000	144,000 (Decrease)
All others	126,000	11,000	115,000 (Decrease)
	<u>\$19,129,000</u>	<u>\$19,602,000</u>	<u>\$ 473,000</u>

The Bombay gold price worked out to the equivalent of \$35.86, off 40¢.

The Bombay spot silver quotation declined the equivalent of 3/8¢ to 44.47¢.

In London, the spot and forward silver prices both declined 1/4d to 22-3/4d and 21-3/4d respectively. The U. S. equivalents, calculated at the open market rate for sterling, were 32.73¢ and 31.05¢. On the basis of the official sterling-dollar rate, the spot price was equivalent to 41.36¢.

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

CONFIDENTIAL

We made two purchases of silver totaling 225,000 ounces under the Silver Purchase Act, both of which were new production from foreign countries, for forward delivery.

Mr. Knoke has telephoned me that since May 27 the Russian State Bank account with the Chase Bank has declined by \$1,940,000 to \$5,710,000 as of June 5. During the same period the Amtorg account declined by \$435,000 to \$680,000. During the period under reference the Federal Reserve Bank of New York paid \$1,050,000 to the account of the State Bank of Russia, by order of the B.I.S. One in-payment to the State Bank account was received from the Credit Suisse of Zurich, by order of the Reichsbank, for \$125,000. The account of the State Bank was debited by \$436,000 to cover commercial letters of credit. \$1,500,000 was paid out to the Union Bank of Switzerland and \$1,000,000 to the Skandinaviska Bank, Stockholm.



CONFIDENTIAL

J V S K A K C D A K V O C K

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Stone, of Secretary Hull's office, told me at 3:15 this afternoon that a cablegram had been received from our Embassy in Rome to the effect that the Italian steamship Rex is scheduled to sail for New York on June 12 provided sufficient passengers and freight are obtained to warrant the trip. The Italian foreign office had confirmed this report. The American Consul General at Genoa had reported that the Italian line had already sold passengers to full capacity of the ship, including reservations for 700 Jewish refugees.

J. M. P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke has telephoned me that on June 4, the Chase Bank paid two checks drawn on it by the Banco Commerciale Italiano to the order of the Yokohama Specie Bank for \$764,000.

On June 5 four checks had been drawn on the Chase by the Credito Italiano in favor of Post and Flagg, presumably in connection with Italian Government bonds. On June 4 four similar checks had been drawn totaling \$2,096,000.

The Credito Italiano on June 4 withdrew \$660,000 from Irving Trust in currency, mostly in five-hundred-dollar bills.



TREASURY DEPARTMENT

177

INTER OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent of the British Embassy called on me at 3 o'clock this afternoon by appointment. I gave him information on two or three matters pending between the British and ourselves.

In regard to the handling of British accounts in this country, Pinsent confidentially volunteered that arrangements were being consummated whereby the Federal Reserve Bank of New York would be instructed by the British Ambassador in Washington, upon word that communications have been cut between England and the United States, that all authorizations to sign for the Bank of England account in New York will be cancelled, and that thereafter the signing power will be vested solely in the British Ambassador in Washington and Mr. Osborne, the Bank of England official who is now in Canada. I told Mr. Pinsent in this connection that we hoped to make an arrangement very shortly to take care of an account with the Federal Reserve Bank of New York in the name of the British Government.

I told Pinsent that a new order would likely appear tonight or tomorrow resulting from our study of methods to control the import into and sale within the United States of securities which may have been seized in invaded territory. I promised to send him a text of any documents as soon as possible. I added that further steps might possibly come in the future to supplement the act now under consideration.

Pinsent referred to the request made in the letter from Lord Lothian to the President that the United States arrange to block all German balances in this country. I told Pinsent that, pending a formal reply from the President, we could not speak authoritatively on the subjects touched upon in the letter under reference. In the interim, however, I could tell him that in meetings held between representatives of the State and Treasury Departments the consensus of opinion had been that we should not at this time take steps to block German balances in the United States. I explained that any such action could not be isolated and could only be feasible if fitted into a general policy.

Pinsent then referred to a memorandum of May 27 in which the British had asked the Treasury to scrutinize gold imports with a view to rejecting those suspected of German origin. I told Mr. Pinsent that the Treasury found such a step impracticable. In the first place, the Treasury has consistently taken the position, in letters to various Senators and before Congressional Committees, that it cannot effectively distinguish gold originating from any one foreign country. An attempt on our part to prohibit purchase of gold not coming directly from Germany, on the grounds that it is German gold, would be quite inconsistent with the position we have hitherto taken. In the second place, it would not be consistent for us to refuse

- 2 -

to block German balances, and then reject German gold. I added, however, that Pinsent should not fail to bring to our attention any information which he may have with respect to shipments to this country of gold which the British suspect of having come from invaded territory. I added that there were few channels through which such gold could possibly come, and that I understood the British or French were already in touch with Swiss officials with a view to checking exports of German gold through Switzerland to ports of shipment, such as Genoa.

I showed Mr. Pinsent the cablegram which Mr. Bolton addressed to Mr. Knoke under date of May 31 in regard to the quoting of official and unofficial rates for sterling in New York.



TREASURY DEPARTMENT

179

INTER-OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

After a meeting held in Mr. Bell's office at 1:45 yesterday afternoon, participated in by Messrs. Bell, White, Bernstein and Cochran, I telephoned Mr. Livesey at the Department of State in regard to the draft agreement by exchange of notes with Canada which had been submitted to us on May 22, 1940.

I referred to two or three points in the draft note from the Canadian Minister to the Secretary of State. Mr. Livesey explained that the exchange of notes would envisage foreign securities even though the Canadian Government has not yet taken them over. With respect to numbered paragraph 4, I told Mr. Livesey that the Treasury would be a little happier if it should not be necessary to have any paragraph in the agreement with respect to reciprocity. I reminded Mr. Livesey that Mr. Berle's original position had been that Canada had no right whatever to require American citizens temporarily resident in Canada to surrender their United States dollar balances and that this paragraph 4 could be interpreted as a deviation from that position. Mr. Livesey stated that the draft as it stands was the slightest type of reciprocity that the State Department could conceive, and that the Canadian Order definitely envisaged reciprocal arrangements, so that something of this type was necessary. I told Livesey that if this paragraph was continued in the draft, the Treasury Department would be disposed to write a letter to the Department of State, stating that the Treasury had no objection to the draft, on the understanding that the contemplated arrangement with Canada would not subsequently be interpreted by the Department of State as in any manner stopping the Treasury Department from having entire freedom in imposing or applying exchange control.

I also suggested to Mr. Livesey a change in paragraph 4, line 2, to read "measures" instead of "legislation". Later in the same paragraph it was suggested that words "continue to" be inserted between the words "to" and "grant".

Mr. Livesey told me that he would discuss the Treasury's suggestions with his colleagues at the Department of State and would telephone me. He thought there was for the present no need for a meeting between the two departments' representatives.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, telephoned me this afternoon from New York. He had been quite perturbed to read in this morning's New York Times and other papers a story of the arrival in New York of an important shipment of gold from France, which had come under convoy via Canada. He was particularly concerned because of a related report over the radio to the effect that France now has a second shipment on the ocean under convoy. Not only was the guess as to the amount of gold arriving in New York fairly correct but this second point is also in line with the fact that France does have a second big shipment now on the water destined for Canada and still in a dangerous position. Leroy-Beaulieu told me confidentially that this second shipment will be held in Ottawa under earmark for the present, and not be brought on to New York.

I told Leroy-Beaulieu that the Treasury had no information in regard to the shipment now arriving in the Federal Reserve Bank at New York until a couple of days ago when the Federal Reserve was advised by the Railway Express as to the expected arrival of so many boxes of gold. In answer to Leroy-Beaulieu's request, I told him that the Treasury would do anything within its power to prevent publicity on gold shipments and to play down such news as may appear in regard thereto. I explained further that we had already done much investigating in the premises, and had found that neither the Federal Reserve Bank nor Customs people were giving out the news but rather that newspaper reporters who watch the docks, express offices and arrival of trucks at the Federal Reserve Bank have a way of making their own calculations and drawing deductions.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In talking with Mr. Knoke by telephone yesterday evening, I asked what action had been taken by the Federal Reserve Bank of New York in regard to the request from the Curacaosche Bank in the Dutch West Indies for gold earmarking facilities. Knoke replied that a cable was being dispatched yesterday evening to the Curacaosche Bank to the effect that its request was being submitted to the Board of Directors of the New York Federal Reserve Bank. The cable also requested certain information in regard to the institution at Curacao which had been called for in a letter dated May 14. It is my understanding that on May 14 the Federal Reserve Bank sent a letter to a number of small banks, such as the one under reference, which might conceivably be considered as, or assume the role of, central banks, requesting information which would enable the Federal to pass upon their qualifications if the question of doing business with them should arise.



TREASURY DEPARTMENT

182

INTER-OFFICE COMMUNICATION

DATE June 5, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Basil Harris told me this morning that the American steamship Washington is due in Bordeaux tomorrow morning. The present plans are for the ship to take on American refugees at Bordeaux and then proceed to Genoa provided that there is no change in the status of Italy by the time the ship is ready to clear from Bordeaux. After calling at Genoa, the plan would be for the Washington to proceed to Lisbon, for embarkation of passengers and then clear directly for New York.

With this information I telephoned Mr. Yost in the Division of Munitions Control in the Department of State to learn whether there would be any objection to the Washington taking on gold cargo at Genoa and Lisbon, provided that these two countries continue to be non-belligerents and not in the combat zone on the dates on which the ship calls at the ports in question. Upon Mr. Yost's assurance that there would be no objection in such circumstances, I telephoned the foregoing information to Dr. Sommary, the Swiss banker. He was much interested in this information, and said that he would telephone at once to the National Bank of Switzerland to acquaint them with the tentative schedule, so that consideration could be given to the idea of getting out a Swiss gold shipment via Genoa. I reiterated to Dr. Sommary that the whole schedule depended entirely upon war developments.

Mr. Leroy-Beaulieu telephoned me from New York at 11 a.m. I mentioned the tentative schedule of the Washington to him with the realization that France would not risk sending any gold out through Italy at present. Leroy-Beaulieu appreciated the information thinking this might be a good opportunity to get confidential French mail dispatched via Lisbon to the United States.



June 5, 1940

I talked to the President at 4:15 o'clock and the President told me that he had talked to Paul Reynaud on the telephone, and that Paul Reynaud had told him that for every one of the French planes shot down they shot down three or four German planes. That what they most needed were machine guns. That they could send 8 planes on the Normandie. The President also asked me what Purvis was doing on jitney planes.

The President told me that Paul Reynaud said if they could get 200 more planes right away they could have supremacy of the air.

Notes on Conference
at the Secretary's House
6:40 P.M., June 5, 1940.

Those present, the British Ambassador, the French Ambassador, the British Air Attache, Colonel Jacquin, Secretary Morgenthau, Admiral Towers, Admiral Stark, Mr. Sumner Welles, Mr. Purvis, Mr. Bloch L'Aine, Mr. Nelson, and Mr. Young.

The group waited a few minutes until the arrival of Admiral Stark before the purpose of the meeting was discussed. The Secretary asked Admiral Stark as to whether he would outline the reason for the meeting. Admiral Stark replied that he would rather have the Secretary do it.

Secretary Morgenthau stated that Admiral Stark and Admiral Towers had had a conference during the morning and agreed that the Navy could release 50 dive bombers of the SBC-4 type made by Curtiss. These bombers had been ordered for reserve purposes by the Navy and it was for that reason that the release could be effected. The President was fully acquainted with the situation and approved the transaction if it could be worked out with the manufacturer.

The Secretary inquired as to whether some method of transportation could be found to take those planes to France and suggested that perhaps an aircraft carrier could be sent over to Halifax. Admiral Stark stated that Admiral Towers was to contact the manufacturer and acquaint him with these plans for releasing the planes. Admiral Towers replied that he had not yet been able to do that but expected to have it worked out in the morning.

The Secretary asked Admiral Stark if orders could be issued to the manufacturer immediately so that preparations could be started for flying the planes to Halifax. Admiral Stark agreed to issue preparatory orders which would warn the manufacturer of what was coming so that the planes could be made ready for shipment.

Mr. Welles inquired as to whether the planes could be flown to Canada by the manufacturer's pilots in order to save time. He added that there might be considerable delay if British or Canadian pilots had to come all the way down to get the planes and then fly them back. Admiral Stark saw no difficulty with such a procedure.

Mr. Purvis stated that an aircraft carrier was already at Halifax. Colonel Jacquin added that it was the "Bearn" and that it had been there since two days. Secretary Morgenthau said, "The what?", and Mr. Purvis replied the "B-e-a-r-n". The Secretary

inquired if it were British, and Colonel Jacquin said "No", it was a French air carrier. Mr. Bloch L'Aine added that we told you she was coming in, and the Secretary, startled, replied that he did not think so. To which Mr. Bloch L'Aine's comeback was that perhaps the Secretary had told him about it. Mr. Young said that Mr. Bloch L'Aine had told us the "Bearn" was coming in on May 27th, but that actually it had not appeared on that date and nothing had been said about it since; a statement with which Mr. Bloch L'Aine agreed.

Secretary Morgenthau asked Colonel Jacquin how many planes the carrier could take. Colonel Jacquin stated that 40 Curtiss P-36's were already loaded and that he was going to put on board 40 second-hand Stinsons that he had purchased. The Secretary asked if he had room for the dive bombers, and Colonel Jacquin replied that there would be lots of room for the dive bombers as the Stinsons could wait as they were not important.

The Secretary asked Mr. Nelson if he had forgotten anything, and Mr. Nelson said what about the spare engines and spare parts. The Secretary inquired from Admiral Towers as to the status of the spare engines and the Admiral assured him that they could be forwarded by express. Mr. Purvis made it very clear that the Purchasing Board would pay all expenses, handling charges, etc., in order to get the stuff.

Mr. Purvis inquired about the accessories which should go with the planes, such as bombs, bombracks, bombsights, etc., adding that, of course, the Navy would be glad to release their bombsight! Admiral Towers said that the accessories went with the planes, of course, except the new bombsight and added that, fortunately, the engines were made by the same manufacturer that made the planes, so that there should be no difficulty. He added that he thought the French could use their own bombs and bombracks with minor adjustment, and asked Colonel Jacquin what size bombs the French used. Colonel Jacquin replied 500 kg. (?). Admiral Towers said he thought so and that the bombracks could be easily made to fit the French bombers.

The Secretary asked Colonel Jacquin as to what accessories he considered of vital necessity and should be included with the planes. Colonel Jacquin replied that all of them were necessary or the plane was no good. Whereupon, Admiral Towers said "except the bombsight"; you could use a piece of hollow bamboo for that as long as it lined up with the pilot, the plane, and the objective. Colonel Jacquin smiled but admitted that the old bombsights would be satisfactory.

The Secretary inquired from Admiral Stark as to whether or not the accessories were part of the plane and included with it. The

- 3 -

Admiral replied that they certainly should be part of the plane and that he would check with Admiral Towers in the morning to see just what accessories were included. Admiral Towers stated that each plane carried two guns, one 1000-pound bomb, and two 100-pound bombs. Mr. Purvis asked as to the size of the guns, and Admiral Towers replied that one was .50 calibre and the other .30 calibre. The Secretary emphasized the fact that Admiral Stark would see about the accessories, and the Admiral assured him that he would.

The Secretary asked Mr. Young to see that Admiral Stark got a copy of the opinion of the Solicitor General, with its accompanying memorandum, concerning sale or exchange of surplus war materiel the first thing in the morning.

In discussing possible arrangements for the manufacturer, the Secretary stated that Guy Vaughn would be in town the following morning and that it might be a good idea if Mr. Purvis waited over in order to talk with him about the details. Mr. Purvis said that he would be glad to do it.

The conference adjourned after some general discussion between various persons present as to how the planes were to be delivered to the British, who was to fly them, where they were to be flown. In that connection, both Colonel Jacquin and Mr. Bloch L'Aine talked with Mr. Welles at different times to make sure that the State Department would take care of any border difficulties that there might be.

The meeting broke up at 7:28 P.M.

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JUN 6 1940

Dear Admiral Stark:

I am sending you herewith, for your confidential use, statistical data on airplanes and airplane engines showing (1) deliveries and new orders, May 1 to June 1, 1940, and (2) unfilled orders as of June 1, 1940, together with the estimated deliveries of these orders by months. The tables are assembled in two volumes -- Part 1, which brings together the data submitted on airplanes; and Part 2, which brings together the data submitted on airplane engines. These data have been compiled from reports submitted by twenty-six airplane and twelve airplane engine manufacturers.

Sincerely,

(Signed) H. Morgenthau, Jr.

Admiral Harold R. Stark,
Chief of Naval Operations,
Navy Department,
Washington, D. C.

*Dr. Haas has
these reports*

By Messenger 415

F I L E C O P Y

JUN 6 1940

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Sincerely,

(Signed) H. M. Genthau, Jr.

General George G. Marshall,
Chief of Staff,
War Department,
Washington, D. C.

*H. M. Genthau, Jr. has
these reports.*

By Messenger 415

G. H.

F I L E C O P Y

THE WHITE HOUSE
WASHINGTON

June 6, 1940

*orig given to
Nelson for
President's sig.
folder.*

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I enclose for your information copies of memoranda I have just sent to the Secretary of War and the Secretary of the Navy instructing them to clear all contracts for purchases through Commissioner Knudsen.

This will relieve you of the responsibility of clearing contracts for air craft and engines, as required in my memorandum of May 24, 1940.

Franklin D. Roosevelt

*Copies given
Nelson, Brown, Nelson
Hue*

June 6, 1949.

MEMORANDUM FOR THE SECRETARY OF THE NAVY:

In order that the program of industrial expansion in the preparedness field may be coordinated and expedited most effectively, I should like you to obtain the approval of Commissioner Hudson, of the Advisory Commission to the Council of National Defense, on all important contracts for purchases by your Department.

Signed > Franklin D. Roosevelt

June 6, 1940.

MEMORANDUM FOR THE SECRETARY OF WAR:

In order that the program of industrial expansion in the preparedness field may be coordinated and expedited most effectively, I should like you to obtain the approval of Commissioner Hudson, of the Advisory Commission to the Council of National Defense, on all important contracts for products by your Department.

(Signed) Franklin D. Roosevelt

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WASHINGTON

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Messrs. Brown & Nelson
Hm*

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(Signed) Franklin D. Roosevelt

6-6-40

Photostatic
copy to Mr Nelson
6/7/40.

CANADIAN EMPIRE TRAINING PROGRAMME

Photostat to
Mr Young
11/1/40

A serious situation has arisen in connection with the Empire Training Programme on which Canada has already spent over one hundred million dollars, due to the events of the last two weeks which have resulted in England cutting off supplies to Canada of advanced trainers on which supplies the programme depended to an important degree. The Canadian Government understands the U.S. Government has a large number of North American Harvard Advanced Trainers on order and the Honourable C.D. Howe, Minister of Supplies, has asked whether it will be possible that priorities be granted for deliveries during the next two or three months on some 500 planes.

no!

In addition, in order to meet the engine requirements for the planes which will now have to be partly built in Canada, Mr. Howe has negotiated (subject to U.S. Administration approval) a contract with the Jacobs Company for delivery of 2,000 engines (330 h.p.) prior to the end of December 1941 (312 will be delivered by end of December 1940). While this far from meets the Canadian Government's requirements as regards deliveries, nevertheless there was no better alternative offered. At the request of the U.S. Administration, this order has been held up during the last week or ten days in view of the desire to visualize the whole aeroplane engine situation.

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action

Because of the urgency of the Empire Training Scheme in its relation to the supply of combat pilots, it is requested that the Canadian Government be allowed to go ahead either with the Jacobs order or with an

order for some equivalent type of engine which will fit into the aircraft frames (the latter point is made because Dr. Meade felt there might be an alternative that could be worked out for small Wright or Pratt & Whitney engines).

A.B.P.

A.B.P.

Washington, D.C.

June 6, 1940.