

DIARY

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Proposed Release of the Navy Department Read
in Secretary's Office

7 June 1940

In accordance with an agreement with the Curtiss Aero-
plane Company of Buffalo, fifty airplanes from various Naval
Aviation Reserve Squadrons are being returned to that company
for replacement with planes of a superior type, equipped with
leak-proof tanks, and armor. These airplanes are temporarily
in excess of requirements, due to the fact that many of the
Reserve aviators normally attached to the Reserve Squadrons
have been ordered to Pensacola as instructors on account of
the large expansion of training at that place. It is expected
that the remainder of these planes at Reserve Bases will be
similarly turned in as replacements are received.

June 7, 1940
9:00 a.m.

RE ALLIED PURCHASES

Present: Admiral Towers
Mr. Young
Mr. Nelson
General Marshall
Admiral Stark
Mr. Biddle
Mr. Foley
Admiral Furlong
Mrs. Klotz

H.M.Jr: I am just going ahead. The most important thing, the President of the United States last night at 9:20 - this isn't what you think it is but I am going to make use of these gentlemen - wanted us to come over to his office at 10:15 with a statement he can use at his press conference at 10:30 explaining this, do you see, and then we are invited to sit with him at his press conference, and, as he put it, if something happens he can say, "Well, ask Henry. He will tell you." So I said to the President, "Isn't this raw materials, don't you want somebody else?" So he says, "No, I want the three of you." We have a chance now to do a statement and then if we get the statement on the typewriter, I would like to make use of these other gentlemen's services on the bombs, etc. But I got word last night to Francis Biddle.....

Ed, how would you start this thing for the President? He wants that list of materiel, the one the Army released. He wants to tell the whole story, says he wants to do the whole thing.

Foley: Well, I should think we should start with the list and the opinion and we can - the

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opinion sets forth the two statutes, and we can have a brief explanation on top of the list and the opinion, and I should think if he had a few minutes to go over it before the press conference --

H.M.Jr: He is giving us 15 minutes.

Foley: That that would be sufficient for him to absorb it in a way to explain it properly.

H.M.Jr: That is why I wanted you and Francis Biddle to help and go over with us when we went over to see the President. I think that would be best, don't you think so, General?

Marshall: Yes.

H.M.Jr: I mean, if Mr. Biddle and Mr. Foley went with us.

Marshall: Yes.

H.M.Jr: The Navy practically has the explanation.

Stark: Well, these planes began to fly at the Curtiss Company. The telephone began to ring.

H.M.Jr: I think you did a magnificent job.

Stark: And somebody had to take the onus. I thought it was just as well for us to tell them exactly what we were doing as to put the load on somebody else. I am willing to carry it and let it go at that.

Now, I wrote up something, then I had Admiral Towers come in and he wrote up something and what he gave us was practically what we released, put in such shape. I gave it to the press room and told them they could answer questions based on this which was to the effect that we had 50 planes which we didn't need at the present time because they were usually used by the reserves, that the reserves who flew them were now in Pensacola as instructors, recently called there because of the expanding program,

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and that therefore the planes were temporarily in excess and that inasmuch as we could turn these planes in and get better planes, planes which would be armored and have seal proof tanks, that it was strictly to the interest of the national defense to do it, that moreover we had another 40 planes which later on, if we can make a similar advantageous deal, that we expected to do it. That will occur, of course --

(Mr. Biddle entered the conference).

H.M.Jr: Now, just take a minute. Could we maybe have Admiral Towers tell McKay to get a copy of that statement?

Stark: Yes, Jack, I think you had better. Charlie has it.

(Mr. Towers left the conference).

H.M.Jr: In talking with the President last night, he asked me to get this group together to prepare a statement for his 10:30 press conference telling exactly what we have done, you see, and we are to go over there at 10:15 for 15 minutes, and explain it to him in person, and I asked you to come because I didn't know whether Bob Jackson had had a chance to familiarize himself with it or not, but I knew you had because, after all, you are Acting Attorney General and so the Admiral was just explaining how he handled this thing yesterday, the Navy thing.

Stark: I might add to that - do you want me to repeat what I said?

H.M.Jr: I think if you would, please.

Stark: Well, briefly, we gave our press section a statement on which to answer questions, not to release anything but on which they could base their replies, which was to the effect that we had recently - a number of our reserve pilots who flew these planes have been called to Pensacola as instructors. Therefore, the planes were in excess for

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the time being, and we don't need them. The statement also said that we were making a deal with the Curtiss Company to turn them in to them, and that they in turn would give us planes without additional cost, but which would be armored and have leak-proof gasoline tanks. Now, another question that comes up in that connection, Mr. Morgenthau, of course, is the guns. I haven't had a report - and the bombs. Now, the bomb situation, we can hang our hat on this if they were able to consummate it. I don't - if this goes on the record it ought to be kept pretty quiet.

H.M.Jr: Well, there is only one copy, and that goes to my safe.

Stark: I just wanted to make sure.

H.M.Jr: There is only one copy of this made, but I - it is impossible for me - do you object?

Stark: No, I don't object, but it ought to be kept - one copy in the safe?

H.M.Jr: There is only one copy and that is in my safe.

Stark: The bombs when I was in the Bureau of Ordnance had a very light case. We made actual experiments of dropping from different heights on different thicknesses of metal, and we decided we wanted a heavier case, what I call jokingly a light heavy weight, as a matter of fact, practically the weight the Army was using. The percentage of TNT was left in it, and the thickness of the bomb was greater, so if we could turn those bombs in and get the heavier bomb case again, we were on solid ground. That was the 500 pound bomb.

The thousand pound bomb, I don't know just what happened. Now, similarly with the guns, what I asked the Bureau to be sure that we were on technical grounds, legal grounds, that if Colt could supply the guns for these ships direct from orders

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they had, it would be far better. Our guns, as you know, have got "U.S.Navy" stamped all over them. At the last analysis, we would file off what we could and what we couldn't we just couldn't let them have, because they might fall in the hands of somebody else. Admiral Furlong can bring you up to date on what Ordnance did for equipment.

- Foley: May I ask a question? When were the bombs and the mortars procured?
- Stark: I think Admiral Furlong had better give you that.
- Foley: Did you have them on July 11, 1919?
- Furlong: Oh no, issued more recently.
- Foley: Well, I don't think we can do very much with anything other than the airplanes.
- H.M.Jr: Well, they didn't have the airplanes in July.
- Foley: I know, but the statute is different, Mr. Secretary, insofar as the airplanes are concerned.
- Marshall: We can trade them in.
- Foley: We can trade in our airplanes just the same as you can turn in the Buick down here on another Buick. You can turn in the airplanes, but insofar as the ordnance is concerned, guns and ammunition - not powder, but bombs, guns, I think we have to have them in the possession of the United States on the 11th of July, 1919.
- H.M.Jr: All right. Now, that is your legal thing and you are working for me. Now, tell me how we can do it. There is no use letting them have 50 airplanes and not have any bombs. Jacquin was there last night, and he wants enough bombs to last him for 15 days. He said he spent all afternoon with you and there is no use loading this stuff up unless they have got enough to last them

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for 15 days. He wants 750 bombs. Is that what he asked for?

Furlong: That is the figure he gave me.

H.M.Jr: And there is no use letting them have the planes. You might as well, say, take out the spark plugs and throw them away.

Stark: I suggest Admiral Furlong --

Foley: If General Marshall's legislation goes through --

H.M.Jr: You can't wait for that. Now, you fellows are smart enough.

Foley: Well, we can't write the statute, Mr. Secretary.

H.M.Jr: No, but you can find some way.

Marshall: The weapon part is the - the guns and things in the plane are in this doubtful situation, but it seems to me you people might be able to give a decision that we - you equip the plane. Now, it becomes an integral organic part of the plane.

Foley: That is all right, but how about these --

Stark: That is why Furlong --

Foley: How about the bombs?

H.M.Jr: Well, freeze it in.

Marshall: I will turn that over to you.

Stark: Admiral Furlong has wrestled with this thing late into the hours of night before last. Why not let him tell you what he has done?

H.M.Jr: Have you got an answer, Admiral?

Furlong: Only --

H.M.Jr: Rivet the damn bombs on.

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Furlong: So far as the guns are concerned, we have been in touch with Colt and Colt - our planes have flown there with the idea that everything we could get into them was the plane and was part of the equipment of the plane, just as General Marshall says. That is the basis we have been working on, so before they sailed from their various stations around here, we told them to load up with everything they could possibly put in in a military way of guns, bomb racks, sights, bomb sights for these dive bombers, and there are numerous small items and army wires and a lot of things I won't mention. Well, then we sent a man up there to be there before the planes arrived with instructions that he would rub out in the shops all the "U.S.N.'s", take the name plates off. Also, we have got in touch with Colt yesterday and Colt will replace those guns of ours by guns of his so that we won't actually transfer --

Stark: That will leave us clear on the guns.

Furlong: We won't actually transfer guns that are in Navy possession, but we will release from Colt guns that he was going to give to us later and he will put them in. Unfortunately, these guns also have U.S.N. and an anchor on them, but those will be ground out.

H.M.Jr: They can use a cold-chisel, can't they?

Furlong: Colt will grind them out.

Foley: Those are guns the title to which has never passed to the United States.

Furlong: Yes, so that lets us out on the guns.

H.M.Jr: But you actually don't change the guns, you take one out and put back another? I won't ask you that.

Stark: I hope they are making a bonafide change.

Furlong: They will do it.

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Stark: I want them to make a change.

Furlong: They are going to do it.

Stark: I am on the firing line on the Hill on this thing, you know.

H.M.Jr: The President is going to explain it this morning. He wants to tell the whole story.

Stark: That doesn't make any difference.

H.M.Jr: He says, "I want to tell the whole thing, I want all the facts."

Furlong: That is the guns. Then the question of ammunition came up, and we didn't know what to do about that and didn't see how we could handle it, so finally the Frenchmen themselves said, "Well, never mind the ammunition, we have got enough ammunition. We will do our own ammunition."

Marshall: May I interrupt there? Of that calibre?

Furlong: So they said.

Stark: They have large orders on hand.

H.M.Jr: This was Jacquin said that.

Towers: Jacquin said that in my press conference yesterday.

H.M.Jr: He knows his business. If he said it, it is okay. You have confidence in Jacquin, haven't you?

Towers: Oh, yes.

H.M.Jr: He knows his business, doesn't he?

Towers: Absolutely.

Furlong: Then we came up against the proposition of the bombs and the Curtiss man himself after the conferences yesterday didn't want anything to do with the bombs and didn't want

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to take them, and we have those - we have half the number of bombs that they want. They are obsolete bombs at Yorktown, and before I was called here I told my assistant to get in touch with the Curtiss man and bring him over to my office, and I was going to show him how he might get release on the bombs. What he was afraid of was, he didn't know whether the State Department would give him an export license and all that sort of thing for munitions, so I was going to smooth that way for him all right with the State Department and - because I felt they would give it quickly if I wanted them to.

H.M.Jr: Sure.

Furlong: And - but I still have to persuade that chap to take custody of any bombs that we would --

H.M.Jr: Who is the fellow?

Furlong: It is the Curtiss lawyer. I forget his name. The Curtiss lawyer is in town, anyhow, working on it, and I will have him over there.

H.M.Jr: If you get hold of Guy Vaughan, he will tell them to do it.

Stark: You see, we can't turn these bombs back to the manufacturer, is the snag I ran into. They are Government manufactured, aren't they?

Furlong: They are Government loaded.

Stark: Those pieces are made in the Philadelphia yard.

Towers: No.

Furlong: No, these are cases made outside, but they are Government loaded and the only thing you can do is, they would have to be sold as part of the equipment of the plane and you would have to convince Curtiss to take them. He says he doesn't want anything to do with them. So what I want him to do is to take custody of them at Yorktown and ship them however he wants to to Halifax or wherever he wants to.

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- H.M.Jr: He said at the house last night he would be glad to take them up to New York if necessary. They had better decide that themselves, the bombs, I mean.
- Furlong: Yes. Now, there is one --
- H.M.Jr: Don't take that as final.
- Furlong: No. We have got some more work to do on these bombs. There are some details of fuses that have to be worked out that our people are working out to see whether or not - you see, Naval fuses are made and designed to work against piercing decks and going through metal first before they go off, which is not the thing the French want, naturally, or anybody else wants.
- H.M.Jr: Wouldn't that be true if they were hitting a tank?
- Furlong: Well, but they, I have an idea, in land war have always wanted an instantaneous fuse.
- H.M.Jr: I said, "What are you going to use these for?" and Jacquin said they were going to use them against tanks.
- Marshall: Yes, but you see it is pretty hard to hit a tank and if you hit near a tank you want it to explode before it buries itself. Some of them have a fuse that drops ahead of the projectile so it is about that high (indicating) when it hits, so the thing explodes before it hits the ground.
- Furlong: What may have to be made - which could be made within maybe a few days - an adaptor for an Army instantaneous fuse, and we may have to get some from the Army to put in the bombs.
- H.M.Jr: I see.
- Marshall: Now, doesn't the law that we have as to ammunition turn-in, can't that be applied to bombs? That is ammunition. We are

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turning in a hundred million rounds and more of the cartridges to get back something else. Part of those have been loaded in Government plants. That is a perfectly legitimate peace time operation, provided they have some buyer for the ammunition. Now they have the buyer. A bomb is ammunition.

- Foley: Well, if a bomb is ammunition --
- Marshall: Well, there would be no question about that in the world. The bomb is ammunition. One piece of ammunition goes up, and another piece goes down, that is the difference.
- Biddle: This fellow has been kind of educating us in the last week, hasn't he?
- Marshall: How was that? That is the only piece of law we have got.
- H.M.Jr: He is paying you a compliment; left handed, but it is a compliment.
- Furlong: I tried to give these bombs yesterday to General Wesson.
- H.M.Jr: I haven't seen the Solicitor General go like this (nodding head) yet. Are we going too fast?
- Biddle: I will have to look at it, and I think we can work something out.
- H.M.Jr: Come on, boys, we are moving fast, you know. These bombers are on top of the ground. You don't want to wait until they get buried in the lawyers.
- Foley: I think we can get over the hump on the airplanes, perhaps the bombs and the powder and the ammunition, but if they didn't have the guns on the 11th of July in the absence of General Marshall's statute which he is pushing on the Hill, I don't know whether we can get them --
- Furlong: I have got the guns fixed up.

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H.M.Jr: He has got the guns fixed up.

Stark: The bombs are somewhat of a stumbling block. I am not clear on it yet.

Biddle: Have you got a copy of our opinion?

Foley: Yes.

Biddle: Can I see it?

Foley: Sure. I don't have it with me, but I will get it. If we have got to prepare a statement, we had better get started.

H.M.Jr: Yes, because we have to be over there at 10:15 with a statement to the President.

Biddle: Hadn't we better start?

H.M.Jr: I think so.

Towers: Mr. Morgenthau, I would like to anticipate one question and provide an answer. After they hear the first statement, they will probably say, "Well, why did you do this in such a rush?" Once the decision was made to turn these planes in for replacement, we decided to make an exercise, a surprise exercise out of this for the reserves. They were on inactive duty, most of these reserves. The dispatch didn't go out until after midnight. What we wanted to see was how rapidly these reserves could concentrate.

H.M.Jr: You fellows are marvelous. And they say it without smiling. They don't even smile when they say it.

Marshall: Isn't this a possible answer? The only way you can carry out - really protect the Government's interests in a direct financial way in conformity with the statute is that there be a buyer for the obsolete material. Now, the terms of the buyer are, he will do this thing if he gets it immediately. He isn't interested in it if it is two weeks later.

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Towers: That is also a good answer.

Marshall: He buys this old stuff.

Towers: He wants quantity or not at all.

Marshall: If we make quantity, he will take it, and we get something good back. If we don't meet the quantity and the time, he is not interested. That is really the whole business.

Stark: I still think the bomb situation is bad.

H.M.Jr: Do you people, Mr. Foley and Mr. Biddle, want to go back to Mr. Foley's office?

Biddle: I think we had better draw this statement first of all.

H.M.Jr: Yes, and then after it is dictated, will you come back?

Biddle: Do you want us to dictate it?

H.M.Jr: Yes.

Biddle: Give me a little bit of the angle.

Foley: I think, Francis, all we can do is to put down --

H.M.Jr: Why don't you dictate it here? Who do you want to have?

Biddle: Get a copy of the opinion.

Foley: I will have to get this off.

H.M.Jr: These gentlemen and I have got to stand by the President. So has Mr. Biddle. We are going to be at his press conference.

Marshall: You have a law which covers the plane transaction. There is a turn-in law, a trade-in law that is in existence. There is no law which definitely covers the arms transaction in which we are involved and which he recently gave the actual numbers of. Now, it seems to

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me a very important decision we have got to make here now is, do we come out and definitely state that there is to be proposed an amendment up on the Hill to permit us to trade in this rather than to merely declare it surplus and take something in the Treasury for which the national defense receives no benefit? That is an issue that is up right there. We are hopeful that all this procedure on the Army side that we get something back for the national defense.

H.M.Jr: Well, let me be frank with you, see. I am quite sure that the President will decide with me that if the whole decision rests on whether the Army got this money or the Treasury, I mean - if it meant that that decision, if it was a question of the money coming back to the Treasury and holding up giving this material at this time to the Allies, I think he would say, "Go ahead and give it to them."

Marshall: He has already decided that. I am talking about what he says.

H.M.Jr: But I mean - now, I have just got to go back a minute and come back to the questions here. As I understand it, you have got the U. S. Steel Corporation. General Watson called me last night and the President told me they have agreed to buy fifty million dollars worth of this material. Is that right?

Marshall: Something like that. They are going to handle it for us though.

H.M.Jr: They are going to handle it. So haven't you crossed that bridge?

Marshall: No, sir, I haven't made myself plain. We have crossed it in that we can go ahead with the President's instructions on the basis of surplus. He has skated on thin ice in coming up to the surplus business. How thin it is will be determined by the Congressional pressure and what they would accept. That is not the issue in this plane thing. There is a definite profit in that, to the advantage of the Navy. They turn in something old and get back something new. If this thing goes into surplus,

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there is nothing back to the national defense. It could be used as any argument. It is purely the sale of the thing that gets on the hairline of whether it is surplus or not. You are all right on the ammunition part because there under the law we derive a definite benefit. You are on solid ground there, that any time there is a buyer for deteriorating ammunition, it is to our advantage to take it up, regardless of Allied crises, but when it comes to the weapon thing, we are starting up, we will say, to the hairline of whether the thing is surplus or not.

Take these cannon. They will say, "Well, can you say specifically that there is no use ever been planned for those guns?" I cannot say that because we were going to use it for a definite purpose. For all the training of those people behind, we were going to use those guns. Training is a very important factor. So we have got to determine very definitely what we say about the sale of the surplus, whether we come right out and say we hope to make this a trade, but legally we can't do it under the Act. Do we mention the fact that we are trying to or do we say that this thing is still in a fluid state as to the basis for the transaction?

H.M.Jr: I think --

Biddle: What have you got --

H.M.Jr: Mr. Biddle ought to answer this.

Biddle: If that goes through and you can do it for trade, it is the same basis as the powder.

Marshall: We get a very definite return.

Biddle: Have you got contracts out for most of this stuff, for rifles and so on?

Marshall: We haven't accomplished any contracts at all except they are going to it on the ammunition but on the other one, they have got two bases.

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They have agreed on the price if it has to go in as surplus with just a plain sale with the money reverting to the Treasury.

- Biddle: I know that, but I meant, General Marshall, have you got the contracts now for modern machine guns and other kinds of material that would be used, if you didn't have this surplus.
- Marshall: We have contracts for semi-automatic rifles and new machine guns that are coming in, and no 75 millimeter cannons, but for 105 millimeter, which is better.
- Furlong: You are both talking about something that has nothing to do with planes. This ammunition is going in the planes.
- Biddle: We are not talking about that.
- H.M.Jr: Let me clear a little bit. What the President said was, he wanted to explain this thing which was in the papers yesterday. I think he put it, there is a leak somewhere in the War Department and this story that Kluckhohn wrote saying something about the 75 guns and so forth and he said as long as he has got part of the list, he said, "I want to tell the whole story." He didn't say anything about the Navy planes, but I imagine there would be a question on that, too, but he said, "I want to tell the whole story as long as part of the story appeared in the New York Times yesterday." He said he wants you gentlemen to give him a statement and then he said, "If I am asked any questions I can't answer, I am going to turn to you for help."
- Biddle: My impression of the way to do the job would be to start out by saying since 1919, which impresses the fact with this law, the War Department has had on hand --
- H.M.Jr: Excuse me. Do you want this young lady? Come up here and sit here, please.
- Biddle: Excuse me, I wasn't dictating.
- H.M.Jr: You might as well take this, or don't you want her to take it yet?

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- Biddle: No, I thought I would just beat it out. We had all that material which was war stock left over from the last war. In other words, impress that this is left over stock. The Secretary has had the authority, and from time to time in the normal course of events has exercised it, of selling a great deal of this material, this surplus. Therefore, knowing the needs of the Allies, I, the President, I directed the Secretary of War to increase the surplus and accordingly this is the form it took.
- H.M.Jr: That is forthright. If I were the President, that is what I would say. It is a forthright statement.
- Biddle: Does that sound well?
- Marshall: Yes, sir. I think I would modify that a little bit by saying that he directed the Secretary of War to survey very carefully his materiel and see what portion of it could be declared surplus that would in no way interfere with our program.
- Stark: Wouldn't you say that I, knowing the needs of the Allies, did this, knowing that there was a need for our own Army to benefit?
- Marshall: The trouble is that the Army doesn't benefit the way it stands. Here is an idea. We can greatly profit by better ammunition, but we don't want the ammunition unless they have got the guns. Now, there is an argument. We have a legal basis for turning in this ammunition and getting back better ammunition, but they don't want that ammunition unless they have the guns to shoot it in. I believe we have got it there, because that is a fact.
- H.M.Jr: Do you mind, General, repeating that?
- Biddle: I am very sorry.
- Marshall: I have thought of one statement that could be made where the national defense from the Army viewpoint correctly benefits as the Navy does on this plane turn-in. We have this deteriorated ammunition, World War ammunition. The Allies

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don't want it unless they have something in which to use it. Their guns are of different calibre, except the 75, so if we turn over the old machine guns which we have no need for up to beyond several million men with better machine guns manufactured and these British rifles which we have more than we can foresee any possible use for up to four million men, the Allies having those, then will take our deteriorated ammunition. Now, that is the only way that I can see that we can say that we are profiting if there is a plane surplus sale, because we don't profit if it goes into the Treasury.

- H.M.Jr: In other words, they need a pair of - they need the coat but they don't want the coat unless they get a pair of pants.
- Marshall: That is right. In other words, we need the coat but they won't take it without the pants. They can't use the coat without the pants.
- H.M.Jr: They want two pairs of pants.
- Biddle: Do you want me to dictate this?
- H.M.Jr: Very much, because we are fighting time.
- Biddle: All right. Ever since the Great War, the War Department has had on hand very - will you stop and correct me, General Marshall?
- Foley: The Navy, too, Francis.
- Biddle: Yes.
- Foley: The U. S. Government.
- Biddle: The Army and Navy have had on hand very large supplies - I think we can say that - of ordnance material. Could we say most of which is now old fashioned and not - how would you describe it? I am trying to minimize its value.
- Marshall: Which is gradually --

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- Biddle: Gradually deteriorating and which has been gradually deteriorating. Particularly the ammunition. I thought I would describe the ammunition a little later. Having in mind the sale of this material, the Congress of the United States shortly after the war, in July of 1919, passed an act which gave the Secretary of War the power to sell these supplies as surplus. Ever since then, from time to time, the Secretary has been declaring portions of this - these supplies to be surplus and has been selling them.
- Foley: Just before that sentence, don't you think we ought to get in there the interchange between the Army and the Navy, which was in the same statute?
- Biddle: Well, was any interchange done in this instance? You see, I don't know about the airplanes.
- Foley: No, insofar as airplanes are concerned, there won't be any, but there are a number of guns that I understand the Navy had, some Lewis machine guns --
- Stark: Our situation is that we couldn't do this because the law applied only to the Army, but we can transfer --
- Foley: The same statute authorizes the transfer.
- Biddle: The same statute authorizes an interchange of surplus --
- Foley: Military stores, supplies, and equipment of every character.
- Biddle: Of supplies and equipment of every character between the Army and Navy.
- Foley: That is right.
- Biddle: Now, this is the way I have got it. I don't know if this is the way you think it ought to be put. Let's have a paragraph here.

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Realizing the desperate needs of France and England in the present situation, I accordingly directed the Chief of Staff of the Army to sell to individual buyers --

H.M.Jr: May I interrupt you a minute? Does the President want to say the desperate situation of the Allies?

Biddle: I don't know.

Towers: No.

Stark: Even if he did want to say it, I question the advisability of the President of the United States, who has made a law of neutrality, to come out and deliberately --

Biddle: I thought you would paint that..

Foley: Let's put it on the basis that it is good business to get rid of this old stuff and get new stuff to take its place.

H.M.Jr: Cross that stuff out.

Biddle: Then you don't want to say anything about the war?

Foley: We can say that the --

H.M.Jr: I don't want to recommend that he say that.

Biddle: No.

H.M.Jr: No.

Biddle: I misunderstood the nature of the statement.

Stark: I would recommend distinctly that he didn't say that.

Biddle: Then not mention the war at all?

Stark: We have an opportunity now to benefit. We are doing this for national defense in our own interests.

Biddle: Well, I didn't know, I thought that --

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- Stark: Let them draw the inference they will, but let's not go on record.
- H.M.Jr: You are right.
- Biddle: Then it would have no - he wouldn't come into the picture, would he? Would he just say the Secretary of War has --
- H.M.Jr: What is your last sentence?
(The stenographer repeated the last sentence.)
- Stark: My thought would be that - they called me up last night after they had gotten this information and I said I distinctly understood that we are not dealing with the Allies. We have an opportunity to benefit, and we are just carrying it on in somewhat of a larger scale than we have before.
- Biddle: That is what I had in mind. How would it do to say, owing to the present opportunity of being able to sell large amounts of this surplus material at this time, the Secretary of War took the benefit of the present market and disposed of - do you want to give the items?
- H.M.Jr: He said he wanted the list.
- Biddle: Yes.
- H.M.Jr: I wouldn't type them. I would just put - you could just sort of paste them on, that list. You haven't got time to type them.
- Biddle: No, no. And disposed of the list of items attached.
- Marshall: I don't think we ought to say the Secretary of War took advantage of this market. I think we ought to do it in a different way. The present tragic situation has provided a market for this material.
- H.M.Jr: The present what, General?
- Marshall: The present tragic situation - maybe you don't want to say tragic situation, but

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the present tragic situation has provided a market for this material.

- H.M.Jr: I wouldn't use that.
- Stark: The world market, South America and everywhere else. It might be brought up --
- H.M.Jr: Why not that the present world-wide demand --
- Biddle: Well now --
- Marshall: What he has got to watch there is the South Americans tried to buy a part of this thing and he wouldn't sell it to them.
- Biddle: What have you got now?
- Marshall: These fellows check and double check on everything you say.
- Biddle: What have you got now?
(The stenographer read from her notes.)
- Biddle: We can't say very much more.
- Foley: Well, we can point out the manner in which the sale --
- Biddle: Oh yes, but I meant --
- Marshall: I don't think that that part - I don't like that language.
- Biddle: Cross it out.
- H.M.Jr: May I say this? The President isn't going to give out any formal statement. He is going to read this and soak it up and then he is going to do it in his own language. He distinctly said he didn't like a formal statement.
- Marshall: The present situation has developed a demand for this deteriorated material.
- Biddle: That is it.
- Marshall: The sale of which would not have been possible

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a short time ago. It now has an immediate value.

Biddle: That is fine.

H.M.Jr: Yes.

Biddle: Now, we haven't mentioned powder yet.

Marshall: I know the technical end of that.

Foley: The law says that the Secretary of War is hereby authorized to exchange deteriorated and unserviceable ammunition or components thereof for immediate use. That is June, 1926.

H.M.Jr: Excuse me - that he ought to have. I mean, I think the President would like to have this book right on his desk.

Biddle: And copy of the opinion.

Marshall: May I try that little paragraph? In June, 1926, an Act of Congress provided that the Secretary of War could turn in - does he use the word deteriorated?

Foley: Deteriorated and unserviceable ammunition.

Marshall: Deteriorated and unserviceable ammunition in return for --

Foley: Ammunition in condition for immediate use.

Marshall: Well, I don't want to get the immediate use in there. In return for new ammunition.

Biddle: That is it.

Marshall: This has been done wherever there was a buyer to absorb the old ammunition. There is a demand for the deteriorated ammunition at the present time, and it is to the advantage of the Army to secure the better ammunition to replace the deteriorated, which can no longer - which can for but a brief time be continued in stock with safety. That is an accurate statement.

Biddle: That is very good.

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- Foley: Which but for a brief time could be continued in stock with safety.
- Biddle: Are you going to say anything about planes here?
- Foley: Yes. We can say under the statute of July, 1918, airplanes, engines, and parts thereof may be traded in just as an individual trades in an automobile for a new model.
- Stark: Does that refer only to engines?
- Foley: That refers to motor-propelled vehicles, airplanes, engines, parts thereof, balloons, and appurtenances.
- Marshall: Hadn't we better leave out the biggest part of it and just specify airplanes?
- Biddle: Yes.
- Marshall: Because the engines means the spare engines, you see. We are talking about the airplanes in a complete unit.
- Foley: Under a statute of July, 1918, the Secretary of War may trade in airplanes just as an individual may trade in his automobile for a new model.
- H.M.Jr: May I stop this? I think you had better get out and start typing this. The appointment with the President is 10:15.
- (The stenographer was replaced with another.)
- Foley: It is obvious that such a procedure is advantageous to the Government when buyers are readily available. The progress of aviation makes it necessary for the United States constantly to replenish by trade-ins of the airplanes it owns.
- Stark: Normally, we don't trade them in, we wear them out.
- Foley: Well, I wanted to get in there the thought that just as soon as one model is in production,

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it becomes obsolete because another model, better, more modern, more up to date --

Marshall: But I think the thing you want to get crystal clear there is this: It is to the advantage of the Government to make a trade-in if there is a buyer. Today there is a buyer. That is the whole thing.

Biddle: I think I would drop that last.

Foley: All right, drop that last sentence.

Towers: That specific law, that law rather applies specifically to the War Department.

Foley: Well, what --

Towers: As you read it --

Foley: That is right. It applies to the Secretary of War. Now, what does your contract provide?

Marshall: A question that may come up as to these guns --

Foley: Are you releasing planes before you take title to them?

Towers: No.

Marshall: Any reference to the fact that we are trying to secure legislation to permit us to do the same thing with material as we do with --

Towers: It wasn't done that way. There is another way of doing it. I would rather get my lawyers on it as to the planes and explain it to Kraus.

Foley: All right.

H.M.Jr: Why don't we just --

Marshall: Senator Sheppard brought in the bill and then incidentally they started the amendments for their divisions, so we have never gotten any amendments --

H.M.Jr: I think it would help if the President says so.

Marshall: Beg pardon?

H.M.Jr: I think it would help --

Stark: What is that?

H.M.Jr: If he says that he hopes to get this amendment and then, of course, they might say, "Well, then, why is he doing this waiting?"

Biddle: Let's take it down and let the President use it in his own discussion.

Marshall: What I felt was that --

H.M.Jr: Let's put it down on paper and he can use his own judgment. I would put it on paper. Is that all you have got?

Foley: Yes, so far.

Stark: The President, reading that last paragraph, will draw the natural - he will conclude that we are turning these planes in in accordance with this law and in this particular instance we are not - Jack, I think you had better dictate some of this.

Towers: I would like to try and get Captain Kraus. He is right here in this building.

H.M.Jr: I will get him.

Marshall: This is a note regarding the sale of weapons as surplus, the money to revert to the Treasury and the possibility of amending the law to permit trade-in as it now applies to airplanes and ammunition. Here is the statement.

"An amendment will be proposed to the present authorization bill now being debated in the Senate, which would permit the same procedure to be followed in the case of deteriorated materiel, meaning guns and other equipment of that character, that is now authorized by law for ammunition. If such amendment was enacted in law, then the Army would be in the position of applying its own equipment to such trade-ins for the purpose of obtaining

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more modern equipment without further charge against the Treasury."

- H.M.Jr: General Marshall, do you mind giving that last sentence over? I don't think the young lady got it.
- Marshall: Will you read it back?
- (The stenographer read back her notes.)
- Marshall: In a position to turn in its old equipment in the same manner that planes and ammunition can now be traded in toward accumulation of more modern equipment without a charge against the appropriations.
- H.M.Jr: Have you got it all right? Don't say you have it if you haven't.
- (The stenographer read back from her notes.)
- Furlong: It says subject to the approval of the Secretary of War these airplanes may not be exchanged --
- Foley: That is what I am trying to find, the power that enables you to go directly to conference.
- Biddle: Did you want to add anything to that, Ed?
- Foley: No, I don't think so.
- Biddle: How about airplanes, have you said anything about airplanes?
- Foley: Yes, that was in the last part.
- H.M.Jr: Well, when the President is going to be asked about the fifty airplanes for the Navy, here is the Navy release. Take a look at that and see if that is adequate.
- Biddle: "In accordance with an agreement with the Curtiss Airplane Company of Buffalo, fifty airplanes from various Naval Aviation Reserve Squadrons are being returned to that company for replacement with planes of a superior type, equipped with leak-proof tanks, and armor. These airplanes are temporarily in excess of

- 28 -

requirements, due to the fact that many of the Reserve aviators normally attached to the Reserve Squadrons have been ordered to Pensacola as instructors on account of the large expansion of training at that place. It is expected that the remainder of these planes at Reserve Bases will be similarly turned in as replacements are received.

"Ever since the great war, the Army and Navy have had on hand very large supplies of ordnance material which is now old fashioned and which has been gradually deteriorating. Having in mind the sale of this material, the Congress of the United States, shortly after the war in July of 1919, passed an act which gave the Secretary of War the power to sell these supplies as surplus. Ever since, from time to time, the Secretary of War has been declaring portions of these supplies to be surplus and has been selling them. The same statute authorizes an interchange of supplies and equipment of every character between the Army and the Navy.

"The world situation has developed a demand for this deteriorated material, the sale of which would not have been possible a short time ago, but it now has an immediate value.

"In June, 1926, an Act of Congress provided that the Secretary of War could turn in deteriorated and unserviceable ammunition in return for new ammunition. This has been done wherever there was a buyer to absorb the old ammunition. There is a demand for this deteriorated ammunition at the present time, and it is to the advantage of this Government to turn in this ammunition which can, for only a brief period of time, be continued in stock with safety.

"Under the statute of July, 1918, the Secretary of War may trade in airplanes just as an individual may trade in his automobile for a new model.

"An amendment will be proposed to the present

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authorization bill now being debated in the Senate which would permit the same procedure to be followed in the case of deteriorated material, meaning guns and other equipment of that character, that is now authorized by law for ammunition. If such amendment was enacted in law, then the Army would be in the position of applying its old equipment to such trade-ins for the purpose of obtaining more modern equipment without further charge against the Treasury.

- Stark: I think he has about 40 more, and if he has, we will take advantage of that.
- Biddle: I thought there were 148. Are these the Swedish planes?
- Stark: No, this is another bunch.
- H.M.Jr: I will let my Swedish friend, Sumner Welles, handle that. General Marshall and I are together on that. I will tell you about that. He and I see eye to eye.
- Furlong: The Minister of Sweden has been after me for some stuff.
- H.M.Jr: Yes. Well --
- Foley: Well, I think --
- H.M.Jr: If you have got any stuff, we know where to sell it.
- Foley: We don't want to make this too complicated for the President.
- H.M.Jr: That takes care of the Navy thing beautifully, doesn't it?
- Biddle: Yes.
- Foley: I was looking for the basic power to do that. Admiral Towers says he has got it. I don't know where. I can work it out for him by changing with the Army and then have the Army do it under their statute, but I don't know where the Navy statute is to dispose of

- 30 -

airplanes, and we haven't found it. He says there is such a statute, and Captain Kraus knows about it and he is going to find out.

Biddle: Well, I think the President can say we understand.

Foley: The power is there and can be worked out, but whether that specific authority to do what you are doing there directly with the contract - whether it is in the contract or is in the statutes, I don't know.

Furlong: Maybe the statutes are not necessary.

Stark: Well, it seems such a feasible thing --

Foley: He says maybe they do it without a statute.

Stark: I don't see why we shouldn't --

Furlong: Contractual --

Stark: I never thought of any statute. It is just an advantageous thing. Why not go ahead with it? There is nothing to prohibit us, so far as I know.

Foley: They have got the right idea, Francis.

Stark: I do think, Mr. Morgenthau, you know the way we talked about getting these planes ready to go next day after we left your office. I said let's see what the Navy could do with this proposition. Those orders were gotten out by one o'clock and the planes were all there that day.

H.M.Jr: Marvelous.

Stark: It was kind of a nice job that Aviation did on it.

Biddle: Beautiful. Are they actually on the way?

Stark: Those planes?

Biddle: Yes.

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Stark: They were scattered all over the country.

Biddle: But they are being concentrated?

Stark: On reserve bases.

Biddle: To make port now?

Stark: They will be delivered in Buffalo and the State Department will help us get them across the line. That is the Curtiss Company's job, as far as we are concerned.

H.M.Jr: Well, Towers is looking for his lawyer.

Stark: But isn't that a reasonable assumption, if there is nothing to prevent us from doing that, is there any reason why the Navy can't make a contract of this sort? I never thought of the statute myself.

Young: You can't expect to get an answer to that sort of a question.

Stark: The only thing worrying me has been the bombs, and if the army would take a certain amount of material --

Furlong: We will have to work with General Marshall to take those bombs, so it will operate under this law Mr. Foley read.

Young: Is Wesson backing out on it?

Furlong: Yesterday when we took it up, he said he would have to declare them surplus and maybe he could use them.

Young: What good to the Army is a Navy bomb? They can't use it.

Stark: We are working now so that our --

H.M.Jr: Are the others coming? We have got to go in five minutes.

Foley: Yes, this is the only power you have got. If they are worn out, you can change them. But as I understand it, you take them to

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the manufacturer and you ask the manufacturer to rehabilitate them or modify them.

H.M.Jr: All right. While there is a lull and you are all in such good humor --

Marshall: I don't know. I just took a crack at the whole thing.

H.M.Jr: Oh, you dictated something outside?

Marshall: It won't be in turn, but I took a chance at it.

H.M.Jr: I say, while you are all in such a good humor and so generous, what about these ninety-three A-17-A's and the eighty-three A-17's?

Marshall: They are being concentrated.

H.M.Jr: Are you going through with it?

Marshall: Yes. They are being concentrated in various fields around here and they are going into the question of the guns and calibre and ammunition for them.

H.M.Jr: You are starting with the ninety-three?

Marshall: Starting with the ninety-three, because they are the better plane and then this would be the secondary procedure. These are the two that we could do without.

Foley: You can start without storage in safety.

H.M.Jr: But you are giving orders.--

Foley: Continue to stock with safety, instead of storage.

Marshall: What I propose is that --

Biddle: Oh yes.

Foley: Stock --

H.M.Jr: What did you do, dictate over the telephone to your office?

Marshall: No, I got one of your girls.

H.M.Jr: Now, where are we? Have you got a sheet? This is No. 2.

Biddle: That is July, 1919.

Foley: The 1918 statute is the motor statute; 1919 is surplus material.

Biddle: Oh yes, have you got a copy?

H.M.Jr: No, I haven't. Is this page two? Here are pages two and three.

(Mr. McKay entered the conference.)

H.M.Jr: McKay, whoever General Marshall dictated to, whenever the young lady is finished, would you have a Secret Service man to stand by to bring it immediately to General Marshall, and if he is in the President's office, let him bring it right to the President, but give it to a Secret Service man.

McKay: You will be over at the White House?

H.M.Jr: He is going to the White House with me now, and whoever the young lady is, see that it gets to General Marshall even if he is in with the President.

McKay: We will get it there.

6/7/40

9:00 a.m.

EP 35

COPY

**Proposed Release of the Navy Department Road
in Secretary's Office**

7 June 1940

In accordance with an agreement with the Curtiss Aero-
plane Company of Buffalo, fifty airplanes from various Naval
Aviation Reserve Squadrons are being returned to that company
for replacement with planes of a superior type, equipped with
leak-proof tanks, and armor. These airplanes are temporarily
in excess of requirements, due to the fact that many of the
Reserve aviators normally attached to the Reserve Squadrons
have been ordered to Pensacola as instructors on account of
the large expansion of training at that place. It is expected
that the remainder of these planes at Reserve Bases will be
similarly turned in as replacements are received.

Ever since the great war, the Army and Navy have had on hand very large supplies of ordnance material which is now old fashioned and which has been gradually deteriorating. Having in mind the sale of this material, the Congress of the United States, shortly after the war in July of 1919, passed an act which gave the Secretary of War the power to sell these supplies as surplus. Ever since, from time to time, the Secretary of War has been declaring portions of these supplies to be surplus and has been selling them. The same statute authorizes an interchange of supplies and equipment of every character between the Army and the Navy.

The world situation has developed a demand for this deteriorated material the sale of which would not have been possible a short time ago, but it now has an immediate value.

In June, 1926 an Act of Congress provided that the Secretary of War could turn in deteriorated and unserviceable ammunition in return for new ammunition. This has been done whenever there was a buyer to absorb the old ammunition. There is a demand for this deteriorated ammunition at the present time, and it is to the advantage of this Government to turn in this ammunition which can, for only a brief period of time, be continued in storage with safety.

Under the statute of July, 1918, the Secretary of War may trade in airplanes just as an individual may trade in his automobile for a new model.

An amendment will be proposed to the present authorization bill now being debated in the Senate which would permit the same procedure to be followed in the case of deteriorated materiel, meaning guns and other equipment of that character, that is now authorized by law for ammunition. If such amendment was enacted in law, then the Army would be in the position of applying its old equipment to such trade-ins for the purpose of obtaining more modern equipment without further charge against the Treasury.

June 7, 1940

General Marshall wanted me to give this to the President when we went to see him at 10:14 this morning but I didn't because I thought it would only confuse him.

HM Jr.

Since 1919 the Army and Navy have had on hand a tremendous supply of ordnance materiel which has gradually deteriorated and become obsolete. In July of 1919 the Congress passed an Act which gave to the Secretary of War the authority to sell such of this materiel which had become surplus to our respective needs. From time to time such sales have been carried out under the authority of this Act. The same Statute permits an inter-change of supplies and equipment between the Army and Navy.

Congress in 1918 passed an Act which authorized airplanes to be turned in in the same manner old automobiles are accepted by dealers as partial payments on new equipment. There is also a law on the books since 1926 which authorizes the Secretary of War to trade in deteriorated ammunition against the procurement of new ammunition.

Of course in all such procedures there must be a buyer for this old equipment or materiel in order to enable the Government to secure any advantage from the provisions of the law. Today this old equipment and deteriorated ammunition is of immediate value to certain countries and therefore there is a market, a buyer, which will permit this Government to dispose of this materiel.

- 2 -

A number of items of Army ordnance have recently been sold to Brazil. Other South American countries are in the market for similar materiel. The Allied Purchasing Agent is desirous of obtaining as much of this old materiel as is surplus to our requirements.

That is the situation in a nutshell.

6-7-40

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Word has been received from the Anglo-French Purchasing Board in New York indicating that that Board has received information from the ~~United States Administration~~ that certain quantities of war material equipment are about to be declared surplus, ^{by the United States Government} and that this surplus is being taken over by the United States manufacturers in exchange for more up to-date supplies. The Anglo-French Purchasing Board is therefore negotiating ^{directly} with the ~~United States~~ manufacturers in question for the purpose of getting this material for use by the Allied Governments. It hoped to complete the transaction in the immediate future to permit the prompt shipment of this material and equipment.

The following are the main items of equipment:

(Omit from the statement any reference to detailed amount of equipment being purchased)

Every effort is being made by the Anglo-French Purchasing Board to effect immediate shipment of the above supplies all of which are in serviceable condition.

6/7'40

This statement to be released by the Anglo-French Purchasing Board

(Mr. Purvis read to Mr. Foley - Miss Brady to McGuire for purpose of transcription)

Mr. Foley told Miss Brady, Secretary to Mr. Purvis, that the statement was okay with the suggestions typed hereon in blue type. Time: 1:18 p.m. June 7, 1940.

JUN 7 1940

My dear Mr. Secretary:

Your letter of June 1, 1940 relating to the drafts of agreements pursuant to which Wright Aeronautical Corporation and United Aircraft Corporation would license the manufacture of aircraft engines is acknowledged.

The suggestion made by you in the third paragraph of your letter has been carried out, and, accordingly, it is my understanding that the agreements are now in such form as to be satisfactory to you.

I am enclosing a revised draft of the agreement of the Wright Aeronautical Corporation, together with a draft of a letter from that corporation. A similar letter and agreement both substantially in the same form will be submitted by United Aircraft Corporation.

Your cooperation in this matter is very much appreciated.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger

CLK:tb
6-5-40

AGREEMENT, made and entered into as of the
 day of _____, 19____, by and between UNITED
 AIRCRAFT CORPORATION, a corporation organized and ex-
 isting under the laws of the State of Delaware, with
 offices at East Hartford, Connecticut, United States
 of America (hereinafter referred to as "United"), party
 of the first part, and _____,
 a corporation organized and existing under the laws of
 the _____ (hereinafter referred to
 as the "Licensee"), party of the second part:

IN CONSIDERATION of the mutual covenants and
 agreements of the parties hereto, each does agree with
 the other as follows:

I. DEFINITIONS: The term "Licensed Engines"
 shall mean

Wherever the term "engine" is used in this
 Agreement, it shall be interpreted to mean the bare en-
 gine, fully equipped, including magnetos, carburetors
 and spark plugs or the like, but exclusive of all op-
 tional accessories which are not necessary for the or-
 dinary and usual operation of the engine.

Engine "type" shall be understood and defined
 as referring to the general configuration of the engine
 without specific reference to size or ordinary details,
 as for example, "Vee" type, single-row radial type,
 double-row radial type, in-line type, air-cooled type,
 water-cooled type, etc.

The word "model" shall be understood and defined as referring to an engine of a particular type with a given number of cylinders and a given piston displacement.

II. NON-EXCLUSIVE LICENSE: United hereby grants to Licensee for the term of this Agreement a non-exclusive right and license to manufacture, assemble, use and sell to the Government of the United States, or any of its departments, Licensed Engines and spare parts therefor, including all features applicable to said engine covered by United States letters patent or applications for patents now pending or hereafter applied for which are owned or controlled by United. As to patents under which United is licensed but has no right to grant licenses to others, United will endeavor to obtain such licenses for Licensee.

III. DESIGN DRAWINGS AND SPECIFICATIONS: United will furnish to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, United States of America, within two months from the date of execution of this Agreement, drawings, specifications and information regarding assembling, testing and servicing of the Licensed Engine as and to the extent indicated below:

(1) Assembly drawings of the Licensed Engine and parts therefor.

(2) Drawings and/or acceptance specifications, to the extent available, for component parts of the Licensed Engine purchased by United from third parties in finished form, and acceptance specifications and description, to the extent available, of finished accessories, normally purchased by United from third parties for application to the Licensed Engine.

(3) Engine test specifications.

(4) Fuel and oil specifications.

(5) Engine operating instructions, overhaul and service manuals, tolerance charts, drawings and specifications for special tools, accessories, etc., used in maintenance and overhaul activities.

(6) Installation drawings and data showing general requirements for arrangement of cowlings, fuel and oil supply systems, air intakes and heaters, ventilation of accessory compartments and engine mounts.

(7) Drawings or specifications, to the extent available, of special tools, jigs, fixtures, etc., designed by United and used in the current assembly and test of the Licensed Engine.

All drawings, specifications and data referred to above shall be copies of current drawings, specifications and instructions and other data when designed or prepared by United and employed by United in current assembly and overhaul operations. Four copies of the data shall be supplied. Two copies shall be delivered in Van Dyke or carbon-back typewritten form, whichever is appropriate to the particular information supplied, in English text and dimensions as used by United, and two copies shall be delivered in blueprint form. Anything herein contained to the contrary notwithstanding, United shall be required to furnish drawings and written specifications and instructions under this Article only to the extent that such drawings, written specifications and instructions are normally prepared by United for its own use in current assembly, testing, servicing and overhaul operations.

United further agrees to furnish to the authorized representative or representatives of Licensee at the

plant of United at East Hartford, Connecticut, United States of America, at a compensation to be agreed upon and within one month from the date of receipt by United from Licensee of an order therefor, additional sets of the drawings and specifications and other data referred to in this Article.

Two copies of the drawings, specifications and other data, similar to those above referred to, of improvements, modifications and changes in Licensed Engines, shall, during the period hereof, be supplied by United without additional compensation, it being understood that changes in design and specifications made during each quarterly period of three months shall be delivered within one month after the close of the period in which such changes were made.

IV. DETAILED MANUFACTURING DRAWINGS AND PRODUCTION DATA: United will furnish to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, United States of America, within three months from the date of execution of this Agreement, detailed drawings, specifications and information regarding the manufacture of component parts, as manufactured by United, for Licensed Engine, and suitable information for the purchase of parts not so manufactured. Said manufacturing drawings and information shall be as follows:

- (1) Detailed drawings of engine parts including tolerance specifications for finished parts.
- (2) Material specifications including heat treating specifications.
- (3) Bills of material, production drawings, process sheets, material test specifications.

(4) Drawings and specifications of all special tools, jigs, fixtures, etc., normally designed by United and used in the manufacture, assembly and test of parts in process.

(5) General inspection rules used in manufacturing, including, to the extent available, drawings of inspection tools, jigs and fixtures normally designed by United.

All drawings, specifications and data referred to above shall be copies of current United drawings, specifications and instructions and other data normally designed or prepared by United and employed by United in current manufacturing operations. Four copies of the data shall be supplied. Two copies shall be delivered in Van Dyke or carbon-back typewritten form, whichever is appropriate to the particular information supplied, in English text and dimensions as used by United, and two copies shall be delivered in blueprint form. Anything herein contained to the contrary notwithstanding, United shall be required to furnish drawings and written specifications and instructions under this Article only to the extent that such drawings, written specifications and instructions are normally prepared by United for its own use in current manufacturing operations.

United further agrees to furnish to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, United States of America, at a compensation to be agreed upon, within one month from the date of the receipt by United from Licensee of an order therefor, additional sets of the drawings, specifications and other data referred to in this Article.

Two copies of the drawings, specifications and other data, similar to those above referred to, of

improvements in the methods of manufacture of Licensed Engines, shall, during the period hereof, be supplied by United without additional compensation, it being understood that changes in design and specifications made during each quarterly period of three months shall be delivered within one month after the close of the period in which such changes were made.

V. SERVICES OF ENGINEERS IN LICENSEE'S FACTORY:

During the term hereof United undertakes and agrees to render all reasonable manufacturing and technical assistance and servicing information and data in connection with the manufacture, assembly, testing and servicing of the Licensed Engine, and to that end, and at the request of Licensee, United agrees to furnish Licensee with the services of a reasonable number, not to exceed

(), of competent and experienced engineers to assist Licensee in the manufacture, assembly, testing and servicing of Licensed Engines and/or parts therefor.

Licensee agrees to pay to United in a manner to be agreed upon the cost of the services of any such engineer or engineers, together with all reasonable traveling and living expenses from the time he or they leave East Hartford, Connecticut, United States of America, until their return thereto, plus _____ per cent. (\$) thereof. It is further agreed that all liability for injuries to or death of any or all of such engineers, and for damages of any kind and chargeable against United, which may arise from any cause occurring in the course of the employment of such engineers while they are with or employed by Licensee, shall be paid by Licensee.

VI. PAYMENTS: Licensee agrees to make payments to United at East Hartford, Connecticut, United States of America, as follows:

A. Partial Payments:

- (a) The sum of _____ upon delivery to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, of the design drawings, specifications and information provided for in Article III hereof.
- (b) The sum of _____ upon delivery to the authorized representative or representatives of Licensee at the plant of United at East Hartford, Connecticut, of the manufacturing drawings and production data provided for in Article IV hereof.

B. Royalties:

- (a) Semi-annually during the first year of this agreement, whichever of the following amounts is the greater:
- (1) the sum of _____, or
 - (2) the sum of _____ for each direct-drive Licensed Engine manufactured, assembled or sold by Licensee, and the sum of _____ for each geared Licensed Engine manufactured, assembled or sold by Licensee.
- (b) Semi-annually during the remaining years of this agreement, whichever of the following sums is the greater:
- (1) the sum of _____, or
 - (2) the sum of _____ for each direct-drive Licensed Engine, manufactured,

assembled or sold by Licensee, and the
sum of _____ for each geared
Licensed Engine manufactured, assembled
or sold by Licensee.

C. Other Payments:

Licensee agrees to reimburse United for
royalties which United is required to pay in the
amounts and in the manner shown on Schedule A
hereto attached.

D. Conditions of Payment:

VII. REPRESENTATIVES OF LICENSEE AT UNITED PLANT: During the term hereof Licensees may send not more than _____ () technicians or representatives to the plant of United at East Hartford, Connecticut, United States of America, to observe and study the methods employed by United in the manufacture, assembly and servicing of the Licensed Engine upon the following conditions: (1) Licensee shall pay all salaries and wages of such technicians or representatives and shall bear all traveling, living and other expense which may be incurred in this connection; (2) United shall not be required to admit such technicians or representatives to portions of its factory where work of a secret or confidential nature is in process or where prohibited from doing so by virtue of requirements made by the Government of the United States in connection with contracts for the building and developing of aircraft engines and/or accessories therefor; (3) whenever such technicians or representatives are stationed for instruction purposes, they will be under a responsible and capable leader who will secure conformance to the rules and regulations of United; (4) United will not be liable for injuries to or death of any or all such representatives while at the plant of United, or for injury, damage or loss to their property, and (5) Licensee will indemnify and hold United harmless from any such liability.

VIII. RESTRICTION ON PATENTS: It is understood between the parties hereto that no patent will be obtained or applied for by Licensee or by another with its inducement or consent, on United engines, or any drawings of parts thereof either as existing at present or as they may hereafter be improved or developed by United without the express written consent of United.

IX. ASSIGNMENT OR TRANSFER: Licensees shall not assign, transfer or sell, or permit the use of the rights hereby granted, without the written consent of United and shall not disclose or suffer to be disclosed to another (except to the Government of

the United States) any information or any designs, drawings or other data which it receives or is entitled to receive hereunder, and will, at its own expense, use every effort and take the necessary proceedings to protect United against such disclosure; provided, that nothing in this article shall prevent Licensee from furnishing drawings and specifications of individual parts to sub-contractors supplying such parts.

X. MAINTENANCE OF RECORDS: Licensee shall at all times during the continuance of this Agreement, keep accurate and separate accounts containing full entries and particulars of sales of all Licensed Engines and parts provided for hereunder, and of all Licensed Engines and parts fabricated and/or assembled. United shall have access during reasonable business hours, not to exceed two investigations per annum, to the books and records of Licensee that pertain to the subject matter of this Agreement, in order to determine what sums, if any, are due it hereunder.

XI. PREVENTION OF PERFORMANCE BY UNITED: United shall not be deemed to have breached this Agreement by reason of its failure to perform any of its obligations hereunder, provided such failure shall be due to strikes, fire, acts of God or a public enemy, riots, incendiaries, interference by civil or military authorities, compliance with order of the President of the United States or other governmental agencies, delays in transit or delivery on part of transportation companies or any act or failure to act of Licensee or other cause of the same or different nature beyond control or without fault of United.

XII. CANCELLATION OF AGREEMENT: United may revoke or terminate this Agreement if Licensee shall fail to make payment of any sum required under this Agreement and shall not remedy and make good such failure or failures within thirty (30) days from the date of the mailing to it by United of a written notice of such failure.

In the event of any such revocation or termination of this Agreement, United shall be entitled to receive any and all moneys due it up to the date of such revocation or termination; and such revocation or termination shall also be without prejudice to any claim which any party hereto may have against any other for damages in respect to any prior breaches of this Agreement.

In the event that this Agreement shall be so revoked or so terminated, Licensee further agrees forthwith to deliver to United any and all working drawings, blueprints, specifications or other papers or data, and all copies thereof in its possession or under its control, applicable for use in connection with the manufacture of the Licensed Engines, and which the Licensee is not obligated to deliver to the Government of the United States or any of its departments.

XIII. CONSTRUCTION OF AGREEMENT: This Agreement shall be construed and the respective rights of the parties hereto upon its expiration or cancellation pursuant to its terms, shall be determined under and pursuant to the laws of the State of Connecticut, United States of America.

XIV. INFORMATION TO BE SUPPLIED BY LICENSEE: In the event that Licensee shall perfect any improvement, modification or invention which may be used in connection with the manufacture of the Licensed Engine and/or parts therefor, it agrees forthwith to communicate the same to United, to grant to United, its successors and assigns, the right to use and apply the same in the manufacture of the Licensed Engine and/or parts therefor, whenever the same are or may thereafter be manufactured, by United, its successors or assigns, and the right to include the same in any engine offered for sale by United or its successors or assigns, without charge or account thereof, and to execute any and all necessary instruments to effectuate this purpose, the cost of such instruments, if any, to be borne by United; but there shall be no additional cost to United on account of the use of any such improvement, modification or invention, and any of the same may be used by Licensee

in connection with products manufactured by it without payment of any kind.

XV. NOTICES: Notices required under this Agreement shall be sent by registered mail to the respective parties at the following addresses:

United Aircraft Corporation
East Hartford
Connecticut
U. S. A.

(Licensee)

XVI. LIMITATIONS: Licensee shall not have power to bind United by any guarantee or representation that it may give or in any other respect whatsoever, or to incur any debts or liabilities in the name or on behalf of United; and the parties hereto shall not be deemed partners or joint adventurers.

XVII. EXPIRATION OF AGREEMENT: Unless sooner terminated pursuant to the provisions of Article XII hereof or extended by mutual agreement, this Agreement shall cease and terminate three years from the date first above written and upon the expiration thereof all obligations of United and Licensee hereunder shall cease and terminate. The provisions of this Article XVII shall not relieve either party of any obligations existing pursuant to the terms of this Agreement at the expiration date thereof.

XVIII. GRANT TO VENDORS: United hereby agrees to grant to vendors of all raw, semi-fabricated, and/or fabricated materials used or applicable to the herein Licensed Engines the right to use, for a compensation to be mutually agreed upon, all patterns, dies, jigs, and/or fixtures owned or controlled by United which are necessary for the purpose of such fabrication at the plant of the vendor at which such patterns, dies, jigs, and/or fixtures are generally located, whenever such fabrications of materials

may be desired by Licensee, provided Licensee gives United reasonable (30 days where practicable) notice prior to the commencement of the fabrication of such material, and provided such use by Licensee does not conflict with United's requirements for materials fabricated by such patterns, dies, jigs, and/or fixtures. It is understood and agreed that United has the undisputed right to change at any time and from time to time any or all of the above-mentioned patterns, dies, jigs, and/or fixtures to provide for normal changes in design and/or manufacturing processes instigated by United.

XIX. ARBITRATION: Any dispute arising hereunder shall be submitted to arbitration at the election of either of the parties hereto, upon written notice given to the other party hereto asking for such arbitration and designating an arbitrator selected by it. Within two (2) weeks from the giving of such notice, the other party hereto shall select an arbitrator and notify the first party of such election. The two arbitrators so selected shall select a third arbitrator within one month from the giving of the first above mentioned written notice. In case either of the parties fail to appoint an arbitrator within the time as set forth above, the other party shall have the right to appoint the second arbitrator, and in case the two arbitrators first appointed are unable within the time set forth, to agree upon the third arbitrator, the third arbitrator shall be chosen by the Arbitration Association of America or its officers or board or committee authorized to act for it in such matters. The arbitration shall be conducted in New York City under the rules of the Arbitration Association of America. The decision of the arbitrators shall be final and binding on the parties hereto.

XX. MARKING: Licensee will suitably mark all Licensed Engines manufactured or assembled by it, as being manufactured by it, by name, under license from United, setting forth the applicable patent numbers and dates as specified by

United.

XXI. CHANGES IN DESIGN OR CONSTRUCTION: Whenever Licensee shall make any changes in the design or construction of Licensed Engines or any part thereof, Licensee shall, as soon as practicable thereafter, furnish to United, without cost to it, full particulars of such changes, together with drawings and specifications completely disclosing the same. When such disclosure shall have been made all rights in and to such changes shall, subject to the rights granted by this Agreement, but without any other act of either of the parties hereto, pass to and vest in United to the same extent for all intents and purposes as if such changes had been made by United. Nevertheless, if deemed necessary by United to protect its interests therein, Licensee shall, upon United's request, make prompt and due applications for United States patents covering any such changes and shall diligently prosecute such applications to a conclusion, and upon the granting of any such patents shall (unless they be granted directly to United or its nominee) duly assign the same to United or its nominee without requiring the payment of any fee or royalty with respect thereto; provided, that the cost of obtaining such patents shall be for account of United.

XXII. RECOGNITION OF LICENSE: Licensee shall not make, manufacture, license, sell, lease or otherwise dispose of, during the term of this Agreement or at any time after its termination, any type, model or design of aeronautical engine or part thereof embodying any one or more of the basic principles of design or manufacture employed in and peculiar to the design or manufacture of Licensed Engines or parts thereof, other than such engines or parts thereof as may be manufactured either under this Agreement or pursuant to other rights, if any, expressly granted in writing to Licensee by United.

IN WITNESS WHEREOF, the parties hereto have caused

this Agreement to be signed in their respective corporate names by their respective officers thereunto duly authorized, and their corporate seals to be hereto affixed, and to be attested by their respective Secretaries or other officers thereunto duly authorized, as of the day and year first above written.

58

UNITED AIRCRAFT CORPORATION

ATTEST:

By _____

LICENSEE

ATTEST:

By _____

RECEIVED
NOV 21 2 48

REGISTRY OF INVENTORS
OFFICE

1940

My dear Mr. Wilson:

I have your letter of June 4, 1940 in which the United Aircraft Corporation offers to grant to corporations to be designated by the Government non-exclusive licenses to manufacture for and sell to the Government any aviation engine of any type or model which it manufactures for commercial or governmental purposes, and in which the United Aircraft Corporation grants to the Government a non-exclusive right to manufacture, assemble, use and, in time of war or when war is imminent, to sell any aviation engine of any type or model which it manufactures.

I am turning this letter and the draft of agreement which was enclosed with it over to the Advisory Commission for the Council of National Defense which has been established for the coordination of industry and resources for the national security and welfare.

Your cooperation in this matter is very much appreciated.

Sincerely yours,

Secretary of the Treasury.

Mr. E. E. Wilson
President
United Aircraft Corporation
East Hartford, Connecticut

CLK:t
6-6-40

JUN 7 1940

My dear Mr. Vaughan:

I have your letter of June 5, 1940 in which the Wright Aeronautical Corporation offers to grant to corporations to be designated by the Government non-exclusive licenses to manufacture for and sell to the Government any aviation engine of any type or model which it manufactures for commercial or governmental purposes, and in which the Wright Aeronautical Corporation grants to the Government a non-exclusive right to manufacture, assemble, use and, in time of war or when war is imminent, to sell any aviation engine of any type or model which it manufactures.

I am turning this letter and the draft of agreement which was enclosed with it over to the Advisory Commission for the Council of National Defense which has been established for the coordination of industry and resources for the national security and welfare.

Your cooperation in this matter is very much appreciated.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. G. W. Vaughan
President
Wright Aeronautical Corporation
Paterson, New Jersey

CLK:st
6-6-40

JUN 7 1940

My dear Mr. Westgoode:

I am enclosing a letter dated June 4, 1940 from the United Aircraft Corporation and a letter dated June 5, 1940 from the Wright Aeronautical Corporation pursuant to which these corporations respectively offer to grant to corporations to be designated by the Government non-exclusive licenses to manufacture for and sell to the Government any aviation engine of any type or model manufactured thereby.

In addition, each of these letters serializes a grant to the Government of a non-exclusive right to manufacture, assemble, use and, in time of war or when war is imminent, to sell any aviation engine of any type or model which the United Aircraft Corporation or the Wright Aeronautical Corporation (as the case may be) manufactures for commercial or governmental purposes.

Both offers and grants are subject to certain terms and conditions which are set forth in the letters and in drafts of agreements annexed thereto.

In view of the fact that the Advisory Commission for the Council of National Defense has been established for the coordination of industry and resources for the national security and welfare, I am of the opinion that the scope and of the offers and grants made by these two aviation engine manufacturers and the carrying out of the program thereunder are matters to be considered and handled by the Advisory Commission from this point forward.

Sincerely yours,

Secretary of the Treasury.

Ben. William B. Westgoode
Secretary, Advisory Commission for
the Council of National Defense
Federal Reserve Building
Washington, D. C.

OW:lt
6-6-40

62

UNITED AIRCRAFT CORPORATION

EAST HARTFORD, CONNECTICUT

OFFICE OF THE
PRESIDENT

June 4, 1940

My dear Mr. Secretary:

Confirming our oral understanding, the United Aircraft Corporation (herein called "United") offers to grant to a corporation or corporations, to be designated by the Government of the United States, a non-exclusive license or licenses to manufacture for and to sell to the Government any aviation engine of any type or model which United manufactures for commercial or governmental purposes at any time that the Government finds it necessary in the interest of national defense to request United to grant a license or licenses for such purpose.

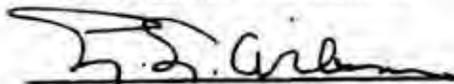
It is understood that any agreement to be entered into between United and any licenses so designated will be substantially in the same form and contain substantially the same provisions as the attached draft of agreements, with such other and further provisions as may be mutually agreed upon between United and any such licenses and which are satisfactory to the Government. It is further understood that the amount of compensation or other payments in any such agreement shall be mutually agreed upon and shall be satisfactory to the Government.

United also hereby grants to the Government a non-exclusive right or license to manufacture, assemble, use and, in time of war or when war is imminent, to sell any aviation engines of any type or model which United manufactures, and in consideration of payments (it being understood that consideration shall be given by the Government in such payments to royalties which United is required to pay to third parties on United States patents) to be fixed by mutual agreement, hereby covenants to furnish technical data and technical assistance to the Government substantially in accordance with Articles III, IV, V, VII and XVIII in the draft of agreement attached hereto.

Nothing in this letter shall be construed to affect in any way licenses granted to and agreements entered into with the Government by United which exist on the date hereof.

Very truly yours,

UNITED AIRCRAFT CORPORATION



E. E. Wilson, President

The Honorable,

The Secretary of the Treasury,
Washington, D. C.

WRIGHT AERONAUTICAL CORPORATION

PATERSON, N. J.

U. S. A.

63

June 5th, 1940

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

My dear Mr. Secretary:

Confirming our oral understanding, the Wright Aeronautical Corporation (herein called "Wright") offers to grant to a corporation or corporations, to be designated by the Government of the United States, a non-exclusive license or licenses to manufacture for and to sell to the Government any aviation engine of any type or model which Wright manufactures for commercial or governmental purposes at any time that the Government finds it necessary in the interest of national defense to request Wright to grant a license or licenses for such purpose.

It is understood that any agreement to be entered into between Wright and any licensee so designated will be substantially in the same form and contain substantially the same provisions as the attached draft of agreement, with such other and further provisions as may be mutually agreed upon between Wright and any such licensee and which are satisfactory to the Government. It is further understood that the amount of compensation or other payments shall be mutually agreed upon and shall be satisfactory to the Government.

Wright also hereby grants to the Government a non-exclusive right or license to manufacture, assemble, use and, in the time of war or when war is imminent, to sell any aviation engines of any type or model which Wright manufactures, and in consideration of payments (it being understood that consideration shall be given by the Government in such payments to royalties which Wright is required to pay to third parties on United States patents) to be fixed by mutual agreement, hereby covenants to furnish technical data and technical assistance to the Government substantially in accordance with Articles III, IV, V, VII and XVIII in the draft of agreement above referred to.

"USE THE AIR MAIL"

The Honorable Henry Morgenthau, Jr.

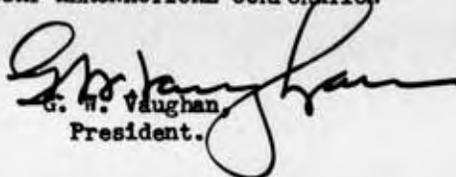
6/5/40.
Page Two.

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Nothing in this letter shall be construed to affect in any way licenses granted to and agreements entered into with the Government by Wright which exist on the date hereof.

Very truly yours,

WRIGHT AERONAUTICAL CORPORATION


G. H. Vaughan
President.

GNV/bm

June 1, 1940.

My dear Mr. Secretary:

Confirming our oral understanding, the Wright Aeronautical Corporation (herein called "Wright") offers to grant to a corporation or corporations, to be designated by the Government of the United States, a non-exclusive license or licenses to manufacture for and to sell to the Government any aviation engine of any type or model which Wright manufactures for commercial or governmental purposes at any time that the Government finds it necessary in the interest of national defense to request Wright to grant a license or licenses for such purpose.

It is understood that any agreement to be entered into between Wright and any licensee so designated will be substantially in the same form and contain substantially the same provisions as the attached draft of agreements, with such other and further provisions as may be mutually agreed upon between Wright and any such licensee and which are satisfactory to the Government. It is further understood that the amount of compensation or other payments in any such agreement shall be mutually agreed upon and shall be satisfactory to the Government.

Wright also hereby grants to the Government a non-exclusive right or license to manufacture, assemble, use and, in time of war or when war is imminent, to sell any aviation engines of any type or model which Wright manufactures, and in consideration of payments (it being understood that consideration shall be given by the Government in such payments to royalties which Wright is required to pay to third parties on United States patents) to be fixed by mutual agreement, hereby covenants to furnish technical data and technical assistance to the Government substantially in accordance with Articles III, IV, V, VII and XVIII in the draft of agreement above referred to.

Nothing in this letter shall be construed to affect in any way licenses granted to and agreements entered into with the Government by Wright which exist on the date hereof.

Very truly yours,

WRIGHT AERONAUTICAL CORPORATION

President.

The Honorable

The Secretary of the Treasury.

Draft of June 6, 1940

AGREEMENT made and entered into as of the ___ day of _____, 19 __, by and between WRIGHT AERONAUTICAL CORPORATION, a corporation organized and existing under the laws of the State of New York, with offices at Paterson, New Jersey, United States of America, (hereinafter referred to as "Wright"), party of the first part, and _____, a corporation organized and existing under the laws of the _____, (hereinafter referred to as the "Licensee"), party of the second part:

In consideration of the mutual covenants and agreements of the parties hereto, each does agree with the other as follows:

I. DEFINITIONS: For the purpose of this agreement, the Wright _____ engine is defined as the current single row radial-air-cooled geared and/or direct drive Model _____ engine such as is now being sold by Wright to the United States of America, designed in the English inch measurement system, and in accordance with specifications satisfactory to the Government of the United States.

Wherever the term "Engine" is used in this agreement, it shall be interpreted to mean the bare engine fully equipped, including magnetos, carburetors and spark plugs or the like, but exclusive of all optional accessories which are not necessary for the ordinary and usual operation of the engine.

Engine "Type" shall be understood and defined as referring to the general configuration of the engine without specific reference to size or ordinary details, as for example, "Vee" type, single row radial type, double row radial type, in-line type, air cooled type, water cooled type, etc.

The word "Model" shall be understood and defined as referring to an engine of a particular type with a given number of cylinders and a given piston displacement.

II. NON-EXCLUSIVE LICENSE: Wright hereby grants to Licensees for the term of this agreement a non-exclusive right and license to manufacture, assemble, use and sell to the Government of the United States or

any of its departments, agencies or instrumentalities Wright _____ engines and spare parts, including all features applicable to said engine covered by United States letters patent or applications for patents now pending or hereafter applied for _____ which are owned or controlled by Wright.

III. DESIGN DRAWINGS AND SPECIFICATIONS: Wright will furnish to the authorized representative or representatives of Licensee at the plant of Wright at Paterson, New Jersey, United States of America, within two months from the date of execution of this agreement, drawings, specifications and information regarding assembling, testing and servicing of the Wright _____ engine as indicated below:

- (1) Assembly drawings of the licensed engine and parts therefor.
- (2) Drawings and/or acceptance specifications for all component parts of the licensed engine purchased by Wright from third parties in finished form, and acceptance specifications and descriptions of all finished accessories, normally purchased by Wright from third parties for application to the licensed engine.
- (3) Inspection instructions for finished parts.
- (4) Assembly instructions, assembly inspection specifications and engine test specifications.
- (5) Fuel and oil specifications.
- (6) Engine operating instructions, overhaul and service manuals, tolerance charts, drawings and specifications for special tools, accessories, etc. used in maintenance and overhaul activities.
- (7) Installation drawings and data showing general requirements for arrangement of cowlings, fuel and oil supply systems, air intakes and heaters, ventilation of accessory compartments, engine mounts.
- (8) Drawings or specifications of all special tools, jigs, fixtures, etc. designed by Wright and used in the current assembly and test of the licensed engine.

All drawings, specifications and data referred to above shall be copies of current drawings, specifications and instructions and other data

- 3 -

when designed or prepared by Wright and employed by Wright in current assembly and overhaul activities. Four copies of the data shall be supplied. Two copies shall be delivered in Van Dyke or carbon back typewritten form, whichever is appropriate to the particular information supplied, in English text and dimensions as used by Wright, and two copies shall be delivered in blueprint form.

Wright further agrees to furnish to the authorized representative or representatives of Licensee at the plant of Wright at Paterson, New Jersey, United States of America, at a compensation to be agreed upon and within one month from the date of receipt by Wright from Licensee of an order therefor, additional sets of the drawings and specifications and other data referred to in this Article.

Two copies of the drawings, specifications and other data, similar to those above referred to, of improvements, modifications and changes in Wright _____ engines, shall, during the period hereof, be supplied by Wright without additional compensation, it being understood that changes in design and specifications made during each quarterly period of three months shall be delivered within one month after the close of the period in which such changes were made.

IV. DETAILED MANUFACTURING DRAWINGS AND PRODUCTION DATA: Wright will furnish to the authorized representative or representatives of Licensee at the plant of Wright at Paterson, New Jersey, United States of America, within three months from the date of execution of this agreement, detailed drawings, specifications and information regarding the manufacture of component parts, as manufactured by Wright, for the _____ engine, and suitable information for the purchase of parts not so manufactured. Said manufacturing drawings and information shall be as follows:

- (1) Detailed drawings of engine parts including tolerance specifications for finished parts.
- (2) Material specifications including heat treating specifications.

(3) Bills of material, production drawings, process sheets, material test specifications.

(4) Drawings and specifications of all special tools, jigs, fixtures, etc. normally designed by Wright and used in the manufacture, assembly and test of parts in process.

(5) Inspection specifications used in manufacturing, including drawings of inspection, tools, jigs and fixtures normally designed by Wright.

All drawings, specifications and data referred to above shall be copies of current Wright drawings, specifications and instructions and other data normally designed or prepared by Wright and employed by Wright in current manufacturing activities. Four copies of the data shall be supplied. Two copies shall be delivered in Van Dyke or carbon back typewritten form, whichever is appropriate to the particular information supplied, in English text and dimensions as used by Wright, and two copies shall be delivered in blueprint form.

Wright further agrees to furnish to the authorized representative or representatives of Licensee at the plant of Wright at Paterson, New Jersey, United States of America, at a compensation to be agreed upon, within one month from the date of the receipt by Wright from Licensee of an order therefor, additional sets of the drawings and specifications made during each quarterly period of three months shall be delivered within one month after the close of the period in which such changes were made.

Two copies of the drawings, specifications and other data, similar to that above referred to, of improvements in the methods of manufacture of Wright _____ engines, shall, during the period hereof, be supplied by Wright without additional compensation, it being understood that changes in design and specification shall be delivered within one month after three months' periods of accumulation.

V. SERVICES OF ENGINEERS IN LICENSEE'S FACTORY: During the term hereof Wright undertakes and agrees to render all reasonable manufacturing and technical assistance and servicing information and data in connection with the manufacture, assembly, testing and servicing of the _____ engine, and to that end, and at the request of Licensee, Wright agrees to furnish Licensee with the services of a reasonable number, not to exceed _____ (), of competent and experienced engineers to assist Licensee in the manufacture, assembly, testing and servicing of Wright _____ engines and/or parts therefor.

Licensee agrees to pay to Wright in a manner to be agreed upon the cost of the services of any such engineer or engineers, together with all reasonable traveling and living expenses from the time he or they leave Paterson, New Jersey, United States of America, until their return thereto, plus ___ per cent (%) thereof. It is further agreed that all liability for injuries to or death of any or all of such engineers, and for damages of any kind and chargeable against Wright, which may arise from any cause occurring in the course of the employment of such engineers while they are with or employed by Licensee, shall be paid by Licensee.

VI. PAYMENTS: Licensee agrees to make payments to Wright at Paterson, New Jersey, United States of America, as follows:

A. Partial Payments:

- (a) The sum of _____ upon delivery to the authorized representative or representatives of Licensee at the Plant of Wright at Paterson, New Jersey, of the design drawings, specifications and information provided for in Article III hereof.
- (b) The sum of _____ upon delivery to the authorized representative or representatives of Licensee at the

plant of Wright at Paterson, New Jersey, of the manufacturing drawings and production data provided for in Article IV hereof.

B. Royalties:

(a) Semi-annually during the first year of this agreement, whichever of the following amount is the greater:

(1) the sum of _____ or

(2) the sum of _____ for each direct drive _____ engine manufactured, assembled or sold by Licensee, and the sum of _____ for each geared _____ engine manufactured, assembled or sold by Licensee.

(b) Semi-annually during the remaining years of this agreement, whichever of the following sums is the greater:

(1) the sum of _____ or

(2) the sum of _____ for each direct drive _____ engine, manufactured, assembled or sold by Licensee, and the sum of _____ for each geared _____ engine manufactured, assembled or sold by Licensee.

C. Other Payments:

Licensee agrees to reimburse Wright for royalties which Wright is required to pay in the amounts and in the manner shown on Schedule A hereto attached.

D. Conditions of Payment:

VII. REPRESENTATIVES OF LICENSEE AT WRIGHT PLANT: During the term hereof Licensee may send not more than _____ () technicians or representatives to the plant of Wright at Paterson, New Jersey, United States of America, to observe and study the methods employed by Wright in the manufacture, assembly and servicing of the _____ engine upon the following conditions: (1) Licensee shall pay all salaries and wages of such technicians or representatives and shall bear all traveling, living and other expense which may be incurred in this connection; (2) Wright shall not be required to admit such technicians or representatives to portions of their factory where work of a secret or confidential nature is in process or where prohibited from doing so by virtue of requirements made by the Government of the United States in connection with contracts for the building and developing of aircraft engines and/or accessories therefor; (3) whenever such technicians or representatives are stationed for instruction purposes, they will be under a responsible and capable leader who will secure conformance to the rules and regulations of Wright; (4) Wright will not be liable for injuries to or death of any or all such representatives while at the plant of Wright, or for injury, damage or loss to their property; and (5) Licensee will indemnify and hold Wright harmless from any such liability.

VIII. RESTRICTION ON PATENTS: It is understood between the parties hereto that no patent will be obtained or applied for by Licensee or by another with its inducement or consent, on Wright engines, or any drawings or parts thereof either as existing at present or as they may hereafter be improved or developed by Wright without the express written consent of Wright.

IX. ASSIGNMENT OR TRANSFER: Licensee shall not assign, transfer or sell, or permit the use of the rights hereby granted, without the written

73

consent of Wright and shall not disclose or suffer to be disclosed to another, (except to the Government of the United States), any information or any designs, drawings or other data which it receives or is entitled to receive hereunder, and will, at its own expense, use every effort and take the necessary proceedings to protect Wright against such disclosure; provided, that nothing in this article shall prevent Licensee from furnishing drawings and specifications of individual parts to sub-contractors supplying such parts.

X. MAINTENANCE OF RECORDS: Licensee shall at all times during the continuance of this agreement, keep accurate and separate accounts containing full entries and particulars of sales of all engines and parts provided for hereunder, and of all engines and parts fabricated and/or assembled. Wright shall have access during reasonable business hours, not to exceed two investigations per annum, to the books and records of Licensee that pertain to the subject matter of this agreement, in order to determine what sums, if any, are due it hereunder.

XI. PREVENTION OF PERFORMANCE BY WRIGHT: Wright shall not be deemed to have breached this agreement by reason of its failure to perform any of its obligations hereunder, provided such failure shall be due to strikes, fire, acts of God or a public enemy, riots, incendiaries, interference by civil or military authorities, compliance with orders of the President of the United States or other governmental agencies, delays in transit or delivery on part of transportation companies or any act or failure to act of Licensee or other cause of the same or different nature beyond control or without fault of Wright.

XII. CANCELLATION OF AGREEMENT: Wright may revoke or terminate this agreement if Licensee shall fail to make payment of any sum required under this agreement and shall not remedy and make good such failure or failures within thirty (30) days from the date of the mailing to it by Wright of a written notice of such failure.

74

In the event of any such revocation or termination of this agreement, Wright shall be entitled to receive any and all moneys due it up to the date of such revocation or termination, and such revocation or termination shall also be without prejudice to any claim which any party hereto may have against any other for damages in respect to any prior breaches of this agreement.

In the event that this agreement shall be so revoked or so terminated, or upon its expiration under Article XVII hereof, Licensee further agrees forthwith to deliver to Wright any and all working drawings, blueprints, specifications or other papers or data, and all copies thereof in its possession or under its control, applicable for use in connection with the manufacture of the licensed engines, and which the Licensee is not obligated to deliver to the Government of the United States or any of its departments, agencies, or instrumentalities.

XIII. CONSTRUCTION OF AGREEMENT: This agreement shall be construed and the respective rights of the parties hereto upon its expiration or cancellation pursuant to its terms, shall be determined under and pursuant to the laws of the State of New York, United States of America.

XIV. INFORMATION TO BE SUPPLIED BY LICENSEE: In the event that Licensee shall perfect any improvement, modification or invention which may be used in connection with the manufacture of the licensed engine and/or parts therefor, it agrees forthwith to communicate the same to Wright, to grant to Wright, its successors and assigns, the right to use and apply the same in the manufacture of the licensed engine and/or parts therefor, whenever the same are or may thereafter be manufactured by Wright, its successors or assigns, and the right to include the same in any engine offered for sale by Wright or its successors or assigns, without charge or account thereof, and to execute any and all necessary instruments to effectuate this purpose, the cost of such instruments, if any, to be borne by Wright, but there shall be no additional cost to

Wright on account of the use of any such improvement, modification or invention, and any of the same may be used by Licensee in connection with products manufactured by it without payment of any kind.

XV. NOTICES: Notices required under this agreement shall be sent by registered mail to the respective parties at the following addresses:

Wright Aeronautical Corporation
Paterson
New Jersey
U. S. A.

(Licensee)

XVI. LIMITATIONS: Licensee shall not have power to bind Wright by any guarantee or representation that it may give or in any other respect whatsoever, or to incur any debts or liabilities in the name or on behalf of Wright, and the parties hereto shall not be deemed partners or joint adventurers.

XVII. EXPIRATION OF AGREEMENT: Unless sooner terminated pursuant to the provisions of Article XII hereof or extended by mutual agreement, this agreement shall cease and terminate three years from the date first above written and upon the expiration thereof all obligations of Wright and Licensee hereunder shall cease and terminate. The provisions of this Article shall not relieve either party of any obligations existing pursuant to the terms of this agreement at the expiration date thereof.

XVIII. GRANT TO VENDORS: Wright hereby agrees to grant to vendors of all raw, semi-fabricated, and/or fabricated materials used or applicable to the herein licensed engines the right to use for a compensation to be mutually agreed upon, all patterns, dies, jigs, and/or fixtures owned or controlled by Wright which are necessary for the purpose of such fabrication at the plant of the vendor at which such patterns, dies, jigs, and/or fixtures are generally located, whenever such fabrications of

materials may be desired by the Licensee, provided the Licensee gives Wright reasonable (30 days where practicable) notice prior to the commencement of the fabrication of such material, and provided such use by the Licensee does not conflict with Wright's requirements for materials fabricated by such patterns, dies, jigs, and/or fixtures. It is understood and agreed that Wright has the undisputed right to change at any time and from time to time any or all of the above-mentioned patterns, dies, jigs, and/or fixtures to provide for normal changes in design and/or manufacturing processes instigated by Wright.

XIX. ARBITRATION: Any dispute arising hereunder shall be submitted to arbitration at the election of either of the parties hereto, upon written notice given to the other party hereto asking for such arbitration and designating an arbitrator selected by it. Within two (2) weeks from the giving of such notice, the other party hereto shall select an arbitrator and notify the first party of such election. The two arbitrators so selected shall select a third arbitrator within one month from the giving of the first above-mentioned written notice. In case either of the parties fails to appoint an arbitrator within the time as set forth above, the other party shall have the right to appoint the second arbitrator, and in case the two arbitrators first appointed are unable within the time set forth, to agree upon the third arbitrator, the third arbitrator shall be chosen by the Arbitration Association of America or its officers or board or committee authorized to act for it in such matters. The arbitration shall be conducted in New York City under the rules of the Arbitration Association of America. The decision of the arbitrators shall be final and binding on the parties hereto.

XX. MARKING: Licensee will suitably mark all licensed engines manufactured or assembled by it, as being manufactured by it, by name under license from Wright, setting forth the applicable patent numbers and dates as specified by Wright.

XXI. CHANGES IN DESIGN OR CONSTRUCTION: Whenever Licensee shall make any changes in the design or construction of licensed engines or any part thereof, licensee shall, as soon as practicable thereafter, furnish to Wright, without cost to it, full particulars of such changes, together with drawings and specifications completely disclosing the same. When such disclosure shall have been made all rights in and to such changes shall, subject to the rights granted by this Agreement, but without any other act of either of the parties hereto, pass to and vest in Wright to the same extent for all intents and purposes as if such changes had been made by Wright. Nevertheless, if deemed necessary by Wright to protect its interests therein, Licensee shall, upon Wright's request, make prompt and due applications for United States patents covering any such changes and shall diligently prosecute such applications to a conclusion, and upon the granting of any such patents shall (unless they be granted directly to Wright or its nominee) duly assign the same to Wright or its nominee without requiring the payment of any fee or royalty with respect thereto; provided, that the cost of obtaining such patents shall be for account of Wright.

XXII. RECOGNITION OF LICENSE: Licensee shall not make, manufacture, license, sell, lease or otherwise dispose of, during the term of this Agreement or at any time after its termination, any type, model or design of aeronautical engine or part thereof embodying any one or more of the basic principles of design or manufacture employed in and peculiar to the design or manufacture of licensed engines or parts thereof, other than such engines or parts thereof as may be manufactured either under this Agreement or pursuant to other rights, if any, expressly granted in writing to Licensee by Wright.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be signed in their respective corporate names by their respective officers thereunto duly authorized, and their corporate seals to be

hereunto affixed, and to be attested by their respective Secretaries or other officers thereunto duly authorized, as of the day and year first above writton.

WRIGHT AERONAUTICAL CORPORATION

By _____

ATTEST:

LICENSEE

By _____

ATTEST:

June 7, 1940.

Dear Mr. Purvis:

Dr. Karl T. Compton, President of the Massachusetts Institute of Technology, has written to tell me of a member of their staff, Professor A. Gaudin, of the Department of Metallurgy.

During the last World War Professor Gaudin's father was on the French Purchasing Commission to this country, and at that time the Professor, who was a young French engineer, came with his father as an assistant. He is now a naturalized American, and according to Dr. Compton, is probably the leading authority in the United States on the subject of flotation and other methods of ore beneficiation in the mining industries. He has two brothers in the French Army and is anxious to be of help in the present emergency.

Dr. Compton has suggested that the Allied Purchasing Commission might wish to avail themselves of his services in some way and says that the Institute would be glad to cooperate in making it possible for Professor Gaudin to undertake such work.

I am passing this on for any use you may wish to make of the information.

Sincerely,

(Signed) W. Brewster

Mr. Arthur B. Purvis,
Anglo-French Purchasing Board,
15 Broad Street,
New York, New York.

GW/cha

60

June 7, 1940.

Dear Mr. Purvie:

Dr. Karl T. Compton, President of the Massachusetts Institute of Technology, has written to tell me of a member of their staff, Professor A. Gaudin, of the Department of Metallurgy.

During the last World War Professor Gaudin's father was on the French Purchasing Commission to this country, and at that time the Professor, who was a young French engineer, came with his father as an assistant. He is now a naturalized American, and according to Dr. Compton, is probably the leading authority in the United States on the subject of flotation and other methods of ore beneficiation in the mining industries. He has two brothers in the French Army and is anxious to be of help in the present emergency.

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Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Arthur B. Purvie,
Anglo-French Purchasing Board,
15 Broad Street,
New York, New York.

GHT/als

June 10, 1940.

Dear Mr. Compton:

I want to thank you very much for your letter of June 5th, which tells me of the background and experience of Professor Gudin, of your Department of Metallurgy. I am passing on this information to Mr. Arthur B. Purvis, of the Anglo-French Purchasing Board, and feel sure that he will be interested to know of Professor Gudin's availability.

I also have noted your further suggestions and comments. I shall remember your offer of cooperation as the Procurement program develops.

With thanks and all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Karl T. Compton,
President, Massachusetts Institute
of Technology,
Cambridge, Massachusetts.

GHV/abc

June 10, 1940.

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I also have noted your further suggestions and comments. I shall remember your offer of cooperation as the Procurement program develops.

With thanks and all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Karl T. Compton,
President, Massachusetts Institute
of Technology,
Cambridge, Massachusetts.

HEV/dhs



OFFICE OF THE PRESIDENT

June 5, 1940

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

My dear Mr. Secretary:

We at M.I.T. are preparing shortly to submit to you and to several other governmental officers who have principal responsibilities in the national defense program suggestions regarding the lines in which we believe that our facilities of staff and equipment might be most effectively used in a defense or war emergency if our cooperation in these matters should be desired. There are certain lines in which these facilities are somewhat unique.

In the meantime, however, I am venturing to offer two suggestions which may perhaps be pertinent to the present situation, and if they are not please entirely disregard them.

The first suggestion has to do with the allied purchasing commission. We happen to have on our staff in the Department of Metallurgy, Professor A. Gaudin whose father was on the French purchasing commission in the U.S. during the last world war. At that time our Professor Gaudin, then a young French engineer, accompanied his father as his assistant in this work. Following the war Professor Gaudin took out his naturalization papers and has become probably the leading authority in the U.S. on the subject of flotation and other methods of ore beneficiation in the mining industries.

Professor Gaudin has two brothers in the French Army and is very anxious to be of help to the allied cause. Because of his previous experience in purchasing in this country for the French, he suspects that it might be useful for the French delegation of the present purchasing commission

-2-

to have the services of a French engineer with this background of experience and with a very good knowledge both of the French and American psychology and procedures. If the French delegation of the allied purchasing commission feel that his services could be of real help to them, he would like to offer his services and M.I.T. would be prepared to make it possible for him to undertake such work.

The second suggestion has to do with advice in connection with personnel, industrial facilities, labor skills, etc., in the leading industrial centers. Our M.I.T. alumni are widely distributed and diversified and we have an unusually close contact with them. A number of them in prominent engineering or production positions have suggested to me that our Alumni Association might select a small group of particularly reliable and influential men in the various production centers who would be in a position to give confidential and disinterested advice with regard to the suitability of various locations or plants for production of various types of war materials. If there is any way in which such groups could be useful to you and your colleagues in this procurement program I should be very happy to assemble a small list of men in such centers as Chicago, Detroit, Philadelphia, Pittsburgh, New York, Hartford and Boston, who could be relied upon in case you should wish to call upon them.

With best regards,

Very sincerely yours

Karl T. Compton
President

KTC/L

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NOV 1 1945

RECEIVED
OFFICE

NOV 1 1945

JUN 7th 1940

Dear Jerome:

Many thanks for your letter of May 31st, outlining possible methods for the elimination of delay in airplane plant expansion.

I have read your ideas carefully, and your thoughtfulness in passing them on to me is highly appreciated.

Sincerely,

Henry

Honorable Jerome N. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

FY:bj
6/6/40

F.Y.

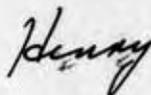
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Honorable Jerome N. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

FY:bj
6/6/40

Phil Young
prepare and I would

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

just that is him

May 31, 1940

AM

CONFIDENTIAL

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury

Dear Henry:

I have been told that airplane manufacturers can easily finance, through the capital market, all necessary plant expansions as soon as they have orders, but will be reluctant to undertake to do so, or to build such plants, until they had such orders. Delay in beginning such plant construction might possibly, therefore, occur.

I have heard that it has been suggested that, to avoid such delay, the government should build the plants and lease them to the companies. But it may well be that there would be considerable objection by the companies to such a proposal.

It occurs to me that another way to meet it would be for the government either (1) to guarantee to the plane manufacturers a return of some figure representing a fair percentage of return, on the cost of new plant expansion or (2) to guarantee that they would receive orders of a certain volume.

With such a guarantee they would almost surely be willing to begin to construct the new plants forthwith. The government would incur very little liability on any such guarantee since we may assume that, of course, orders will be forthcoming before long.

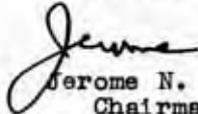
It would seem that to have the companies themselves finance new plants would be far more

- 2 -

desirable than to have the government build them. For the former process would employ the normal methods of financing and would tap savings for investments, using the capital markets-- all of which would indicate that, as far as possible, in this crisis, the government wants to adhere to normal business processes.

It may be that this idea is neither novel nor worth considering.

Sincerely yours,



Jerome N. Frank
Chairman

May 31, 1940

CONFIDENTIAL

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury

Dear Henry:

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- 2 -

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It may be that this idea is neither novel nor worth considering.

Sincerely yours,

Jerome N. Frank
Chairman

OFFICE OF
THE SECRETARY OF THE TREASURY

92

June 7, 1940

TO: General Watson
FROM: Lieut. D. E. McKay

**The Secretary asked me to send this
over for the President's information.**

June 7, 1940.

MEMORANDUM FOR THE SECRETARY:

The Italian steamer EURO, after loading a cargo of scrap iron in gulf ports, put into Newport News for bunkers and sailed from Newport News for Italy June 2nd.

This vessel returned to Newport News this morning.

BH:ds



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO. IOF-64

94

TREASURY DEPARTMENT
UNITED STATES COAST GUARD

WASHINGTON 7 June, 1940.

CONFIDENTIAL

MEMORANDUM FOR CAPTAIN PULESTON, U.S.N.:

No Italian ship weather reports were transmitted by Coltano Radio on June 6th nor have any such reports been broadcast by Coltano on June 7th up to and including the 1400 (G.M.T.) schedule.

It is rumored in New York that Italian vessels have received orders to proceed to neutral ports. A circumstance which indicates that this may be correct is that a number of Italian vessels have received code messages marked "Urgent". Some of these messages are identical and have been transmitted to different ships on successive schedules.

F. E. Pollio

F. E. POLLIO,
Lieutenant, U. S. Coast Guard,
Chief Intelligence Officer.

Captain W. D. Puleston, U.S.N.,
Room 196 Treasury Building,
Washington, D. C.

Copies to:
Mr. Saugstad, State.
Captain Nixon; ONI

From Hayes
to Bureau June 8
J. Bullitt

WASHINGTON, D.C.

7 JUNE 1940.

FOR THE HONORABLE SECRETARY OF THE TREASURY:

WHEN WILL I GET THOSE THOMPSON SUB MACHINE GUNS X
EVEN A THOUSAND THIS WEEK WOULD HELP ENORMOUSLY X CONGRATULATIONS
AND THANKS

(SIGNED) BULLITT.

TOR: 2330/7TH.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

June 7, 1940.

My dear Mr. Morgenthau:

I received the statistical data on airplanes and airplane engines, which came with your note of June 6th. Thank you very much for trusting me with this exceptionally valuable document. I know it is going to be of considerable help to us.

Faithfully yours,

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



11 0 NA 8 W 0 11

SECRETARY OF THE TREASURY
WASHINGTON

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

copy to Nelson 37
and
P. Young
sent 6/7/40
DATE 6-7-40.

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

Subject: Disposal of Naval Guns

(1)

World War Stocks

Guns owned by the Navy Department on July 11, 1919 can be disposed of in substantially the same manner as the Army's World War guns.

It is my understanding that the Navy is willing to dispose of the following guns which may serve the same purpose as the Thompson Machine Guns:

3,000 Lewis Machine Guns, <u>ground</u> type (a few need a little overhaul work).....	\$50. each
3,000 Lewis Machine Guns, <u>aircraft</u> type (good condition; need slight modification for ground use; can be used in short bursts on ground in present condition).....	\$50. each
4,093 Browning Automatic Rifles (some require a little overhaul).....	\$90. each

The mechanics of disposing of these guns is indicated by the following two statutory provisions. The Act of July 11, 1919 (41 Stat. 132) provides that:

"The interchange without compensation therefor, of military stores, supplies, and equipment of every character, including real estate owned by the Government, is hereby authorized between the Army and the Navy upon the request of the head of one service and with the approval of the head of the other service."

The other provision of the Act of July 11, 1919 (41 Stat. 104, 105) provides as follows:

"That * * * the Secretary of War be, and he is hereby, authorized to sell any surplus supplies including motor trucks and automobiles now owned by and in the possession of the Government for the use of the War Department to * * * any corporation or individual upon such terms as may be deemed best."

- 2 -

Translated into practical action, the World War guns of the Navy can legally be disposed of under these two statutory provisions as follows:

- (a) The Secretary of War requests the transfer of the guns to the War Department and the Secretary of the Navy approves the transfer. Or the transfer can be ordered by the President as the Commander in Chief of the Army and Navy.
38 Op. Atty. Gen. 293 (1935)

In either event, a formal or informal arrangement can be entered into between the Army and Navy providing that: (1) If the Army is empowered by the enactment of pending legislation to and does exchange these guns for other equipment it will give back to the Navy other material, to be agreed upon, of the same money value; or (2) If the Army is not authorized to exchange the guns but sells them then the Navy is not to be reimbursed with material or cash.

- (b) After the transfer is made to the Army it declares the guns to be surplus;
- (c) The Army then agrees with a private corporation to transfer these guns to it upon the condition that payment be made in cash in 20 days unless prior to the payment date legislation is enacted authorizing the exchange of surplus guns. In that event the War Department is to have the option to take payment in material rather than in cash.
- (d) Upon acquiring the guns the private corporation can legally sell them to the Anglo-French Purchasing Board if it sees fit.

Legislation is now pending to authorize the War Department to exchange guns and other surplus equipment for materiel of which there is a shortage. It should be definitely known in less than 20 days whether it will be enacted. Pending this determination, the transaction need not be slowed up.

(2)

Thompson Machine Guns

It is my understanding that these guns were recently acquired and were not owned by the Government on July 11, 1919.

The Attorney General has held that, under existing legislation, the War Department can only sell those surplus guns which were owned by the Government on July 11, 1919. Thus, even though the Navy is now empowered to transfer the Thompson Guns to the Army they cannot be sold or exchanged by the Army.

- 3 -

However, legislation is pending to authorize the Army to exchange surplus, unserviceable, deteriorated or obsolete guns and other equipment for other material of which there is a shortage. This proposed exchange power is not limited to military equipment owned by the Government on July 11, 1919. It applies to all equipment owned at any time. In all probability, the fate of this proposed legislation will be determined within the next week.

If the legislation is passed and the Army declares the transferred Thompson Guns to be surplus or unserviceable for its purposes, then they can be disposed of for the use of the Anglo-French Purchasing Board in the same manner detailed above for World War Guns.

E. J. H.

June 7, 1940.

Mr. Donald Nelson,
Assistant to the Secretary,
Treasury Department.

Dear Mr. Nelson:

You are hereby designated to serve as a member of a committee appointed by the President to study and make recommendations to the President concerning the general problem of purchases to be made by the Federal Government, looking to the desirability of further consolidating responsibility and authority for such purchases through the Division of Procurement, Treasury Department.

Mr. Edward R. Stettinius, Jr., has been appointed by the President to serve as Chairman of the committee.

I attach for your information a photostatic copy of a memorandum of June 5th addressed to me by the President on this subject.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

File to Mr. Thompson

June 7, 1940.

MEMORANDUM FOR THE PRESIDENT:

In accordance with your memorandum of June 5th, I have designated Mr. Donald Nelson to serve as a member of the committee created by you to study and make recommendations to you concerning the general problem of purchases to be made by the Federal Government, looking to the desirability of further consolidating responsibility and authority for such purchases through the Division of Procurement, Treasury Department.

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

File to Mr. Thompson

By Messenger 1:45 pm

ENT:ams

June 7, 1943.

Dear Mr. Hinkley:

General Watson has sent me a memorandum which I am enclosing herewith. I would appreciate it if you would prepare the necessary reply to Mr. Eml.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Robert E. Hinkley,
Chairman, Civil Aeronautics Authority,
Fifth Floor, Commerce Building,
Washington, D. C.

GHF/dbs

Enclosure.

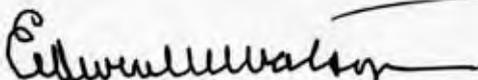
103
House

THE WHITE HOUSE
WASHINGTON

June 6, 1940

MEMORANDUM FOR SECRETARY MORGENTHAU

The attached is self-explanatory. Will
you please acknowledge to Mr. Rand. Thank you.



EDWIN M. WATSON
Secretary to the President

Enclosure

Mrs. Klotz:
Please ask
Mr. B. Hinckley to prepare
ans. to this memo.
W.M.W.

THE WHITE HOUSE
WASHINGTON

6/6

MEMO FOR GEN. WATSON:

Mr. J. H. Rand of New York (head of Remington Rand) telephoned the following message for the President:

1. "Private air transport companies have much spare equipment, also many planes which could be taken off regular flights. The French are in desperate need of planes. It is my thought the French would be willing to either purchase such planes or agree to turn over to such companies, in the future, planes now on order for the French Government. Undoubtedly the French would be willing to indemnify the air lines for revenues lost.
2. "I believe there are 350 to 400 such transport ships, capable of 200 miles an hour or more, which could be equipped with bomb racks in short order.
3. "I think the Govt should turn over to the Army and Navy many of the pursuit snips which the Army and Navy have. They could be traded with manufacturers as credit against purchases of new, modern planes; the manufacturers would then sell them to the French.
4. "It might also be possible to give leaves of absence to our pilots and mechanics so they could fly such snips, practically on flight, to Canadian territory -- possibly to fly the air transports to England or France."

See Sec^K Maggath

THE WHITE HOUSE
WASHINGTON

b/6

MEMO FOR GEN. WATSON:

Mr. J. H. Rand of New York (head of Remington Rand) telephoned the following message for the President:

1. "Private air transport companies have much spare equipment, also many planes which could be taken off regular flights. The French are in desperate need of planes. It is my thought the French would be willing to either purchase such planes or agree to turn over to such companies, in the future, planes now on order for the French Government. Undoubtedly the French would be willing to indemnify the air lines for revenues lost.

"I believe there are 350 to 400 such transport ships, capable of 200 miles an hour or more, which could be equipped with bomb racks in short order.
2. "I think the Govt should turn over to the French many of the pursuit snips which the Army and Navy have. They could be traded in to manufacturers as credit against purchases of new, modern planes; the manufacturers would then sell them to the French.
3. "It might also be possible to give leaves of absence to our pilots and mechanics so that they could fly such snips, practically overnight, to Canadian territory -- possibly even fly the air transports to England or France."

Lec^K J. H. Rand

Comparison of present and proposed individual income taxes on net incomes of selected sizes ^{1/}

SINGLE PERSON, NO DEPENDENTS

Net income:	Amounts of tax			Effective rates			Increase in tax			
	Proposal			Proposal			Amount		Percent	
	Present	Without personal exemption	With supertax	Present	Without supertax	With supertax	Without supertax	With supertax	Without supertax	With supertax
2/		3/	3/		3/	3/	3/	3/	3/	3/
\$ 1,000	-	\$ 4	\$ 4	-	.4%	.4%	\$ 4	\$ 4	-	-
1,500	14	22	24	.9%	1.5	1.6	8	8	10	71.4%
2,000	32	40	44	1.6	2.0	2.2	8	12	25.0	37.5
2,500	50	58	64	2.0	2.3	2.6	8	14	16.0	26.0
3,000	68	76	84	2.3	2.5	2.8	8	16	11.8	23.5
4,000	104	112	123	2.6	2.8	3.1	8	19	7.7	18.3
5,000	140	156	172	2.8	3.1	3.4	16	32	11.4	22.9
6,000	216	232	255	3.6	3.9	4.3	16	39	7.4	16.1
7,000	292	312	343	4.2	4.5	4.9	20	51	6.8	17.5
8,000	378	408	449	4.7	5.1	5.6	30	71	7.9	18.8
9,000	464	508	559	5.2	5.6	6.2	44	95	9.5	20.5
10,000	560	624	686	5.6	6.2	6.9	64	126	11.4	22.5
12,500	815	948	1,043	6.5	7.6	8.3	133	228	16.3	28.0
15,000	1,104	1,342	1,476	7.4	8.9	9.8	235	372	21.6	33.7
17,500	1,439	1,838	2,022	8.2	10.5	11.6	399	583	27.7	40.5
20,000	1,834	2,424	2,666	9.2	12.1	13.3	590	832	32.2	45.4
22,500	2,289	3,100	3,410	10.2	13.8	15.2	811	1,121	35.4	49.0
25,000	2,804	3,866	4,253	11.2	15.5	17.0	1,062	1,449	37.9	51.7
30,000	3,914	5,512	6,063	13.0	18.4	20.2	1,598	2,149	40.8	54.9
40,000	6,384	9,164	10,080	16.0	22.9	25.2	2,760	3,696	43.5	57.9
50,000	9,334	13,372	14,799	18.7	26.7	29.4	4,038	5,375	43.3	57.6
75,000	19,444	25,892	28,481	26.0	34.5	38.0	6,408	8,997	32.9	46.2
100,000	33,354	40,244	44,268	33.4	40.2	44.3	6,890	10,914	20.7	32.7
250,000	129,284	136,196	147,576	51.7	54.5	59.0	6,912	18,292	5.3	14.1
500,000	305,224	312,148	330,933	61.0	62.4	66.2	6,924	25,709	2.3	6.4
1,000,000	680,184	687,116	718,404	68.0	68.7	71.8	6,932	38,220	1.0	5.6
5,000,000	3,790,164	3,797,100	3,917,390	75.8	75.9	78.3	6,936	127,226	.2	3.4

June 7, 1940

Treasury Department, Division of Tax Research

1/ Under the proposal personal exemptions are reduced from \$1,000 to \$800 for a single person and from \$2,500 to \$2,000 for a married person, and the attached surtax schedule is substituted for present schedule.
 2/ Maximum earned income assumed.
 3/ The surtax is 10 percent of the tax computed under the proposal but is not to exceed 10 percent of the net income after deducting the tax under the proposal.

Comparison of present and proposed individual income taxes on net incomes of selected sizes 1/

MARRIED PERSON, NO DEPENDENTS

Net income: before :	Amounts of tax			Effective rates			Increase in tax			
	Without :		With :	Without :		With :	Amount		Percent	
	Personal exemption :	Supertax :	Supertax :	Personal exemption :	Supertax :	Supertax :	Without :	With :	Without :	With :
2/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :
\$ 2,500	\$ -	\$ 10	\$ 11	-	.4%	.4%	\$ 10	\$ 11	-	-
3,000	8	28	31	.3%	.9	1.0	20	23	250.0%	287.5%
4,000	44	64	70	1.1	1.6	1.8	20	26	45.5	59.1
5,000	80	100	110	1.6	2.0	2.2	20	30	25.0	37.5
6,000	116	136	150	1.9	2.3	2.5	20	34	17.2	29.3
7,000	172	212	233	2.5	3.0	3.3	40	61	29.3	35.5
8,000	248	288	317	3.1	3.6	4.0	40	69	16.1	27.8
9,000	329	384	422	3.7	4.3	4.7	55	93	16.7	28.3
10,000	415	480	528	4.2	4.8	5.3	65	113	15.7	27.2
12,500	650	780	858	5.2	6.2	6.9	130	208	20.0	32.0
15,000	924	1,144	1,258	6.2	7.6	8.4	220	334	23.8	36.1
17,500	1,234	1,589	1,748	7.1	9.1	10.0	355	514	28.8	41.7
20,000	1,589	2,124	2,336	7.9	10.6	11.7	535	747	33.7	47.0
22,500	2,004	2,764	3,040	8.9	12.3	13.5	760	1,036	37.9	51.7
25,000	2,489	3,494	3,843	10.0	14.0	15.4	1,005	1,354	40.4	54.4
30,000	3,569	5,104	5,614	11.9	17.0	18.7	1,535	2,045	43.0	57.3
40,000	5,979	8,684	9,552	14.9	21.7	23.9	2,705	3,573	45.2	59.8
50,000	8,869	12,844	14,128	17.7	25.7	28.3	3,975	5,259	44.8	59.3
75,000	18,779	25,244	27,768	25.0	33.7	37.0	6,465	8,989	34.4	47.9
100,000	32,469	39,524	43,476	32.5	39.5	43.5	7,055	11,007	21.7	33.9
250,000	128,294	135,404	145,864	51.3	54.2	58.7	7,110	18,570	5.5	14.5
500,000	304,144	311,284	330,156	60.8	62.3	66.0	7,140	26,012	2.3	8.6
1,000,000	679,044	686,204	717,584	67.9	68.6	71.8	7,160	38,540	1.1	5.7
5,000,000	3,788,994	3,796,164	3,916,548	75.8	75.9	78.3	7,170	127,554	.2	3.4

Treasury Department, Division of Tax Research

June 7, 1940

1/ Under the proposal personal exemptions are reduced from \$1,000 to \$800 for a single person and from \$2,500 to \$2,000 for a married person, and the attached surtax schedule is substituted for present schedule.

2/ Maximum earned income assumed.

3/ The supertax is 10 percent of the tax computed under the proposal but is not to exceed 10 percent of the net income after deducting the tax under the proposal.

Comparison of present and proposed individual income taxes on net incomes of selected sizes ^{1/}

MARRIED PERSON, ONE DEPENDENT

Net income :	Amounts of tax :			Effective rates :			Increase in tax :			
	Proposal :			Proposal :			Amount :		Percent :	
	Present :	Without :	With :	Present :	Without :	With :	Without :	With :	Without :	With :
exemption :	law :	supertax :	supertax :	law :	supertax :	supertax :	supertax :	supertax :	supertax :	supertax :
2/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :
\$ 2,500	-	-	-	-	-	-	-	-	-	-
3,000	-	12	13	-	.4%	.4%	12	13	-	-
4,000	28	48	53	.7%	1.2	1.3	20	25	71.4%	89.3%
5,000	64	84	92	1.3	1.7	1.8	20	28	31.3	43.8
6,000	100	120	132	1.7	2.0	2.2	20	32	20.0	32.0
7,000	140	180	198	2.0	2.6	2.8	40	58	28.6	41.4
8,000	216	256	282	2.7	3.2	3.5	40	66	18.5	30.6
9,000	293	344	378	3.3	3.8	4.2	51	65	17.4	29.0
10,000	379	440	484	3.8	4.4	4.8	61	105	16.1	27.7
12,500	610	724	796	4.9	5.8	6.4	114	186	18.7	30.5
15,000	876	1,080	1,188	5.8	7.2	7.9	204	312	23.3	35.6
17,500	1,182	1,513	1,664	6.8	8.6	9.5	331	482	28.0	40.8
20,000	1,529	2,036	2,240	7.6	10.2	11.2	507	711	33.2	46.5
22,500	1,936	2,652	2,917	8.6	11.8	13.0	716	981	37.0	50.7
25,000	2,405	3,370	3,707	9.6	13.5	14.8	955	1,302	40.1	54.1
30,000	3,477	4,968	5,465	11.6	16.6	18.2	1,491	1,988	42.9	57.2
40,000	5,879	8,536	9,390	14.7	21.3	23.5	2,657	3,511	45.2	59.7
50,000	8,745	12,558	13,935	17.5	25.3	27.9	3,923	5,190	44.9	59.3
75,000	18,591	25,028	27,531	24.8	33.4	36.7	6,437	8,940	34.6	48.1
100,000	32,233	39,284	43,212	32.2	39.3	43.2	7,051	10,979	21.9	34.1
250,000	128,030	135,140	146,626	51.2	54.1	58.7	7,110	18,596	5.6	14.5
500,000	303,856	310,936	329,896	60.8	62.2	66.0	7,140	26,040	2.3	8.6
1,000,000	678,740	685,900	717,310	67.9	68.6	71.7	7,160	38,570	1.1	5.7
5,000,000	3,788,682	3,795,852	3,916,267	75.8	75.9	78.3	7,170	127,585	.2	3.4

Treasury Department, Division of Tax Research

June 10, 1940

- 1/ Under the proposal personal exemptions are reduced from \$1,000 to \$800 for a single person and from \$2,500 to \$2,000 for a married person, and the attached surtax schedule is substituted for the present schedule.
- 2/ Maximum earned income assumed.
- 3/ The supertax is 10 percent of the tax computed under the proposal but is not to exceed 10 percent of the net income after deducting the tax under the proposal.

Comparison of present and proposed individual income taxes on net incomes of selected sizes ^{1/}

MARRIED PERSON, THREE DEPENDENTS

Net income before personal exemption ^{2/}	Amounts of tax			Effective rates			Increase in tax			
	Proposal			Proposal			Amount		Percent	
	Present law	Without supertax	With supertax	Present law	Without supertax	With supertax	Without supertax	With supertax	Without supertax	With supertax
2/	3/	3/	3/	3/	3/	3/	3/	3/	3/	
\$ 2,500	-	-	-	-	-	-	-	-	-	-
3,000	-	-	-	-	-	-	-	-	-	-
4,000	-	16	18	-	.4%	.5%	16	18	-	-
5,000	32	52	57	.6%	1.0	1.1	20	25	62.5%	78.1%
6,000	58	88	97	1.1	1.5	1.6	20	29	29.4	42.6
7,000	104	124	136	1.5	1.8	1.9	20	32	19.2	30.8
8,000	152	192	211	1.9	2.4	2.6	40	59	26.3	38.8
9,000	228	268	295	2.5	3.0	3.3	40	67	17.5	29.4
10,000	307	360	396	3.1	3.6	4.0	53	89	17.3	29.0
12,500	530	626	689	4.2	5.0	5.5	96	159	18.1	30.0
15,000	787	956	1,052	5.2	6.4	7.0	169	265	21.5	33.7
17,500	1,080	1,511	1,662	6.2	8.6	9.5	431	582	39.9	53.9
20,000	1,409	1,860	2,046	7.0	9.3	10.2	451	637	32.0	45.2
22,500	1,800	2,449	2,694	8.0	10.9	12.0	649	894	36.1	49.7
25,000	2,251	3,128	3,441	9.0	12.5	13.8	877	1,190	39.0	52.9
30,000	3,293	4,696	5,166	11.0	15.7	17.2	1,403	1,873	42.6	56.9
40,000	5,679	8,240	9,064	14.2	20.6	22.7	2,561	3,305	45.1	59.6
50,000	8,497	12,316	13,548	17.0	24.6	27.1	3,819	5,051	44.9	59.4
75,000	18,215	24,536	27,056	24.3	32.8	36.1	6,381	8,641	35.0	48.5
100,000	31,761	38,804	42,684	31.8	38.8	42.7	7,043	10,923	22.2	34.4
250,000	127,502	134,612	146,151	51.0	53.8	58.5	7,110	18,649	5.6	14.6
500,000	303,280	310,420	329,378	60.7	62.1	65.9	7,140	26,038	2.4	8.6
1,000,000	678,132	685,232	716,763	67.8	68.5	71.7	7,160	38,631	1.1	5.7
5,000,000	3,768,058	3,795,228	3,915,705	75.8	75.9	78.3	7,170	127,647	.2	3.4

Treasury Department, Division of Tax Research June 10, 1940

^{1/} Under the proposal personal exemptions are reduced from \$1,000 to \$800 for a single person and from \$2,500 to \$2,000 for a married person, and the attached surtax schedule is substituted for the present schedule.
^{2/} Marital earned income assumed.
^{3/} The supertax is 10 percent of the tax computed under the proposal but is not to exceed 10 percent of the net income after deducting the tax under the proposal.

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MARRIED PERSON, FOUR DEPENDENTS

Net income :	Amounts of tax :			Effective rates :			Increase in tax				
	before :	Proposal :		Present :	Proposal :		Amount :		Percent :		
		Without :	With :		Without :	With :	Without :	With :	Without :	With :	
personal exemption :	law :	supertax :	supertax :	law :	supertax :	supertax :	supertax :	supertax :	supertax :	supertax :	supertax :
2/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :	3/ :
\$ 2,500	-	-	-	-	-	-	-	-	-	-	-
3,000	-	-	-	-	-	-	-	-	-	-	-
4,000	-	-	-	-	-	-	-	-	-	-	-
5,000 \$	16 \$	36 \$	40	.3%	.7%	.8% \$	20 \$	24	125.0%	150.0%	
6,000	52	72	79	.9	1.2	1.3 \$	20	27	38.5	51.9	
7,000	88	108	119	1.3	1.5	1.7	20	31	22.7	35.2	
8,000	124	160	176	1.6	2.0	2.2	36	52	29.0	41.9	
9,000	196	236	260	2.2	2.6	2.9	40	64	20.4	32.7	
10,000	272	320	352	2.7	3.2	3.5	48	80	17.6	29.4	
12,500	490	578	636	3.9	4.6	5.1	88	145	18.0	29.8	
15,000	743	900	990	5.0	6.0	6.6	157	247	21.1	33.2	
17,500	1,032	1,288	1,417	5.9	7.4	8.1	256	385	24.8	37.3	
20,000	1,351	1,772	1,949	6.8	8.9	9.7	421	598	31.2	44.3	
22,500	1,732	2,349	2,584	7.7	10.4	11.5	617	852	35.6	49.2	
25,000	2,175	3,016	3,318	8.7	12.1	13.3	841	1,143	38.7	52.6	
30,000	3,203	4,560	5,016	10.7	15.2	16.7	1,357	1,813	42.4	56.6	
40,000	5,579	8,092	8,901	13.9	20.2	22.3	2,513	3,322	45.0	59.5	
50,000	8,373	12,140	13,354	16.7	24.3	26.7	3,767	4,981	45.0	59.5	
75,000	18,027	24,380	26,818	24.0	32.5	35.8	6,353	8,791	35.2	48.8	
100,000	31,525	38,564	42,420	31.5	38.6	42.4	7,039	10,895	22.3	34.6	
250,000	127,298	134,348	145,913	50.9	53.7	58.4	7,110	18,675	5.6	14.7	
500,000	302,992	310,132	329,119	60.6	62.0	65.8	7,140	26,127	2.4	8.6	
1,000,000	677,828	684,988	716,489	67.8	68.5	71.6	7,160	38,661	1.1	5.7	
5,000,000	3,787,746	3,794,916	3,915,424	75.8	75.9	78.3	7,170	127,678	.2	3.4	

Treasury Department, Division of Tax Research

June 10, 1940

- 1/ Under the proposal personal exemptions are reduced from \$1,000 to \$800 for a single person and from \$2,500 to \$2,000 for a married person, and the attached surtax schedule is substituted for the present schedule.
- 2/ Maximum earned income assumed.
- 3/ The surtax is 10 percent of the tax computed under the proposal but is not to exceed 10 percent of the net income after deducting the tax under the proposal.

Notes on Conference in Secretary's
Office, Friday, June 7, 1940, 11:45 A.M.

Those present, Mr. Louis Renault, Mr. Jean Renault (son), Mr. Marcel Guillelman, Mr. Dumaine (from French Embassy), Secretary Morgenthau, Mr. Cochran, Mr. Nelson, and Mr. Young.

Mr. Renault, after duly felicitating the Secretary of the Treasury, stated that he had been sent to the United States to meet the various Governmental officials. Further, that he came not as a politician, not as a financier, only as a manufacturer. He was just a boy who had gone into the manufacturing business in France and made good.

As a manufacturer for his Government, he came solely to accomplish a technical objective, namely, to help the technical production of tanks. He had built the small French tank which had been used during the World War, and as he was the foremost tank expert of France that was why he had been sent to the United States. He added that the French tank was far superior to the German tank, but that, unfortunately, the French did not have enough of them.

Mr. Renault wished to make personal contacts with American manufacturers who might go into the production of war tanks. He pointed out that speedy production would be necessary in order to stop the blood of France running over the country. He knew that the United States was sympathetic and that its people understood. He added that we all hope this war will be the last one, for, certainly, we who fought in the World War do not want to see another.

To the foregoing speech, Secretary Morgenthau responded with a welcome stating that Ambassador Bullitt had already informed him that Mr. Renault was coming to this country. However, since Mr. Renault had started this trip, the American situation presented a different picture. The promulgation of our own National defense program had necessitated the organization of a special commission by the President; Mr. Knudsen of this commission had been specifically asked to look after American production problems.

The Secretary asked if he had talked with either Mr. Purvis or Mr. Bloch L'Aine as they were the two persons with whom this Government had been handling all Allied purchasing. Mr. Renault

replied that he had talked with both of them and that they were fully acquainted with the situation.

The Secretary pointed out, very diplomatically, what when Mr. Renault had decided on the type of tanks he wished to produce in this country and the manufacturers who seemed to be fitted to produce them, he should come back again and bring with him either Mr. Purvis or Mr. Bloch L'Aine. The Secretary said that there had been the finest relationship between the Government and the Anglo-French Purchasing Board and that he merely touched on this factor in order that the lines might be kept straight.

Mr. Renault replied that he and Mr. Bloch L'Aine were in absolute agreement and that he understood the situation perfectly. The Secretary added that he wanted to help bring Mr. Renault's mission to a successful conclusion.

The conference adjourned with the suggestion by the Secretary that Mr. Nelson make an appointment for Mr. Renault to meet with Mr. Knudsen that afternoon.

This group, with the exception of Secretary Morgenthau and Merle Cochran, reconvened in Mr. Nelson's office. In talking over Mr. Renault's request in a little more detail, Mr. Nelson and Mr. Young came to the conclusion that Mr. Renault would save a good deal of time if he could talk with Colonel Burns of the War Department before interviewing Mr. Knudsen.

This conference with the War Department would give Mr. Renault the opportunity to work out with the Army's tank experts the types of tanks that the French wished to build in this country, as well as the names of potential manufacturers.

Mr. Renault was very pleased with this arrangement, and it was agreed that after his discussion with the War Department Mr. Nelson would personally take him to Mr. Knudsen in order to work out the production problems involved. An appointment was subsequently arranged for Mr. Renault to meet with Colonel Burns.

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PL

PY:bj

June 7, 1940
8:40 a.m.

H.M.Jr: Hello.

Operator : Dr. Mead is at the Federal Reserve Board and I have him on the line if you'd like to talk to him there.

H.M.Jr: Yes, please. Hello.

Dr. George Mead: Hello.

H.M.Jr: Hello, George.

M: Good morning.

H.M.Jr: How are you? Monday if you and those associated with you'd come over, I'd like to say a sort of formal thank you and good luck.

M: Well, what time?

H.M.Jr: Oh, you call up McKay Monday and some time that's mutually agreeable we'll do it. See?

M: All right. Well, I hope you're not going to throw us out bodily because we haven't any place to live yet.

H.M.Jr: Oh, no, no. no. Well, then let's -- I tell you how we'll leave it. We'll say the formal good-bye when you go off of the payroll. How's that?

M: All right. Well, we just haven't been able to get any offices. It's terrible.

H.M.Jr: Well, don't worry. Ah -- I'm (Laughs) I have no ulterior motive in calling you other than I don't like people who have worked as closely as you and I did just to kind of disappear in the mist.

- M: Well, that's awfully nice of you and I'll certainly bring it to McKay's attention when we're set to go.
- H.M.Jr: You keep the rooms that you have. You have some rooms down on -- stairs in my building?
- M: Yes.
- H.M.Jr: Well, don't worry. We have -- if and when I'm pressed, I'll tell you, but we're not pressed right now.
- M: All right. Well, that's a great relief because over here in the Federal Reserve, we don't seem to be getting any accommodations even for the few of us that are trying to work together.
- H.M.Jr: Well, I'm not pressed and when I am, I'll tell you.
- M: All right.
- H.M.Jr: It was purely one of the heart, not of the head, my calling you.
- M: Well, I certainly appreciate it and one thing I'm sorry about is leaving your association.
- H.M.Jr: Well, I am too, but I'm terribly glad that Mr. Knudsen was smart enough to take you fellows over bodily.
- M: Well, he seems to be glad to have us so we're glad to go along as long he can keep on the track.
- H.M.Jr: Well, I'm under terrific pressure from the -- I don't know what he is, but he's
- M: The Canadian?
- H.M.Jr: The Canadian.
- M: Well, I've got the man coming in that's making those engines this morning

- 3 -

H.M.Jr: Good.

M: And we're going to talk to him. It's the quickest thing we could do and we'll let you know as soon as we've done that.

H.M.Jr: Well, George, there's no reason why it's this -- ah -- while the Army's making up their mind why it isn't perfectly in tune to let this fellow have -- concentrate on one engine, is there?

M: Not a bit, and I think that's a good thing to do.

H.M.Jr: Isn't that a good thing?

M: I think it is.

H.M.Jr: Well, I thought so. After all, that's what you taught me while you were here.

M: I think it's all right.

H.M.Jr: Now -- well, that's that. But you will let me -- you or Knudsen will let us know by noon?

M: Oh, yes, I'm quite sure. The man is due here at 9:00 o'clock and we should have the information and be able to come to a decision.

H.M.Jr: Did you see the story in last night's Star about engines?

M: That's damning. I don't know who did that.

H.M.Jr: (Laughs)

M: That's awful.

H.M.Jr: I got a good laugh out of it.

M: Well, I had a laugh and a cry, both.

H.M.Jr: Well -- well, it sounded like what did they call it in Hawaii, golden sunshine, or something like that, when it rains.

- 4 -

M: Yeah. Well, of course, that's hitting a little too close to the truth in one or two places.

H.M.Jr: Yeah. George, did you have a good meeting with the Pratt, Whitney and Wright yesterday?

M: We had a good meeting with the latter, but not the former. They're sitting right here.

H.M.Jr: You had a good meeting with the Wright?

M: Yeah.

H.M.Jr: I thought so. Well, if you could give this Jacobs fellow the green light, it would take me off the spot and I don't see why it isn't just along the lines that you and I talked.

M: I think it is and I wondered under those circumstances who would be placing that order. Would you place it from the Treasury direct?

H.M.Jr: Oh, no, no, no.

M: The Allied Commission would place it.

H.M.Jr: Yeah. And you see the Allied Purchasing Commission, Purvis, represents England, France and Canada and are officially accredited to me but they do all their own buying.

M: Therefore, all we do is say yes and they go ahead with the machinery.

H.M.Jr: All you do is to let Don Nelson know that as far as the Government is concerned they've got a green light and he calls up Arthur Purvis and says, good, go to it and that's the end as far as we're concerned.

M: Fine.

H.M.Jr: We do no negotiating here except on Baby Bonds.

M: Fine.

- 5 -

H.M.Jr: Every Friday we have a sale.

M: All right. Well, I hope the next time I'm over there and it's convenient that I can meet Nelson. I, of course, haven't seen him yet.

H.M.Jr: Oh, for heaven sakes, you want to meet him.

M: All right. I'll do that.

H.M.Jr: Good-bye.

M: Good-bye.

June 7, 1940
11:21 a.m.

H.M.Jr: Hello.
Operator : Mr. McReynolds is busy talking. I'm waiting
for him.
H.M.Jr: Right -- as soon as he's free.
Operator: Right.

11:25 a.m.

H.M.Jr: Hello.
William
McReynolds: Yes, sir.
H.M.Jr: Mac?
McR: Uh-huh.
H.M.Jr: Mr. Nelson is sitting across the desk from
me and you're on the loud speaker.
McR: Yeah.
H.M.Jr: This morning Mr. Knudsen called me and I was
on my way over to the White House and so
Mr. Nelson talked to Mr. Knudsen.
McR: Yeah.
H.M.Jr: And he put this up to us that he's been told
by the airplane fellows that the Army's work
was being held back because they could only
work 42 hours on the Army's stuff. When that
time was over, then they'd walk across the alley
and work on the Allied stuff for as long as
they wanted to, and that was holding back the
Army stuff.

- 2 -

- McR: Yeah.
- H.M.Jr: And he put that up to me. Now I ask you, why?
- McR: He had no business to put it up to you.
- H.M.Jr: Right. Well, who should it go to?
- McR: Well -- ah -- I think that -- I think that what's happening -- that question was raised yesterday when we were over there, and the President's the only one that's sitting on the lead with respect to this number of hours, and he talked to me about it quite at length, but certainly the Secretary of the Treasury couldn't be charged with that responsibility.
- H.M.Jr: That's what I thought.
- McR: And you certainly shouldn't take it.
- H.M.Jr : Just -- just -- Mac, Mr. Nelson wants to say something (Pause) Oh. It's a question of time and a half which -- in our course. Well, that comes down -- that isn't Walsh Healy that's Vinson Trammell.
- McR: Yeah, I know.
- H.M.Jr: Well, Mac, as one old Treasury employee to the other, somebody ought to tell Knudsen aside now He got hold of Leon Henderson and wanted him to talk to me on depreciation.
- McR: Yeah.
- H.M.Jr: Now, this evidently -- the fellows have gone after him on Vinson Trammell and I am not going to change unless the President tells me to and quite the contrary, he wants me to interpret it in a very strict manner.
- McR: Yeah, I know.
- H.M.Jr: So, both that, and he's also talked to me about the 42 hours and he's not going to change on that.

- 3 -

McR: Yeah, I know. He so told me yesterday.

H.M.Jr: So -- and I'd be very glad any time to sit down if Mr. Knudsen had a half an hour and explain my attitude on the thing so he gets it direct.

McR: Yeah.

H.M.Jr: But I think he ought to know both where the President and I stand.

McR: Well, the President said yesterday in his presence how -- where he stood.

H.M.Jr: Oh.

McR: Uh-huh.

H.M.Jr: Well, now, Mac would you -- why don't you do -- what would you suggest if Knudsen calls me up. I don't want to leave it up in the air.

McR: Well, if Knudsen -- I think it would be desirable for you to take the time when you can to tell Bill just what Treasury attitude is and what you understand the President's attitude is.

H.M.Jr: Well, I'd better have -- I tell you what I think I'll do. I'll arrange to have him sit down with me and John Sullivan and Foley for lunch and we'll explain just where we stand. How would that be?

McR: That would be fine.

H.M.Jr: What?

McR: That would help him a lot. Bill's really trying but he is a babe in the woods as far as this Government procedure is concerned, and he's trying. He'll do, and he's intelligent, and that would be a tremendous help to him if you could do that.

H.M.Jr: I'll do that. Thanks, Mac.

M: Yeah. Good-bye.

June 7, 1940
11:50 a.m.

H.M.Jr: Hello.

William S.
Knudsen: This is Knudsen.

H.M.Jr: Good morning. How are you?

Knudsen: Good morning, sir. On the plane order,
the Canadian plane order, it will be all right
for you to clear it -- for you to put that
in here.....

H.M.Jr: Oh, swell.

Knudsen: but with the understanding that the
engine manufacturer that you selected

H.M.Jr: Yeah.

K: he'll not be able to fill that order
until the end of '41.

H.M.Jr: Now, let me just see. You mean, that's a
stipulation that he will not be able to?

K: Yes. Ah -- doing everything we can to
expand his facilities, but they're very small
at the moment.

H.M.Jr: Yes.

K: By the end of '41 he can have the 2,000 jobs
out.

H.M.Jr: But as far as your concerned, the Allies can
go ahead with Jacobs

K: Yes, sir.

H.M.Jr: who they selected. I didn't select
them; they selected them.

K: Yes, sir.

- 2 -

H.M.Jr: I mean, they selected Jacobs, but it will be all right to tell them to go ahead.

K: Yes, sir. I thought you ought to know that you'll have to wait that long before the order is filled.

H.M.Jr: Well, you know, all of their stuff runs until September of '41.

K: I see.

H.M.Jr: I mean, the stuff that they have with Pratt Whitney, the stuff that they have with Wright, they don't get final delivery until September, '41.

K: All right, dated December.

H.M.Jr: December.

K: Yes, sir.

H.M.Jr: Now, one other thing. I -- through your office I suggested that if you were free that maybe you and Stattinius could have lunch with me Tuesday.

K: All right, sir.

H.M.Jr: And then at that time, we'll go over some of these things like Vinson-Trammell and depreciation, obsolescence and that sort of stuff.

K: All right, sir. Thank you.

H.M.Jr: Well, thank you for clearing this, and I'll get word to Arthur Purvis right away.

K: All right. Good-bye.

H.M.Jr: Thank you.

June 7, 1940
12:08 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur Purvis: Good morning.

H.M.Jr: How are you?

P: Very well, thank you.

H.M.Jr: Slow but sure Morgenthau.

P: What is that?

H.M.Jr: I'm slow, but sure.

P: (Laughs) No.

H.M.Jr: Yes.

P: (Laughs) I don't agree with the -- I don't agree with that statement at all.

H.M.Jr: Incidentally, the Navy has done the most amazing thing on delivering those 50 planes.

P: I think it's simply remarkable.

H.M.Jr: It's the most amazing thing, I think, I've ever seen done.

P: Well, as a matter of fact, you know, the -- ah -- I have an idea that the Navy will never be late anyway judging from what I've seen.

H.M.Jr: No, and -- well, the thing that I called you up -- Mr. Knudsen just called me. They've had a conference with the Jacobs manufacturing company and they'll be very glad if the Canadian Government wishes to place the order for the 2,000 engines.

- 2 -

P: Place the order.

H.M.Jr: You can go ahead.

P: Good.

H.M.Jr: He said he just wanted me to point out that Jacobs will not be able to complete the delivery until December '41.

P: Yeah.

H.M.Jr: I take it, you know that.

P: We know that, yes.

H.M.Jr: Well, you can go ahead and place the order.

P: I'll telephone Howe straight away.

H.M.Jr: Yes. It was cleared ten minutes ago.

P: Good.

H.M.Jr: I say, they cleared it ten minutes ago.

P: Thank you very much.

H.M.Jr: And the President made a magnificent explanation today at his press conference on the sale of this surplus material.

P: Did he?

H.M.Jr: Oh, excellent. Yes.

P: And now I have just received a message from Lothian -- I told him I was immediately going to ring you and then I learned just two minutes later that you were going to ring me.

H.M.Jr: Yes.

P: London authority is very anxious to get something out about this which will -- the British public is a bit excited, rather naturally, at the reports that have come over from here, and I think the suggestion was there was the hope that something would be made officially from here.

- 3 -

H.V.Jr: Well, the President has done it now.

P: Oh, has he?

H.V.Jr: The President did it this morning at his press conference about an hour ago.

P: Well, now, I tell you, just now -- only ten minutes ago -- six minutes ago, Lord Lothian rang up and said that he felt that he should come to me because he knew that I wanted -- I would want to talk with you, but he had just had word from Secretary Hull

H.V.Jr: Yes.

P: suggesting that they could do nothing more than had been done already, and that on the other hand, a statement -- they would welcome a statement being given out by the Anglo-French Purchasing Board. I had hastily dictated a message with a view to reading it back to you to see whether it would be all right. Instead of doing that -- it's just being typed at this minute -- if the idea is at all agreeable to you -- the reporters of course have been bombarding us and we have simply been stone-walling completely

H.V.Jr: Yes.

P: but I was wondering whether I could read -- have read off to what we thought might be put out and get such corrections or such views as you might have, and then -- then I suppose I'd know or not whether I could telephone him back what you felt about it, with a view to his finding out -- making sure that that is what Secretary Hull wanted.

H.V.Jr: Well, that I don't know, but instead of Schwarz, I'd call up Mr. Edward Foley.

P: Yes, yes, I agree.

H.V.Jr: Much better to call Foley

P: All right, I'll call him and have that read through

H.M.Jr: Yes, and I'll tell Foley that it's coming and if he thinks it's all right -- he knows, he's been in on this whole thing with me, and if it's all right -- he says it's all right, you needn't bother calling me.

P: Thank you very much, indeed.

H.M.Jr: But I'll tell Foley to stand by. Will it be coming between -- the next half hour?

P: It will be coming in the next -- they've just put it on my desk, and the minute I've read it, I will telephone it through to him.

H.M.Jr: Thank you.

P: And is there any hope on that very important thing I talked with you about?

H.M.Jr: Not today.

P: Not today. All right, sir. (Laughs)

H.M.Jr: All right. That just means I haven't discussed it.

P: I understand fully.

H.M.Jr: I want to let it simmer a little bit.

P: Yes, yes.

H.M.Jr: We're doing pretty well by you.

P: You are.

H.M.Jr: Right. You'll know

P: Thank you very much that Young spoke about yesterday, which of course we took with the greatest pleasure.

H.M.Jr: Well, you know that we're going to get you 93 of these Northrop attack bombers?

- 5 -

P: No!

W.M.Jr: Oh, yes.

P: 93?

W.M.Jr: 93.

P: Oh, thank you!

W.M.Jr: From the Army. Now, these are old ones, I mean, I don't know, they maybe a year or two old.

P: Yes. Well, my heavens, I think just now they want everything.

W.M.Jr: And they've already begun to assemble them.

P: Well, I'm hanged!

W.M.Jr: They've already begun to assemble them, 93 Northrop attack bombers.

P: All right, sir.

W.M.Jr: I spoke to Bob -- to Jacquin at my house last night and told him to sit tight, but they're in the works now.

P: In the works.

W.M.Jr: Yes.

P: All right. Thank you so much.

W.M.Jr: Right-o.

P: Right. I'll ring Foley in a minute.

W.M.Jr: Thank you.

JR

PLAIN

London

Dated June 7, 1940

Rec'd 2 p.m.

Secretary of State,
Washington.

1549, June 7.

FOR TREASURY FROM BUTTERWORTH.

1. Because of the rumors of extensive changes in the British exchange control system and the behavior of the free market in New York yesterday the British Treasury has this afternoon made public the new regulations.

2. The practical effect of the revolutionary powers which permit the British Government "to require all persons to place themselves, their services and their property at the disposal of His Majesty" reported in my 1326 of May 22 have been largely of a confidential and hidden nature but the important steps which have so far been publicly taken in the economic field include (a) the Minister of Labor's order which prohibits strikes and lockouts, compels arbitration, gives powers to move labor geographically and as between industries; (b) the Minister of Supply's order empowering him to take over or supervise firms engaged on government orders if not efficiently run; (c) the Board of Trade order reducing to two thirds (in value) of the June-November 1939 supplies to retailers of a large number of products

-2- #1349, June 7, from London.

products including clothing, household goods and luxuries; (d) another order by which machinery purchases are to be licenced (e) an order extending import restrictions to all goods; and (f) when last April's order cutting home sales of cotton, wool and rayon textiles to three quarters of last year's totals expires in September, the reduction will be made to one quarter.

These moves to release productive capacity for arms and export manufactures will tend also to stimulate savings but without wider rationing measures they may produce shopping queues and hoarding or even in some cases price increases in spite of the Chancellor of the Exchequer's statement that all the products are covered by the prices of goods act. Thus the measures do not entirely eliminate the need for steps to restrain the effects of now rapidly increasing purchasing power resulting from overtime and increasing employment.

In the financial field the British Government's intentions as to its use of the new powers have not yet been defined. However apart from the statement regarding bank rate reported in the second paragraph of my No. 1517 of June 5 it is known that many meetings of bankers and officials have been held about which considerable mystery is maintained. One announcement indicates that banks will

be

-3- #1349, June 7, from London.

be expected to furnish needed credit to firms working on Government orders to an increasing extent and in ways usually regarded as outside their customary banking practice--e.g. for capital equipment or for longer than the usual periods. There has been much talk of interest rate reductions by halving the banks' call loan rate to the pre-war level which would also reduce the Treasury bill rate but no such step has been announced.

3. The second successive jump in the note circulation shown in this week's bank of England return is generally regarded as due to probable official instructions to banks to increase and geographically spread their till money reserves as well as to increased demands for overtime wages and evacuation needs. The increase was offset by a rise in Government securities in the banking department and bankers' deposits remain at a high level. The upward trend of the note issue will probably necessitate an increase in the fiduciary issue but as much of the "active" circulation is in fact inactive in branch bank tills the increase should not be considered as inflationary.

4. As a concession to pleas for complete exemption from death duties of estates of persons killed on active service the Chancellor of the Exchequer yesterday moved an amendment to the finance bill providing that death duty shall

JR -4- #1349, June 7, from London.

shall not be payable on property passing more than once owing to death in the war; the provision applies to estates of merchant seamen and persons on fishing vessels engaged in war duties as well as to the fighting services.

KENNEDY

CSB

TO THE
LEGATION
OF THE
UNITED STATES

JUN 11 1945

RECEIVED

JUNE 7, 1940.

MEMORANDUM FOR THE SECRETARY:Shipping Situation.

The export freight lightered to steamers loading in the Port of New York during May averaged 736 cars per day against 676 in April. Continuing the upward trend reported last week the railroads handled on June 6th, 821 cars of export lighterage freight and had on hand on June 6th 4272 cars awaiting delivery. In addition there were 4800 cars of export freight in railroad-owned or controlled storage facilities, out of a total capacity of 10,800 cars.

Indicating the liquidity of the situation is the fact that there were only 68 railroad-owned lighters on demurrage in excess of 48 hours on June 6th.

The grain situation is unchanged, with approximately a million and a quarter bushels in railroad cars, boats and elevators at New York. Some of the vessels fixed for grain from Australia are due to arrive shortly and will be discharging their grain into elevators awaiting transshipment to the United Kingdom. It is expected that most of this business will be handled at ports other than New York.

The full cargo charter rate on grain from Australia fell from \$17.00 to \$15.50, the latter rate having been taken by the American steamer "DELAROF", July-August loading.

Another indication of the softening tendency in charter rates is the fixing of the American steamer "SAHALE" for June-July round trip in the South African trade at \$3.75 per ton.

West Indies time charterers, having done business recently at \$4.50, expect to knock the rate down to \$4.00.

An American steamer, the "PETER KERR", will take a full cargo of coal to Lisbon, Portugal for \$11.60 per ton. Coal rates are easier in other directions.

-2-

June 7, 1940.

The first of the week two vessels were reported to have been fixed from the Gulf to French Atlantic ports, June loading, at a rate of 28¢ per cubic foot, net form. This represents a drop of 3¢ under the last reported fixture.

The Red Cross will load a full cargo next week on the American steamer "MC KEESPORT" to Bordeaux. The movement of traffic for this and other relief organizations will assume increasing importance and may have some steadying influence on the market.

For the week ending June 1st the railroads report the carloadings as having declined 48,000 under the preceding week. As every classification, with the exception of ore and livestock, showed a decrease the drop can probably be attributed to the Memorial Day holiday.

One of the many curious effects of the war is the advance in price of waste paper, due to active demand from exporters who are sending large quantities to Spain and the United Kingdom where it is presumably ground up and used in lieu of Scandinavian woodpulp for making pasteboard, etc.

Steel production is running almost 50% in excess of this time last year. It is estimated that there will be exported from the United States in 1940 at least 9,000,000 tons of steel products, far in excess of any previous years, including those of the past war.

The French government is continuing to place large orders for shell steel. Comparatively little of this French steel has reached seaboard but the movement is expected to become heavy in a very short time.

-3-

June 7, 1940.

At the moment the French Maritime Commission have a surplus of ships here and profess to be unable to provide the cargoes to load and sail them promptly. The British are still utilizing a disproportionate share of vessel's capacity for the carriage of steel.

The general outlook is that lines outside the jurisdiction of the several belligerent ministries may encounter difficulties in securing full cargoes at compensatory revenues. One favorable angle to this change in the situation is that the non-Conference operators are finding the going pretty rough and are gradually dropping out or drastically curtailing their activities.

Imports from the belligerent countries are naturally pretty thin when spread among all the vessels seeking homeward cargoes after taking the war materials, etc., eastbound. One bright spot is the official assurance to the United States Department of Commerce that despite a reduction of about one third in the production of Scotch Whiskey, the stocks in warehouse are sufficient to last for the next four years and no drastic increase in price need be anticipated. Efforts will be made to increase the quantity shipped to the United States so as to provide the needed foreign exchange for the purchase of armaments.

Basil Harris

Mr. Graham

135

INCOMING CABLEGRAM—SERIAL NO. 3899

RECEIVED ON June 7, 1940

London, June 7, 1940.

Federal Reserve Bank of New York

New York

No. 535/40 CONFIDENTIAL FOR KNOKE

ONE. A program will be put into force immediately to ensure that sterling will continue to be used as far as possible for commercial and current financial payments between the sterling area and other countries but in the future at official rate of exchange instead of being partly covered in foreign markets at the free rate. This aim has already been largely achieved by our present arrangement with the Canadian French and Dutch controls governing transactions with the areas they control.

TWO. We propose to require that all exports to U.S.A. and Switzerland shall be invoiced in U.S. dollars and Swiss francs respectively or paid for with official sterling obtained against those currencies from our control. This will reduce the demand for sterling in foreign markets but at the same time we shall reduce the supply by providing their own currency to residents in those two countries at official rate for all trading and current financial purposes for which a transfer in sterling only has been permitted hitherto. The general scheme is thus to put all transactions between the dollar and sterling areas on the basis of official rate of exchange.

INCOMING CABLEGRAM—SERIAL NO. 3892

RECEIVED ON June 7, 1940

-2-

- THREE In almost all other countries with which we have important financial relations some degree of exchange control has been imposed and in these cases we shall proceed to make payment agreements or to institute a procedure for clearing all transactions in sterling at official rate through special account. Into these accounts all payments for imports and current financial transactions will be made and from them payments to the sterling area only will be allowed.
- FOUR The only important source of supply that remains will thus consist of capital transfer. These in turn are to be reduced by suspending the granting of licenses to non-residents for the sale of their securities here and refusing permission for other transfers of a capital nature unless quite exceptional consideration applies.
- FIVE The final result should be that
- A) over the whole area covered by the British French Dutch and Belgian Empires sterling and the currencies associated with it will circulate interchangeably with the minimum of restriction under the safeguard provided by co-ordinating controls and
 - B) all normal current transactions of the area with other countries will be completed at fixed rates established by those controls

INCOMING CABLEGRAM—SERIAL NO. 3699

RECEIVED ON JUNE 7, 1940

-3-

SIX The regulation which requires certain exports (rubber jute etc.) shall be invoiced in hard currencies or paid for with official sterling will be revoked with immediate effect (but see Paragraph TWO above) and in due course replaced by the separate arrangement to be made with various countries covering all commodities and transactions

SEVEN Following upon our recent discussion we are endeavouring to make arrangements with the London branches of the American banks to ensure a quotation of sterling at official rate in New York.

It will be difficult to prevent some abuse of facilities of this nature and so we shall confine the arrangement to transactions in sterling bills with documents attached covering trades between the sterling area and the U.S. dollar area. The arrangement will be expanded as soon as we can take sufficient precaution.

Bolton

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

ADJ. M. O. M. O. M.

RECEIVED
DEPARTMENT

MY TEST CORRECT

H
DIVISION

Confidential

137-A

June 7, 1940

My dear Mr. Ambassador:

Thank you for your letter of June 6 inclosing the report dated June 5 from London from the General Staff about the military position. I have read this with great interest.

I appreciate your offer to make these daily reports available to me as they are received, and I should indeed be pleased to receive them. I recognize their confidential nature and I assure you they will be for my own personal information.

Yours sincerely,

(Signed) H. Morwenthou, Jr.

His Excellency,
The British Ambassador.

By Messenger 12²⁵

Confidential

201-B

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(Signed) H. Worresthau, Jr.

His Excellency,
The British Ambassador.

By Messenger /2 25

Confidential

137-C

June 7, 1940

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(Signed) H. Morreuthau, Jr.

His Excellency,
The British Ambassador.

By Messenger / 2²⁵

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND SECRET

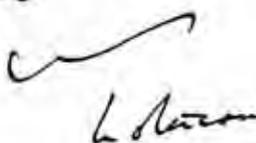
June 6th, 1940

Dear Mr. Morgenthau,

Mr. Purvis suggested to me yesterday that you might be interested in seeing copies of the daily, and sometimes twice daily, reports which we are getting from London from the General Staff about the military position.

I am sending copies to the President, Mr. Hull and the War Department for their strictly confidential use and I shall be delighted to send them to you at the same time on the understanding that they are for your own personal information only.

I enclose herewith copies of the reports which came in this morning.



The Honourable
Henry Morgenthau, Jr.,
United States Treasury.

Telegram despatched from London
on the afternoon of June 5th.

Nothing added to evacuation figures given in my immediately preceding telegram but aircraft search last night and this morning resulted in two motor boats containing 36 French troops and rubber float with two Royal Air Force officers being found. Enemy entered Rosendaal immediately east of Dunkirk early yesterday. Beaches were under fire at 10.30 hours and enemy now reported to have reached sea front in this area.

One British division and two French divisions attacked south of Abbeville yesterday reaching Meenil Bois de Cahon. Enemy counter-attacked and retook Meenil but failed at Bois de Cahon. Intense enemy road movement reported in area of Peronne - St. Quentin - St. Simon.

Last night Whitleys, Wellingtons and Hampdens attacked oil refineries and plants in the Ruhr district and northwest Germany with railway marshalling yards as alternative targets. No reports yet received. One aircraft missing. Royal Air Force fighters patrolled yesterday over British, French and Belgian coasts. A Blenheim shot down a Dornier 18 off Fair Isle. No other interceptions./

interceptions. All our fighters returned.

Considerable enemy air activity reported over English Channel and northern France particularly in Montreuil area.

British steamer sunk off Cape Finisterre on June 2nd. French steamer sunk by mine off Margate early yesterday.

Telegram despatched from London
late on the evening of June 5th.

At 04.00 hours today violent artillery and air bombardment reported on French positions from Anisy to the east of Amiens, also on 10th Army front west of Amiens. Reports indicate that this attack has met with some success and enemy tanks reported at Milesout west of Picquigny and at Fransart (14 miles southwest of Peronne). It is thought that another attack may be launched further eastward with Rheims as first objective. Every indication that this attack will be supported by armoured fighting vehicles and infantry not hitherto employed are available for this offensive. Estimated that over 70 divisions including armoured formations can be made available for whole southward attack across the Somme and Aisne.

British fighters patrolled in Abbeville area today but details not available. Attacks on oil targets in Ruhr and Frankfurt districts last night were successful. Direct hits registered on refineries and plants at Frankfurt Mannheim Reisholz and Monheim and a number of fires started.

German air activity yesterday undiminished. Bombing attacks last night at Le Havre and south of Dieppe. Attacks also southwest and southeast of Paris/

Paris. Considerable transport activity continues to Guise, Brussels, St. Quentin and Amsterdam. Much transport activity also from Wiesbaden to Charleville and to Phillippeville in Southern Belgium, latter places probably supply depots.

Much training activity in eastern half of Germany during the past few days.

No naval information of importance to record.

BRITISH EMBASSY,
WASHINGTON, D.C.

Secret

June 7th, 1940

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Hurcan

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the afternoon of June 8th.

1. German attack appears to be general from Anixy to mouth of Somme with two main thrusts at Peronne and Amiens. Tanks penetrated between posts in places to a depth of ten or twelve miles but French strong points appear to be holding out. 300-400 tanks reached Fransart and at 12-30 hours yesterday were attempting to widen gap between Pertain and Harbonnières. At 14-15 hours armoured troops reached Assertaux and Grattepanche. At 11 hours an attack on left bank of Oise had reached Guny-Beams-Bretigny. In general enemy infantry appear to have penetrated two or three kilometres but French appear to be well organized in depth and their infantry are holding out. Double columns of tanks on road to Peronne-Roye (head at Roye) and Amiens-Montdidier (head at Montdidier) were later attacked by French aircraft. British division attacked by enemy, strongly supported by air bombardment and retired to line Moquincourt-Limeux-Audin-Acheux-Hautebut on which line their front is intact.

2. Yesterday evening and last night Blenheims Whitleys etc. attacked targets Cambrai, Le Cateau, Peronne, Albert and Bapaume area. All aircraft have returned in spite of intense anti-aircraft fire during evening attack and attack by Messerschmitt 110s one of which was shot down at

staples/

-2-

Staples. No reports yet available. Wellingtons and Hampdens also attacked last night railway targets in Rhine-Reuse area and oil refinery west of Hamburg. No information yet available. Two aircraft missing.

3. Considerable enemy air activity last night between Orkneys and Isle of Wight. Aerodromes at Driffield, Thornaby, Burcham Newton, Helmswell, North Coates and Grimsby attacked but only damage so far reported is at Thornaby where two Hudson aircraft destroyed and four personnel wounded. Incendiary bombs and flares also dropped at North Fleet (Gravusend) without imposing damage. Aircraft apparently attacked singly or in pairs. Fighters sent up but no interceptions made. Anti-aircraft guns in Humber area came into action.

4. Two small coasting-vessels were sunk by mines in home waters yesterday.

BRITISH EMBASSY,
WASHINGTON, D.C.

June 7th, 1940.

Secret

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies
of the latest reports received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



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

Telegram Despatched from London
on morning of June 7th.

Now thought probable that three German armies and at least one armoured division are taking part in German attack between Amiens and mouth of Somme. Four main thrusts came from Channy, Peronne, Amiens and St. Valery. Present situation far from clear but farthest points of penetration by armoured elements so far reported are Verennes (southeast of Royon), Boys, Montdidier and Ault (west of Abbeville). Earlier report that tanks have reached Montdidier has not however been confirmed. French report that although enemy have crossed Droc Canal south of River Ailette is still held. Droc Canal opposite River Somme to west of Nams also held by French. Between Amiens and the sea German infantry have a large bridgehead at Amiens infiltrated between Ailly and Font Roy and from Abbeville to sea advance of 5 to 8 miles south of river. British division holding 18 miles on west of this line is being continuously harassed by tanks and air bombing.

Blenheims escorted by fighters bombed enemy troops in Auxy Le Chateau area this morning. Direct hits scored on three enemy columns. Five Blenheims missing. Four Messerschmidts 109 shot down confirmed and two unconfirmed. Two Hurricanes missing./

missing. Further attack on enemy troops moving in Abbeville area this afternoon. No reports yet available. Fighters also shot down three enemy bombers confirmed and three unconfirmed, also one additional Messerschmidt 110 confirmed and one unconfirmed. One Hurricane pilot killed, four Hurricanes damaged. Ten direct hits scored in attacks last night on railway targets and Hamburg power station received five direct hits.

German air force operations yesterday continued on widespread scale. Le Havre, Rouen, communications in Paris area and three aerodromes 120 miles south of Paris were attacked. Parachute dropped in Sarne, Moselle and Ardennes area and parachutists reported in Paris area and Normandy. Dive bombers active on Somme successfully. Considerable bomber reconnaissance activity over back areas of Somme front, Champagne, Lorraine, the Vosges and lower Alsace. Further reconnaissance this morning over southeastern France probably indicating further bomber attacks in Rhone Valley. Little information regarding German fighter aircraft but about 250 were operating from aerodromes in northeastern France. Transport activity continues between Wiesbaden area northeastern France southern Belgium. Renewal of transport activity in Baltic area. German air force are acquiring large scale maps of British coastal towns. Also reported that parachutes are already assembled in northern Germany for employment against United Kingdom.

Telegram despatched from London
on the afternoon of June 7th.

Enemy pressure continues on line
Laon-Boissons. At 1 p.m. yesterday French
10th army held from Vilers-Bretonneux round south
of Amiens to Oisement, thence along railway to
Gamaches. On left of above line British division
supported by armoured division has now been fight-
ing continuously for 3 days and suffered heavy
casualties. This division was forced yesterday
to withdraw to river Bresle on line Gamaches-
Treport. Enemy reported to have infiltrated into
woods south of Bu but later message reported
British tanks counter-attack had improved situation
in this area. At least 50 prisoners taken. Bridges
on river Bresle are being blown up.

Wellingtons attacked enemy communications
last night in Abbeville area. All aircraft returned.
Whitleys attacked railway targets in western
Rhineland last night. Preliminary reports record
large explosion at Wadau (Ruhr). All aircraft
returned. Hampdens bombed oil refineries and
plants at Hamburg and Ostermoor (west of Bremen).
All aircraft returned. But no reports yet available.

Last night large numbers of enemy aircraft
crossed east and south coasts of England, air-raid

warnings/

- 2 -

warnings being sounded at 26 places from Middlesbrough to Portsmouth. Preliminary reports record bombs on two steel works in Lincolnshire and at Upwood aerodrome, south of Peterborough. No major damage however appears to have been caused. No interceptions by fighter aircraft.

One British ship mined yesterday and one British ship torpedoed today in home waters.

June 7, 1940
11:30 a.m.

GROUP MEETING

Present: Mr. Young
Mr. Haas
Mr. Thompson
Mr. Gaston
Mr. Harris
Mr. Graves
Mr. Schwarz
Mr. White
Mr. Foley
Mr. Cochran
Mr. Bell
Mrs. Klotz

H.M.Jr: I just thought we would get acquainted. Also, I see that I have given out a security order or Treasury has, on postal things. I thought the President held it up.

Bell: No, he signed it last night.

H.M.Jr: Oh, I sent it back.

Bell: You sent it back and he signed it.

H.M.Jr: Wonderful.

Bell: It wasn't delayed at all. He apparently intended to sign it all the time. He approved it.

H.M.Jr: Phil, will you look through my files? We have Purvis first - you know, he said he had been waiting ten or fifteen days, a week or ten days. I want the actual date.

Klotz: On that general order, I got it last night and --

Bell: Well, I will get it.

H.M.Jr: I am going to ask everybody to confine themselves to just the stuff I have to sign or the emergency stuff.

- 2 -

Norman?

- Thompson: I have Mr. Doughton's memorandum about that man Rivers, who wants a job in the Treasury. I talked to him and explained to him the situation as developed by the report.
- H.M.Jr: Did you do it nicely, what a great job he has done?
- Thompson: Yes, but this has happened now. Doughton phoned this morning and wanted me to see you. He has gone to the Internal Revenue Bureau and filed his delinquent income tax return which developed no tax due.
- H.M.Jr: Well, he is a drunk. I don't want the man in the place. Doughton will be re-elected, so what the Hell.
- Klotz: You promised.
- H.M.Jr: I promised and I winked at Doughton and Doughton said okay. After all, Doughton promised him this job after the primary.
- Klotz: He went and paid up his back taxes.
- H.M.Jr: Yes.
- Thompson: Well, there was no tax due.
- H.M.Jr: Certainly don't give him the three thousand. Make it twelve hundred.
- Thompson: Oh no, it wasn't three thousand.
- H.M.Jr: But Doughton - Harold Graves has his tongue hanging out looking for men. What do you recommend? Talk fast now.
- Thompson: Well, I think the new situation probably justifies our going along with Mr. Doughton.
- H.M.Jr: Okay. It is between you and Mrs. Klotz.
- Here is the thing Watson gave me, and I want you to talk about it to Sullivan. I am sore

- 3 -

about it. And also, let Chick Schwarz see that. He has got no business talking that way. Let Bell read it. Let things from Guy Helvering go direct to the President on the press releases. It is on the new Collector of Internal Revenue for Kansas. General Watson says he just acts like an Army Colonel.

Schwarz: I will take care of that.

H.M.Jr: Well, you (Thompson) and Sullivan. Just gently; not too much, but just gently. Dan, have you anything to sign?

Bell: Yes, I have this letter to the Bank of New York about the British. It is one you sent to the President yesterday.

H.M.Jr: Did he approve it?

Bell: Yes, he approved it. I have got a number of things.

H.M.Jr: To sign?

Bell: To talk to you about and sign.

H.M.Jr: I will sign but I won't talk.

Bell: Norman Davis called you yesterday and I talked to him. He was a little hesitant to discuss the matter. He said he was embarrassed by being pushed by his people. They have no contributions from the airplane companies, Red Cross. He just wondered if you could do anything about it and I told him I didn't think you could in your connection here with them. He said in the past it had been the policy of whatever the contributions were lacking, to get the Secretary of the Treasury to make some statement.

H.M.Jr: Now look, we are here in the family. I don't know what is the matter with the people. Mr. Knudsen sends Leon Henderson over here to talk about depreciation.

I explained to Leon - of course, that ends it. This morning he calls up - I didn't talk to him - what can they do about - so that they can pay time and a half and put it in the cost of the Army plane to get around the Vinson-Trammell Act. I called McReynolds and said, "Mac, why did they call me about it?" He said the President told him yesterday he wouldn't do anything about that. He told them positively he wouldn't do it. Now, the sooner these people find out that all of the social legislation that Mr. Roosevelt got through is going to stick, the sooner the better. I am having Mr. Knudsen and Mr. Stettinius come over for lunch, and Ed Foley and Sullivan will be there and be up on Vinson-Trammell and depreciation and everything else.

Foley: At lunch?

H.M.Jr: Tuesday at lunch.

Bell: Well, I told him I didn't think you could do anything about it, I thought it was something --

H.M.Jr: It is crazy, it is just crazy. Come on, next, Dan.

Bell: The State Department is pushing Harry White for a Treasury representative to go to Ecuador for the national monetary banking and economic matters.

H.M.Jr: I thought Harry went to Atlantic City last week.

White: I am not going to go this time.

H.M.Jr: Oh.

Bell: Harry is willing to send Glasser.

H.M.Jr: I see.

Bell: It is a year's --

- 5 -

- White: It is a year's leave of absence and they are eager to have him go. It is very important.
- H.M.Jr: Harry, whatever you and Dan and Herbert Gaston decide on, I will abide by it. You three decide. Whatever you decide, I will abide by it.
- Bell: I will save these other things until some other time.
- Klotz: He knows better now. That is smart.
- H.M.Jr: Well, I am just fighting time.
- Bell: Well, I can see your --
- Foley: Here is a press release.
- H.M.Jr: Harold?
- White: Nothing for you to sign, but I think you would probably be interested in this. It will only take a minute. The Inter-American Bank is in the final draft and it is going to have the authority rest with Treasury, State Department, and I think the Export-Import Bank, that is the way it is drafted now. Or the RFC. Certainly in response to your letter to Welles and his reply of finding other ways of financing Latin-American expenditures, etc., Danny Bell had a suggestion which I think is an excellent one. We are working on it, and I think it is very important and it will come to you after we write it out.
- A Miss Harriet Elliott, whom I don't know but whose name is in the papers called to know whether I would be able to attend the meeting tomorrow at ten o'clock. Do you know anything about it?
- H.M.Jr: God Almighty! Tell Mac that when they want people - now here the President writes me a very nice formal letter about Mr. Nelson. McReynolds calls me up first to ask if he is all right. Now when they want people from the Treasury staff, it is up to Mac

- 6 -

to see that it comes from Mac to you to me, see.

Thompson: Yes.

H.M.Jr: I can't let Harry run around with a lot of strange women.

White: My wife thanks you, if I don't.

H.M.Jr: Wait until you see her. You will thank me.

White: I don't know, I got a glimpse of Floyd Odlum's wife, and I don't know, maybe there are more of them around town.

H.M.Jr: Are you through?

White: I am squashed.

H.M.Jr: Take care of it, will you, through Mac, please?

Thompson: Yes.

White: You let me know then.

H.M.Jr: Well, Norman Thompson will. It is in Norman's hands.

Basill?

George?

Haas: I have nothing.

H.M.Jr: Lots of compliments on this piece of work that you (Haas) did in the airplane business.

Haas: Thank you very much.

H.M.Jr: Did you go to the President's press conference?

Schwarz: Yes, sir. He talked about the committee to look into consolidating purchases, and he also said that all military planes become obsolete darned fast.

H.M.Jr: Did he get away with his explanation?

Schwarz: Very well.

H.M.Jr: The reason I am asking, General Marshall, Admiral Stark, Solicitor General, Foley, three former admirals and I started at nine o'clock trying to prepare this statement for the President. He saw us at 10:30 and gave us what, ten minutes? And he absorbed it all, you see, in order to handle it, and that is why I am exhausted.

Schwarz: He has two laws, 1919 and 1926. He talked about them in detail.

H.M.Jr: He got away with it all right.

Schwarz: Yes. They pressed him a little about new equipment. He said, yes, these planes had just been delivered but they are obsolete.

H.M.Jr: He should have told them they were biplanes and not monoplanes. The Navy really did the most remarkable thing. Wednesday night at my house if they could have these planes - is that right, Phil?

Klotz: That is right. Today is Friday.

H.M.Jr: Phil was there. It was Wednesday.

Young: Yes, it was Wednesday, Wednesday night at 6:40.

H.M.Jr: And Stark went out and telegraphed that night and those planes began to arrive, half of them arriving at Buffalo yesterday. He made it an emergency mobilization and the stuff began - half of them were at Buffalo yesterday. It was a magnificent job. He is just blazing the way for the Army.

White: Danny wants to get in on the ground floor with the suggestion you form a private corporation to handle used planes.

Ball: Finance them.

White: Used planes.

- 8 -

Bell: Just like financing an automobile on the installment plan.

H.M.Jr: We move too fast. We haven't got time for that. Okay?

Schwarz: Yes.

H.M.Jr: Phil?

Young: No problems. On this, you talked with Purvis on Monday, May 27th.

H.M.Jr: Well, then it wasn't - May 27th?

Young: Yes. He first spoke to you about it on Saturday, May 25th, and he was in on Monday, May 27th, and you talked about it at that time. I'm not specifically certain yet as to whether on that day you told him to wait, but you discussed it on that day. I can give you that information.

H.M.Jr: Would you call him on it or not? I mean, saying he had been waiting a week or ten days.

Young: His written memorandum on that question came in on Monday, May 27th.

Klotz: That is right. That is about ten days.

H.M.Jr: That is right. He is right. Okay, we will not call him. You are to see him at a quarter of twelve, aren't you?

Young: Yes.

Cochran: I have nothing.

H.M.Jr: Does he speak English?

Cochran: He has a man with him who speaks English, one of his engineers. At least the Ambassador told me he did.

H.M.Jr: Do you want to be here?

Cochran: It doesn't matter, just as you wish.

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H.M.Jr: Just to make sure the fellow translates correctly.

Cochran: All right, fine.

H.M.Jr: That has been done before. I've seen them do it.

Cochran: All right, I will stay.

Foley: We have the letters from Guy Vaughn to General Wilson agreeing to turn over the models and agreeing to enter into the licensing arrangement saying that the form that we gave them is satisfactory. Now, do you want to answer those or do you want to turn them over to the Council for National Defense?

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

Foley: McReynolds.

H.M.Jr: McReynolds, yes. What time did they get you last night?

Foley: They got me about eleven thirty.

H.M.Jr: I told the girl I tried to get you.

Foley: I had a note on the door when I came in.

H.M.Jr: I said, "Call every ten minutes."

Foley: I didn't know you tried.

H.M.Jr: Yes, I tried. I wanted to explain. I thought you might want to get down here earlier and get started on the thing.

Foley: I am sorry I wasn't there.

H.M.Jr: That is all right, no reason why you should be.

Foley: I took my mother out to dinner.

White: What did you do?

H.M.Jr: Who?

- 10 -

Foley: My mother.

Klotz: That is his story.

Foley: It was the maid's night off.

H.M.Jr: You did a good job, Ed. I still look to you on the boats.

Foley: Thanks.

Gaston: Everything under control.

H.M.Jr: Did you OK that statement for me on Sullivan?

Gaston: I did.

H.M.Jr: Was it a good statement?

Gaston: Very good.

H.M.Jr: Well, I am still cheerful and I am still alive and still doing business, a little bit outside the Treasury but somebody has got to do it. Thank you all.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The rate for sterling moved in an erratic manner today as a result of the reported new British foreign exchange regulations which were expected to deprive the free sterling of its utility as mentioned in the report of yesterday. At noontime, a Dow Jones news item from London appeared, which stated that the British Government had established a drastic exchange control. The new control measures announced were as follows:

A. No sales will be licensed in the United Kingdom of securities owned by persons residing outside the sterling-franc bloc.

B. All exports from Great Britain to the United States and Switzerland must be paid for in sterling obtained at the official rate or with United States dollars or Swiss francs.

C. Normally, residents of the United States and Switzerland will receive payments in commercial transactions or interest or dividends in their own respective currencies.

D. The mid-March restrictions concerning payments for British empire exports of tin, rubber, jute, furs, diamonds and whisky were repealed except in the case of exports to the United States or Switzerland.

The despatch further stated that similar action was being taken in other countries in the sterling area. In connection with countries outside the sterling area, it was said that British authorities proposed to achieve the same control by extending a system of payments agreements, and that one such agreement was signed with Rumania yesterday.

The meaning of these new regulations so far as the United States is concerned is that all transactions between Great Britain and this country, after the effective date of the measures, will be settled on the basis of the official rates of 4.02-1/2 and 4.02-1/2.

In New York, the rate for sterling experienced wide fluctuations. After opening at 3.60, which was also last night's close, it declined to 3.35 within one hour. It then recovered to 3.70, around which level it was quoted at noontime. After the appearance of the news item mentioned above, the rate dropped to 3.51 during the next hour's trading. A firm tendency subsequently appeared, however, and sterling moved steadily upward to a high of 3.87-1/4 just before the close. The final quotation was 3.81.

- 2 -

Sales of spot sterling by the six reporting banks totaled £493,000, from the following sources:

By commercial concerns.....	£121,000
By foreign banks (Europe, Far East and South America).....	£372,000
Total.....	£493,000

Purchases of spot sterling by these banks and by the Federal Reserve Bank of New York amounted to £397,000, as indicated below:

By commercial concerns.....	£228,000
By foreign banks (Europe, Far East and South America).....	£114,000
By the Federal Reserve Bank of New York (for Belgium).....	£ 55,000
Total.....	£397,000

The following reporting banks sold cotton bills totaling £7,000 to the British Control on the basis of the official rate of 4.02-1/2:

£6,000 by the Bank of Manhattan
1,000 by the Guaranty Trust Company
£7,000 Total

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:

£22,000 by the Guaranty Trust Company (for rubber)
5,000 by the Irving Trust Company (for rubber)
£27,000 Total

Developments in the other currencies were as follows:

The French franc moved with sterling. After reaching a high of .0219-1/2, it closed at .0216.

The Canadian dollar, which experienced an improvement yesterday to 20-1/4% discount, weakened today to close at 21-1/2%.

The Swiss franc was steady at .2242 until late in the day, when it eased to close at .2240.

The lira and reichsmark were unchanged at .0505 and .4000 respectively.

The Cuban peso improved today. As against yesterday's discount of 10-9/16%, today's quotation was 9-7/16%. The Mexican peso was unchanged at .1672.

The yuan in Shanghai rose to 5-13/16¢ today, up 1/2¢.

CONFIDENTIAL

- 3 -

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$15,000,000 from the Bank of France
 176,000 from the National Bank of Belgium
\$15,176,000 Total

The Federal Reserve Bank of New York reported that the South African Reserve Bank shipped \$3,300,000 in gold from South Africa to the Federal, for account of the Bank of Sweden. The disposition of this shipment is unknown at the present time.

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

\$2,636,000 from Yugoslavia, consisting of gold coin, shipped by the National Bank of Yugoslavia, Belgrade, to the Federal Reserve Bank of New York, disposition unknown. This gold was part of the lot that was stored temporarily in Athens.
 36,000 from England, shipped by Sharps and Wilkins, London, to the Central Hanover Bank and Trust Company, New York.
 21,000 from England, shipped by Sharps and Wilkins, London, to the Chase National Bank, New York.
\$2,693,000 Total

The shipments from England will be sold to the U.S. Assay Office at New York.

The Indian gold price fell the equivalent of 40¢ to \$35.40.

The Bombay spot silver quotation worked out to the equivalent of 44.36¢, off 1/8¢.

In London, spot silver was unchanged at 23-3/8d. Forward silver, however, fell 5/16d to 21-7/8d. The U.S. equivalents, calculated at the open market rate for sterling, were 37.87¢ and 35.19¢ respectively. On the basis of the official sterling-dollar rate, spot silver was equivalent to 42.50¢.

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

We made two purchases of silver totaling 150,000 ounces under the Silver Purchase Act, both of which were new production from foreign countries, for forward delivery.

We also purchased 400,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

CONFIDENTIAL

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

June 8, 1940.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Morgenthau:

I have your letter of June 6th, enclosing a letter from Mr. Purvis, relative to certain inspection difficulties encountered by the Army.

Thank you very much for giving me this information.

Sincerely yours,



150-A

BRITISH EMBASSY,

WASHINGTON, D. C.

June 8th, 1940.

Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. L. L.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of June 7th.

Germans attacked continuously today on whole front between River Aisne, south of Laon and the sea. Thirty German divisions identified, all either active divisions or trained Rhine divisions, formed on mobilisation. Pressure continued in Laon-Soissons area, but not much enemy progress made. Ground south of River Ailette remains mostly in French hands. Yesterday evening six armoured and two motorised divisions previously employed in Flanders attacked on either side of Amiens. Enemy tanks reported pressing French westwards from Poix towards Aumale. Presence of German active divisions north east of Rheims and other signs indicate further attack likely in that area.

2. Blenheims today attacked enemy concentrations in Abbeville-Amiens area. One Blenheim missing. One Messerschmidt 109 shot down. Wellingtons attacking enemy communications last night reported successful attacks on troops, as well as railway sidings. Number of fast small craft observed last night near Boulogne also many small lights between Le Treport and St. Valerie. Today Hurricanes operating in battle area shot down nine enemy aircraft confirmed and four unconfirmed. Two Hurricanes missing. During June 5th to 6th B.A.A.P. shot down eight aircraft confirmed and six unconfirmed. One of Hurricanes missing. Battles from this force also attacked enemy columns and batteries. All Battles returned.

3. German air force operations continued yesterday on widespread scale. Many bombing attacks

carried/

-2-

carried out on troops and communications in rear of front on Aisne and Somme. Considerable bomber reconnaissance activity in northern and southeastern France, also mine-layings last night, aircraft continued operating between western Germany and southern Belgium, and to Cambrai and Rheims.

June 6, 1940.

My dear General Marshall:

In connection with your memorandum to me of May 23rd, with regard to certain inspection difficulties encountered by the Army, I have received a letter from Mr. Arthur Purvis, a copy of which I am enclosing for your information.

It would seem the difficulties which have existed will now be overcome.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff, U.S.A.,
War Department.

By Messenger 2⁴⁵ 6/7

June 6, 1940.

My dear General Marshall:

In connection with your memorandum to me of May 23rd, with regard to certain inspection difficulties encountered by the Army, I have received a letter from Mr. Arthur Purvis, a copy of which I am enclosing for your information.

It could seem the difficulties which have existed will now be overcome.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff, U.S.A.,
War Department.

By Messenger 2 15 2/7

June 6, 1940.

My dear General Marshall:

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It is to be hoped the difficulties which have existed will now be overcome.

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General George C. Marshall,
Chief of Staff, U.S.A.,
War Department.

By Messenger 2 25

2/7

ANGLO-FRENCH PURCHASING BOARD

155

NEW YORK:
15 BROAD STREET

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

This letter from Washington, D.C.

June 5, 1940.

Mrs. H.S. Klotz
Room 280
Treasury Department
Washington, D.C.

Dear Mrs. Klotz,

I promised to return the attached to the Secretary today.

I have been in touch with Mr. Howe, the Dominion of Canada Minister of Supplies. He is giving an order this afternoon on the Page-Hershey Tubes Co. so that Colonel Campbell of the Frankford Arsenal can witness the manufacture of the 6" shell forgings.

I have undertaken to handle the difficulty on the British end. Actually it will be impossible for me to do this until I can get to New York but it will be done first thing tomorrow morning. In the meantime, Major Gullet of the U.S. War Department's Air Corps will be advised by Mr. Howe that he has instructed Page-Hershey Tubes Co. to admit Colonel Campbell.

Yours sincerely,

A. B. Purvis
per C.T.B.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

Mrs. Reedy

May 23, 1940.

MEMORANDUM for the Secretary of the Treasury:

Dear Mr. Morgenthau:

Apropos of Allied Purchasing Agents comments on the embarrassment their inspection service was suffering due to our restrictions in Aircraft plants, I would like you to read the attached one-page letter from Major Gullet, of our Air Corps, in Ottawa.

A concern in Canada has what is believed to be an excellent process for the manufacture of 6" forgings. Our Chief of Ordnance wished to have one of his officers witness the process. Colonel L.H.Campbell, of Frankford Arsenal, thought he had a personal arrangement to permit him to witness the process, but General Wesson thought it better to go through the usual formalities.

In view of the critical situation of the moment, the attached letter is very interesting.

William T. Lee
Chief of Staff.

encl.

P.S. Incidentally, the British Missions have been permitted to visit all of our arsenals and have seen practically everything they asked to see.

157

1940
MIL. INTELL DIV
2257-33-296
MAY 21 1940
WAR DEPARTMENT

No. 31 JSG:m

Ottawa, Canada
May 13, 1940

RECEIVED 0/2 W O MAY 16 1940

SUBJECT: Authority to visit the Page-Hershey Tubes Co. at Welland, Canada

TO: Col. J. A. Crane, Military Attache Section, G-2, War Dept., Washington, D. C.

O. O. WAR DEPT.
687-2
MAY 22 1940

1. This will acknowledge receipt of your first indorsement following request of the office of the Chief of Ordnance dated April 22, 1940 for authority for the visit of Lt. Col. L. H. Campbell to the Page-Hershey Tubes Co., Welland, Can. for the purpose of witnessing the manufacture of 6" shell forgings.

2. Efforts to coordinate this subject were begun immediately upon receipt of this communication. Complete cooperation was extended by the Dept. of External Affairs of the Canadian Government and also by headquarters officers of the Army General Staff. The latter advised, however, that the matter was one for decision by the head of the Supply Ministry Section of the British Supply Board since the operations of the Page-Hershey Tubes Co. were in behalf of British contracts.

3. The subject was presented to the chief of the Supply Ministry Section referred to and after due deliberation that office advised that it would be necessary to refer the subject to Washington. This date we have been advised that the Military Attache in Washington had been unable to obtain a decision and that a cable had been sent to officials in Great Britain from whom a reply might be expected in due course.

4. This office will be advised so soon as a decision has been rendered following which an immediate despatch will be forwarded your office.

John S. Gullet
JOHN S. GULLET
Major, Air Corps
Military Attache.

E. S. T. June 8th 1940
 Spoke to Bullitt asked me to
 get him 12 Thompson Machine
 and send them at once by
 air. He also asked about machine
 for French. Said ~~it~~ it was
~~not~~ done. Told him expected
 between 400 + 500 said it
 help. Told him that
 all we had.

Service Tel Columbus 5-4611
 1 PM. sec - Columbus 5-4967

Service to

Navy Plans

Total 345

English - English
 French -

but 48 sent to France
 to

Handwritten notes in the top right corner, including the date "Nov 5" and other illegible scribbles.

away from Admiral Starks.

Planes OIR

Holding conference on
guns this morning

Handwritten signature or initials.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In contrast to the very wide fluctuations during the past two days, sterling moved within a ten-cent range today. The opening quotation was 3.76, as against yesterday's closing rate of 3.81. Within one hour, the pound touched a low of 3.67, a high of 3.77, and returned to 3.72. The rate then moved steadily upward to 3.76 just before the close. The final quotation was 3.75.

As indicated by the reported turnover figures, foreign banks were the chief suppliers of pounds. In all probability, the New York banks themselves absorbed part of these offerings, in the endeavor to even up short positions in sterling.

Sales of spot sterling by the six reporting banks totaled £314,000, from the following sources:

By commercial concerns.....	£ 13,000
By foreign banks (Europe, Far East, So. Amer. and Near East).....	£301,000
Total.....	£314,000

Purchases of spot sterling amounted to £137,000, as indicated below:

By commercial concerns.....	£ 89,000
By foreign banks (Far East, South America and Europe).....	£ 48,000
Total.....	£137,000

There were no reported sterling transactions effected at the official rates of 4.02-1/2 and 4.03-1/2.

Developments in the other currencies were as follows:

The French franc moved with sterling and closed at .0212-1/2.

The Swiss franc was steady all day at .2243.

Only nominal quotations were made for the Canadian dollar. It closed at a discount of 21-3/8%.

The lira and reichsmark were unchanged at .0505 and .4000 respectively.

The Cuban peso improved slightly to 9-5/16% discount today. The Mexican peso was unchanged at .1672.

- 2 -

In Shanghai, the yuan was quoted at 6-1/8¢, a gain of 5/16¢. This currency has shown little movement in terms of the British pound during the last few days. The current quotation against sterling is 3-7/8d.

According to a U.P. despatch from London, the British Treasury announced today that a tri-partite agreement was signed in London yesterday to regulate monetary and financial relations among Britain, France and Belgium. The agreement fixed an official rate of exchange on the Belgian currency and in effect brought Belgium into the fiscal partnership established between France and England last December. A surprising feature of the pact is that the Belgian franc will be fixed at the same level as the French franc rate of 176-1/2 francs to the British pound. (Five Belgian francs equal one belga.) This represents a depreciation of 32-7/16¢ in the Belgian currency as compared with its pre-invasion value in terms of sterling and French francs. The London despatch added, "Treasury officials also announced that similar action is under way to include Holland in the financial 'combine'. Full agreement in principle already has been reached with the Netherlands, it was stated, and a formal pact is expected to be signed within the next few days."

We purchased \$50,069,000 in gold from the earmarked account of the Bank of England.

The Federal Reserve Bank of New York reported that the Bank of Canada, Ottawa, shipped \$8,317,000 in gold from Canada for its account to the Federal, for sale to the U. S. Assay Office at New York.

The State Department forwarded to us a cable stating that the following shipments of gold were made from Hong Kong, all of which will be sold to the U. S. mint at San Francisco:

\$ 589,000 shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N. A., San Francisco.
 260,000 shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.
 258,000 shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.
 \$1,107,000 Total.

The equivalent of the Bombay gold price was \$35.35, off 5¢.

The Bombay spot silver quotation worked out to the equivalent of 44.51¢, up 1/8¢. The Commerce Department's daily statements of silver exports and imports for June 6 and 7 reveal that shipments of refined silver bullion are still being exported from the United States to Bombay, India. On the two days mentioned, a total of 132,000 ounces left this country for that destination.

B.M.S.
 CONFIDENTIAL

MA

PLAIN

London

Dated June 8, 1940

Rec'd 7:15 a.m.

Secretary of State

Washington

1552, June 8.

FOR TREASURY FROM BUTTERWORTH.

The new exchange control regulations appear in this morning's press and meet with wide approval which is not surprising because recently a tightening of the control has been increasingly urged.

The FINANCIAL TIMES considers that the future trend of the free sterling rate can hardly be foreshadowed and suggests that after the first up-swing it may plumb fresh depths or it may move nearer to the official rate. The MANCHESTER GUARDIAN financial editor suggests that it cannot be judged whether the sources of supply of sterling to the free market will have been stopped to the same extent as the sources of demand and that the immediate reaction which was due to covering transactions is not necessarily an indication of the future course of the freemarket. The TIMES city editor suggests that "it is possible that when effective isolation has been achieved further measures may have to be envisaged to take care of the free

MA -2- tel # 1552, June 8, 1940 from London

the free sterling balances, but this is a matter that is probably best left to ad hoc treatment at the time". Meanwhile he considers that these new steps will so curtail the free market that it will cease to have much practical importance. The FINANCIAL NEWS in an editorial headed, "Exit Free Sterling?" points out that any further depreciation of the free rate may involve a loss of exchange in respect of financial obligations and other invisibles expressed in terms of sterling, a loophole not easy to close but possibly not important. "In any case it is hard to say what the ultimate effect on the free rate may be".

KENNEDY

10/11/40
RECEIVED
JUN 11 1940
RECEIVED

AMERICAN CONSULATE

Yunnanfu, China, June 8, 1940.

CONFIDENTIAL

SUBJECT: Exports of Tung Oil, January -
May, 1940.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to submit, as a matter of probable interest to the Department, a tabulated analysis of confidential monthly statements of the tung oil position of the Foo Shing Company in Yunnanfu, which the company has been supplying to this Consulate regularly. Prior to January, 1940, similar reports had been obtained regularly from the Yunnanfu office of the Foreign Trade Commission and a summary of its operations for the year 1939 was submitted to the Department with my Despatch No. 13 dated January 11, 1940.

As the enclosed table shows, during the first five months of 1940 the Foo Shing Company exported a total of 8,432,050 kilograms of tung oil, distributed as follows over the entire period:

<u>Month</u>	<u>Kilograms</u>
January	909,206.5
February	1,053,445.5
March	2,902,466.5
April	1,689,008.5
May	<u>1,877,923.0</u>
Total	8,432,050.0

In addition to the above quantity of tung oil, the company has exported 112,496 kilograms of "huang shui" oil, which is described as a kind of adulterated tung oil which must be refined before it can be marketed.

It should be noted that the total quantity of tung oil exported by Foo Shing from Yunnanfu during the first five months of 1940 is almost equal to the total tung oil exports (8,819,442.5 kilograms) of the Foreign Trade Commission from Yunnanfu for the entire year 1939. Against this must be set the fact that the Foo Shing Company controls not only transit shipments from other provinces, but also exports from Yunnan itself, which in 1939 amounted to about 3,668 metric tons; while during most of 1939 the Foreign Trade Commission was able to control only transit shipments.

Even taking this into consideration, however, exports from Yunnanfu this year have run far ahead of exports for the corresponding period of last year. On the basis of Foo Shing's figures, exports have averaged about 1,686 metric tons per month; and if allowance is made for the fact that the Yunnan-Indochina Railway was out of commission for approximately six weeks in January and February because of Japanese bombings, during which time only about 1,200 tons were exported, the monthly average is seen to be even higher. Should exports be maintained at the rate prevailing during the first five months, total exports of tung oil from Yunnanfu during 1940 should reach a level of about 20,000 metric tons.

A point to be noted is that Foo Shing has been steadily drawing down its stocks in Yunnanfu. Present stocks are about 409 tons, and it is planned to keep about this quantity on hand here at all times; so that henceforth exports from Yunnanfu are likely to be limited by monthly receipts. This is indicative of the increased efficiency in handling shipments here which has reduced considerably the time in transit between the points of origin in China

and the market in the United States.

By far the larger part of total exports has been shipped to Haiphong by the Yunnan-Indochina Railway. From the first of January to February 12 a total of about 1,200 tons is said to have been exported by highway to Burma; but although it has been reported that regular shipments of 500 to 1,000 tons monthly would be made by this route, I have recently been informed by the local manager of Foo Shing that subsequent shipments via Burma have never exceeded 400 tons monthly. It is said that a shortage of steel drums for use as containers limits the quantity than can be shipped over this route, as vessels calling at Rangoon do not as a rule have deep tanks available for oil cargoes and the drums have to be shipped to the United States. Moreover, on a transport cost basis the Burma route is impractical so long as adequate facilities are available on the Yunnan-Indochina Railway.

I am informed that the use of pack trains for the export of tung oil to the Indochina border is being abandoned because of the high transport cost involved. It is said also that, contrary to expectations, the use of pack trains has facilitated rather than hampered the smuggling of tung oil out of the country, as the muleteers find it very easy to mix "contraband" oil with Foo Shing's oil and take both lots out together.

With reference to the question of controlling the export of tung oil, I am informed that Foo Shing's purchase price in Yunnan will probably be increased soon in an effort to eliminate smuggled exports as far as possible. It is thought that this may help considerably, since the National Government agencies do not feel able to take direct steps to enforce a rigid control because of the political situation in this Province. It is difficult to see, however, how Foo Shing can avoid a general increase in its purchase price if it increases its price in one province.

SUMMARY

The enclosed analysis of the Foo Shing Company's monthly reports of tung oil exports from Yunnanfu indicates that a total of 6,432 metric tons has been shipped in the first five months of 1940. This is almost equal to the total quantity of tung oil exported from Yunnanfu by the Foreign Trade Commission last year. At the rate prevailing during the first five months, total exports from Yunnanfu this year should approximate 20,000 metric tons.

The bulk of exports so far has been shipped by railway to Haiphong. Since February, exports by highway to Burma have never exceeded 400 tons in any month. The use of pack trains for transporting tung oil to Indochina has been abandoned due to the high cost and the facility it gives to smugglers. Foo Shing's purchase price in Yunnan will probably be increased in the near future in an effort to gain control of the oil now being exported by smugglers.

Respectfully yours,

Troy L. Perkins,
American Vice Consul.

Enclosure:-

1/- A table.

In sextuplicate to the Department,
original and two copies by air mail.
Copies to the Embassy, Peiping and Chungking.
Copy to Commercial Attache.
Copy to Consulate, Rangoon.
Copy to Consul, Hanoi.

859
SCB:Epy

Enclosure to Despatch No. 88, dated June 8, 1940, from Vice Consul Troy L. Perkins, Yunnanfu, China, to the Department of State, entitled: "Exports of Tung Oil, January - May, 1940".

Tung Oil Position of Foo Shing Company,
Yunnanfu Branch.

(In Kilograms)

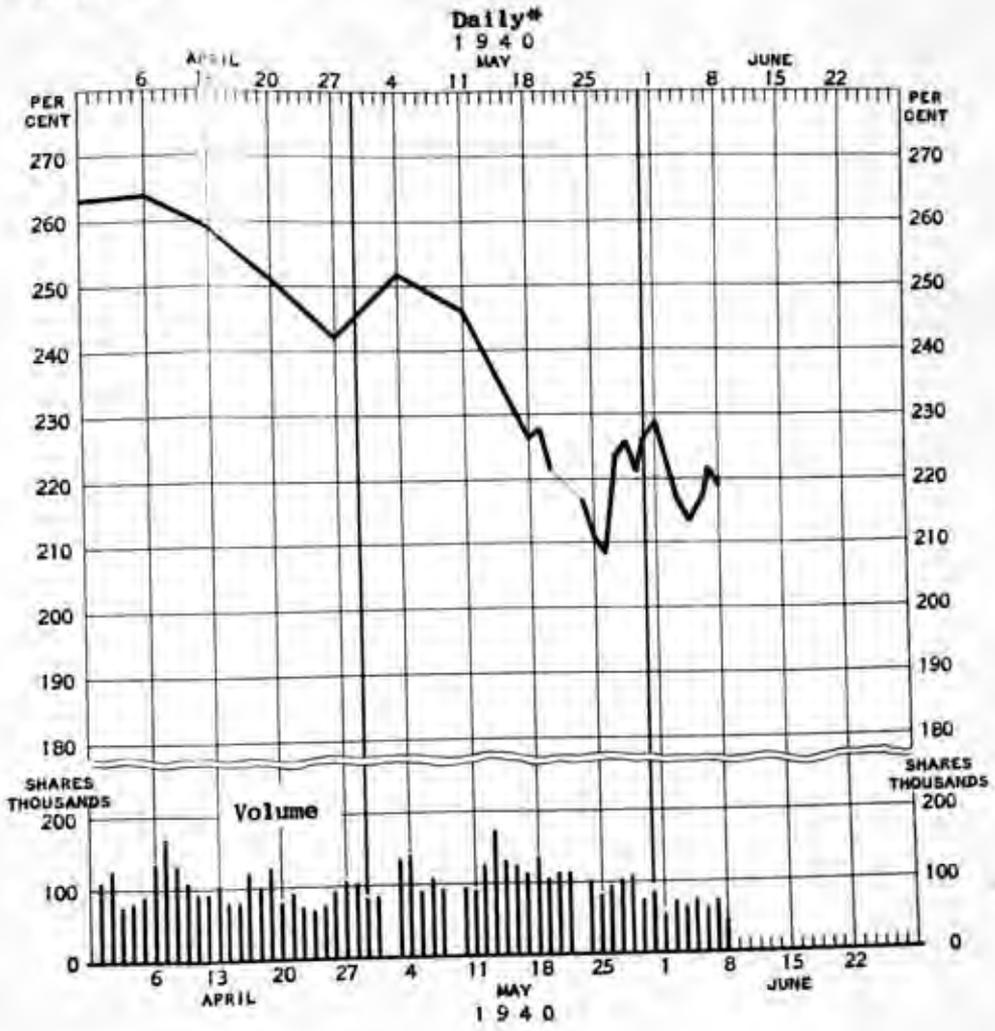
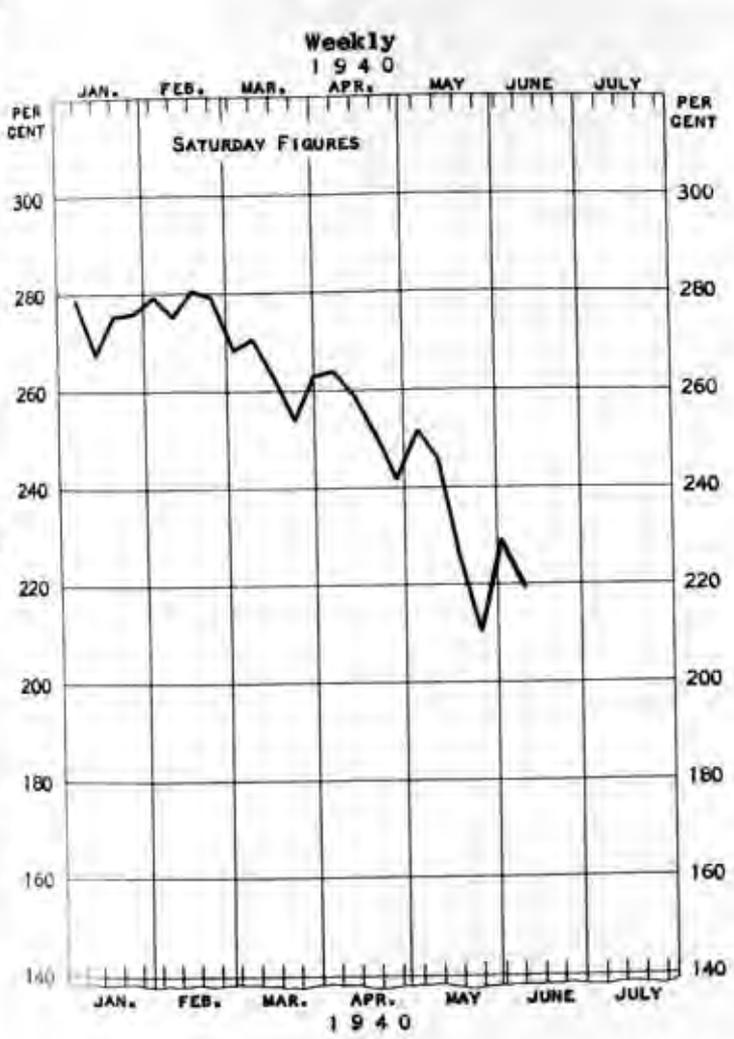
<u>Month</u>	<u>Stocks</u>	<u>Receipts</u>	<u>Exports</u>
January	894,996.0	2,686,865.5	909,206.5
February	2,672,655.0	1,131,534.5	1,053,445.5
March	2,750,744.0	1,363,820.0	2,902,466.5
April	1,812,097.5	1,274,095.0	1,689,008.5
May	797,184.0	1,489,929.5	1,877,923.0
June	409,190.5		

Note: The figures for stocks relate to stocks in Yunnanfu on the first day of the month. They have been derived from Foo Shing's monthly reports of receipts and shipments, and should be regarded as approximate only.

Source: Confidential Monthly Reports of the Foo Shing Company at Yunnanfu.

June 8

ITALIAN STOCK PRICES (Milan)



*SATURDAY FIGURES PRIOR TO MAY 20.

American Foreign Service, Hanoi, Indochina,
June 8, 1940.

Subject: Wood Oil Shipments.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 87 of May 12, 1940, reporting wood oil shipments via Indochina by the Foo Shing Trading Corporation during the first 4 months of 1940, and to report that similar shipments during the month of May totalled 1,001 tons. Accordingly, shipments during the first 5 months of 1940 aggregated 4,124 tons.

The Haiphong manager of the company believes that the comparatively poor showing during 1940 is in part due to the slowness in arrivals at Kunning, which in turn may be attributed to poor transportation facilities in China as well as the inadequate price given to producers.

Since July 1, 1939, shipments of wood oil via Indochina by the Foo Shing Trading Corporation have amounted to about 15,824 tons. With but 1 month remaining to complete the year, the total will probably fall some 8,000 tons short of the quota of 25,000 tons established on July 1, 1939. (despatch no. 92, May 23, 1940)

Respectfully yours,

For the Consul at Saigon,

Charles S. Reed II,
American Consul.

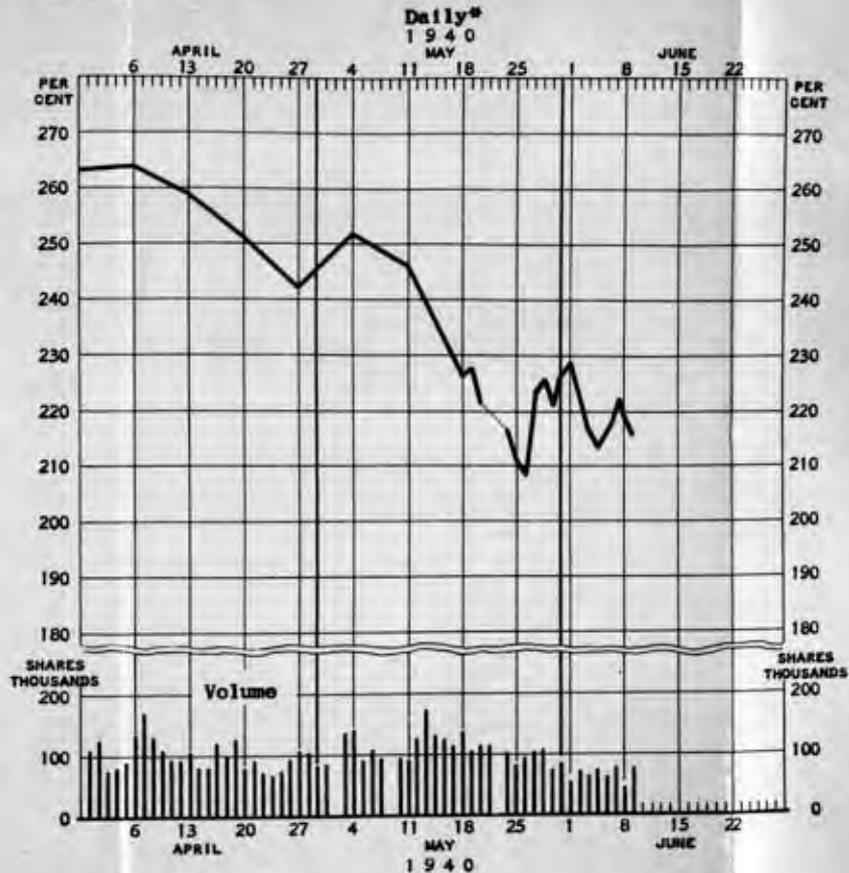
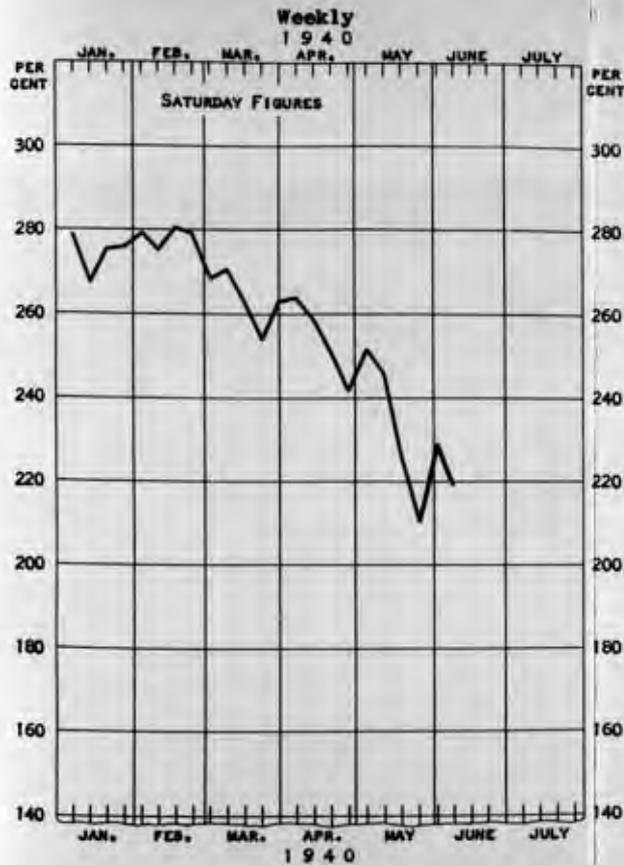
In triplicate to the Department (By air mail)
Copies to Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copies to Consulates, Kunning and Saigon

869/815.4 CSR:csr

COPY

171
June 9

ITALIAN STOCK PRICES
(Milan)



*SATURDAY FIGURES PRIOR TO MAY 20.

Sunday June 9

8:45 p.m.

(At the Secretary's home)

Present:

Secretary Woodring
General Marshall
Admiral Stark
Mr. Nelson
Mr. Foley
Mr. Cox
Mr. Young

(Before the group arrived, HM,Jr took Admiral Stark into the dining room for a talk alone. When HM,Jr returned and while Admiral Stark went to telephone, HM,Jr said: "I told the Admiral it was ridiculous to give me 68. I wanted 750 and none less than 750 and he's now calling Admiral Furlong to see how many he has got. He does not know.")

HM,Jr: I think we might as well wait until Mr. Woodring comes.

Why don't we start? Do you know whether Mr. Woodring is coming?

Mr. Young: He is.

HM,Jr: The first thing I asked you gentlemen for -- I gathered the formula is worked out -- is to get these bombs for these 50 ships. As I understand, as of tonight 68 have been passed. Is that correct?

Mr. Young: That's right.

Mr. Nelson: 68 are being loaded tonight.

-2-

HM, Jr: And what the French want is 750 and that's what I cabled the President last night.

Admiral Stark: If I had been tipped off this morning -- I may be able to get it tonight.

HM, Jr: Frankly, I did not know until I saw my men tonight. It did not clear until tonight.

Mr. Nelson: It wasn't finished at 7:15.

HM, Jr: The formula is worked out. They also told me that 68 were to be loaded tonight at Yorktown so if there are more, wouldn't the people at Yorktown know how many are there?

Admiral Stark: Yes, but our people in my department have a record of every bomb we have, but if I don't have a call back shortly I will call Yorktown.

Mr. Nelson: Captain Wright is handling it at Yorktown.

HM, Jr: The other thing I wanted to ask was how soon these 93 planes would be ready for delivery -- these Northrops?

General Marshall: I think they will all be concentrated by tomorrow, but we have a bomb problem there that is much more difficult than this one. These planes that we are bringing in, we are trying to find some way to swap the ordnance as you did on your Navy planes, but up to the present time we have not been able to find an adjustment on that so we have to go ahead and consider the ordnance as an organic part of the plane.

(At this point, Secretary Woodring joined the meeting.)

HM, Jr: Harry, the only thing we have been talking about -- these people, working all day today, finally worked out a formula on the bombs for the 50

-3-

Navy ships, but they have only been thinking in terms of 68 and I have been talking with the President in terms of 750 and Admiral Stark is now asking his people how many they have got and expects to hear momentarily, but the formula was worked out at 7 o'clock tonight -- I gather to the satisfaction of everybody -- and also everybody has been very busy today trying to help.

Secretary Woodring: Henry, are we involved? Do you (General Marshall) have your own bombs?

General Marshall: The trouble was they were trying to turn them in as surplus and there was a legal complication.

Mr. Woodring: It's not a straight trade in?

General Marshall: It's not a straight trade in. And the other problem is to get more of them, which is purely a Navy thing. The number you approved were in pencil.

Admiral Stark: If we get a trade in we will get something back.

Mr. Woodring: I think it will be much better to do it as a trade in. I think the psychology of it is better. It's not lost. It is lost if it goes back to the Treasury.

HM, Jr.: Of course, I differ with you. I love these people who say "It's lost. It goes to the Treasury." (Laughing.)

General Marshall: You mean psychology before Congress.

Mr. Woodring: That's what I mean.

General Marshall: Mr. Morgenthau was asking about the 93 A-17-A's. I thought they would all be concentrated by tomorrow, but I told him the real problem there was bombs and this time it is not as easily soluble for this reason: I will read you a memorandum from the Secretary to the President which

-4-

I understand the President has not yet seen. They did not give it to him. I went over before he left, but Watson wanted him to have a quiet week-end and did not turn it over to him. It's regarding the release of aircraft.

"Tentative arrangements have been made to exchange 93 Al7A attack bombers. Bombs to make the airplane immediately effective must be of our type. Two to three months would be required to rework these planes to accommodate foreign type bombs. In order to supply bombs it will be necessary to consider the bombs as an accessory of the airplane. Whether or not this can be legally sustained is questionable. To furnish approximately 1/15 of the number of bombs desired by the Allied Purchasing Agent, it will be necessary to release approximately 1/7 of our entire bomb stock in the two sizes required, that is, 30 and 100 pound bombs. Additional bombs are under order, but ^{first} deliveries will not be made for another six months. In view of our shortage of bombs, I request your decision in the matter."

HM, Jr: May I interrupt. What is 1/7 of 1/15, or vice versa?

General Marshall: We reduce to 1/15 what they asked for and if you gave them that it was 1/7 of everything they asked for.

Mr. Woodring: And that is only - that 1/15 request is only the request as to Army bombs, isn't it?

General Marshall: This is for 93 planes. We 30 more planes coming up.

HM, Jr: I did not get what the 1/15th meant.

General Marshall: I can get that tomorrow. We took 1/15

Mr. Nelson: It was B200.

General Marshall: I have had so many figures in here, but it comes out 1/7 of our entire supply. These are not old bombs. These are new bombs. No problem of

-5-

surplus. No problem of deterioration. No question of surplus and no question of deterioration. There also is no question but what we are very seriously short in bombs when you take these old planes which have these types of bombs, 30 and 100 pounds. We have such a limited supply that for that little group of planes that's all we have left, so there is something very serious.

HM, Jr: Why, General, does it take six months to make these?

General Marshall: It takes much more than six months because these contracts were started last Fall. The money was made available in July, but you take delays in connection with fuses, all the various things that go into it. Anyway, the first delivery does not come for six months so we have a tragic shortage in bombs.

Secretary Woodring: We use the Younghouse fuse and they use the Tevara?

General Marshall: They can use our bombs, but they have to use a bomb that goes into the rack, so the only way those planes can be immediately serviced for them, unless they dump things into the raw, is to make rough bombs, which they could do. I presume they are of no particular avail without bombs, but that's our situation.

HM, Jr: But you put that up to the President as of Saturday and he did not get it to him?

General Marshall: There is time to operate on this anyway. But that's your issue -- whether they want planes without bombs, whether the President is willing to take a chance on the bombs, because it cuts into us so. We have such a limited supply.

HM, Jr: The one I wanted to press on tonight so hard are the ones for the 50 ships. That's the only thing I really wanted to get a decision on tonight.

(Admiral Stark returned from phoning.)

Admiral Stark: If I can't get it from the Bureau shortly I will telephone Yorktown.

-6-

Secretary Woodring: Has the Curtiss Wright man finally said -- has the attorney for the Curtiss Wright finally said it is legal to trade in? Will he accept that?

General Marshall: Yes, he accepts that. The question was to negotiate the arrangement.

Mr. Nelson: He agreed.

Secretary Woodring: On bombs?

Mr. Nelson: Yes. Under the Act Mr. Cox showed him.

Mr. Cox: The 1926 Act.

Secretary Woodring: He agrees with us on that?

Mr. Nelson: Yes. He took the bombs from the Army. He exchanged that for T.N.T. which he bought from Du Pont. Du Pont will turn the T.N.T. over to the Army.

Secretary Woodring: The last I heard he had held that he would not let Curtiss Wright under the old Act

Mr. Nelson: That's right.

General Marshall: In other words, they could not be surplus.

HM, Jr.: If you ever get stuck, you could use one of Harold Ickes' trading posts.

Let me ask you something. You might give us a decision tonight about this powder machinery.

Mr. Nelson: Have you that memo, Phil. You had a memo in your brief case.

Mr. Young: Yes. I don't believe we need it.

The situation on that is where the Army has

-7-

stored a certain amount of machinery of three types, (1) ammonia oxidation for nitric acid; (2) for making nitrocellulose powder and (3) for making small arms ammunition, 30 caliber cartridges.

It was my understanding, through Colonel Burns, that the War Department would be willing to release, if a legal way could be found to do it, whatever machinery they had which was stored over and above that amount of machinery which the War Department would need itself for its new powder plants.

Secretary Woodring: For all three types?

Mr. Young: For all three types.

Secretary Woodring: Harris, you (Marshall) know, objected to that. You remember.

Mr. Young: And I called Colonel Burns back subsequently to find out what that excess amounted to over and above what you were going to use in your new plants and he told me that the small arms machinery was a set of miscellaneous machine tools which were already second-hand and incomplete.

Secretary Woodring: Burns said that?

Mr. Young: Yes.

With respect to nitrocellulose powder machinery, you have four sets of powder machinery which -- I am sorry, three sets of powder machinery of which you are going to use two for your new plant and could release one. That would be extra. On the ammonia oxidation equipment, you had a surplus -- just one incomplete set of equipment which, I gathered, you would be delighted to have completed and put into the factory, into production, somewhere so it would be available in case you should ever need it.

We have done some work on the legal end of that and the leasing arrangement seems to be perfectly

-8-

feasible and perfectly legal.

Secretary Woodring: To manufacture for them in this country?

Mr. Young: Yes. Five years.

Secretary Woodring: One set extra on the two

Mr. Young: On the nitrocellulose there is one other set.

Secretary Woodring: But on the first, how many are extra to our needs?

Mr. Young: All you have on that -- you have no machinery on the 30 caliber cartridges and you have a collection of second-hand tools which you would be very glad to get rid of, according to Colonel Burns, and on the ammonia oxidation you have one incomplete set.

I asked General Harris about it this afternoon when he was working with us on this bomb question and his only reaction at first was could we find a legal way to lease the stuff out and, secondly, question of policy involved inasmuch as you have been attempting to justify appropriations for purchasing evidently this type of machinery, more new machinery of this kind, as to whether any of that machinery could be let go even though you might not be using all of it in your own new powder plant, which was a question of policy.

General Marshall: Isn't it possible to lease that to a plant with certain restrictions in the lease which seemingly protect us against its future use? In other words, the machinery in place is an asset to us. In other words, you don't have to indulge into a subterfuge to prove that. Isn't there some legal way we could find to draw a contract

Mr. Cox: One is to provide in the contract that if the United States Government needs powder produced in preference to the foreign Governments, you can exercise that preference. The other is under Section 120 of the National Defense Act of 1916 which gives the President power to commandeer a plant and to exercise priorities. The simplest way is by contract.

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General Marshall: Then it is definitely to our advantage to have it set up. I was wondering about the powder plant.

Secretary Woodring: Decoration Day morning, after we came back from Henry's office, it was in the list of stuff you gave us that morning. That meeting in your office when Harris objected very strenuously to the release of any machinery at that time.

General Marshall: Was he speaking of it in relation to the new powder plant?

Secretary Woodring: He was speaking of it to go abroad.

General Marshall: In other words, we are talking about machinery in this country. I was wondering the time basis there. Did Burns express himself there? When they would have to install that in new plants?

Mr. Young: You have two time elements to consider. One, the Allied plant at Memphis is going to be ahead in construction, ahead of the Army plant, so they will have more immediate use of the machinery than you. Secondly, on the question of delivery of new equipment, the manufacturers have refused to guarantee any delivery dates to the British and French Commission on new equipment, primarily because they are afraid of their own national defense program and the demands to be made upon them through that.

Mr. Yancey's opinion -- of Du Pont -- I asked him how long he thought it would take to get one set of nitrocellulose machinery from the manufacturers and they thought six or seven months.

Mr. Nelson: About six months.

Secretary Woodring: How soon would they be ready for our set? If made available tomorrow, how soon to put it in the British plant at Memphis?

Mr. Young: Certain parts go in at a time. They have already started construction.

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Mr. Nelson: On nitric acid, they would start right away.

Mr. Cox: General Harris said wasn't this the occasion which would best authorize leasing and he said his personal opinion was yes, but it was a question of policy. On the legal end, Young and I checked with the Judge Advocate's Office and they do that every day and the only question was pay in cash or take in kind.

Secretary Woodring: On leasing, I don't think it would make any difference to us.

General Marshall: We could lease against new machinery for us.

Mr. Young: Could I throw out one additional thought in connection with that? Purely as representing the British and French, the Army has three sets of nitrocellulose powder equipment. Each of these new plants - the Allied plant and the Army plant -- are about the same size. Each plant will require two sets of equipment. There are three and it will take six months, according to what was said today, to get more. Therefore, representing the British and French, in that capacity I say would it be possible for the Army to release two instead of one, purely on the basis that the Army can get delivery on a new set probably in 50% of the time in this country that the British and French could possibly do it.

General Marshall: I think the first part is all right, but the second part isn't, because they get it quicker than we can. They have no legal restrictions. They have money and can do business. I think, however, there is something to your first part.

Mr. Young: Their plant would go into operation first undoubtedly.

General Marshall: I will go after that, if it is agreeable to the Secretary, the first thing in the morning.

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Secretary Woodring: I don't think there will be any trouble on that.

(Admiral Stark returned from telephoning.)

Admiral Stark: I have an answer. Not too good. In Yorktown we have the bombs. It's a question of fuses again, immediately available. We have in Yorktown 180 - 1,000 pound bombs and 170 - 500 pound bombs which could be made immediately available. In Hawthorne we have 1,000 - 1,000 pound bombs and 2,000 - 500 pound bombs. Now we have fuses available, 800 pairs in Hawaii. I think we can solve it.

(At this point, Admiral Stark was again called to the telephone.)

HM, Jr: Which are the ones they want?

Mr. Young: 1,000 pound.

HM, Jr: As I understand it, one 1,000 pound and two - 100 pound.

Mr. Young: That's right.

(Admiral Stark returned to the conference at this point.)

Admiral Stark: We also have 350 pairs in Cocosola. We use two fuses in each one of our bombs. That 350 pair would give you 700 fuses. Using a single fuse, our experience is about 95% effective, but put in the extra fuse to make it 100%. So in Cocosola you have 700 fuses normally used

(Admiral Stark was called to the phone again.)

General Marshall: I had a transport plane ordered into Mare Island to bring in some of his fuses. But I thought I was getting more than 15 pairs of fuses.

(Admiral Stark returned to the meeting.)

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Admiral Stark: Admiral Furlong called me to say everything was all right at Yorktown.

In our modern fuses we have none. They are on order. I don't just know the date of delivery. But as fast as delivered, they have been put on carriers. But the older fuses, which are perfectly good fuses for what the French want, have been put ashore, but we have plenty of 100-pound bomb fuses which will explode in these bombs except it will be necessary to make an adapter to hold those. The whole in the large bomb is a different size from what it is in the 100-pound bomb. Drawings for that adapter are completed. While I am guessing, if we told the gun factory to go full speed, they could probably turn those adapters out in two days, so that might be the answer.

HM, Jr: Let me go back. I was asking for 750 - 1,000 pound bombs.

Admiral Stark: We have 180 at Yorktown and 1,000 at Hawthorne.

HM, Jr: Where is Hawthorne?

Admiral Stark: In Nevada. That's our big storage plant behind the mountains.

HM, Jr: Instead of giving them 68, could they have the 180 tonight out of Yorktown and then move out the difference from Nevada, say to New York?

Admiral Stark: Yes, we can start those 180 ...

HM, Jr: Tonight. I understood from Nelson they are loading tonight.

Admiral Stark: They told me they were loading tonight.

HM, Jr: Could we let them have 180 additional?

Admiral Stark: That's the 180 additional? I just asked them how many more available.

HM, Jr: 180 plus 68.

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Mr. Young: Don't those planes carry some two - 100 pound bombs?

Admiral Stark: These planes will carry two 500 pound bombs or one 1,000, but they dive with the one 1,000 pound bomb.

HM, Jr.: They want them for diving?

Admiral Stark: That's the 1,000 pound bomb.

HM, Jr.: Wouldn't it be better to give them the 248 1,000 pound bombs and then make up the difference?

Admiral Stark: 180 you mean.

HM, Jr.: Have you got fuses for them? I am adding 180 plus 68.

Admiral Stark: Yes. We have the adapters made. Yes, we have fuses available.

HM, Jr.: So, roughly, they could have 248.

Admiral Stark: That's right.

HM, Jr.: And that could go tonight.

Mr. Foley: You would need two days to get the adapter?

Mr. Nelson: The bombs could be loaded and fly the adapters up to Halifax.

HM, Jr.: And if they knew the difference of 1,000 pound bombs were coming, they could go to New York or hold the ship. I suppose it would take three or four days to come from Nevada.

Admiral Stark: Yes. They would have to come by freight or they might put them on fast trains.

HM, Jr.: I think they would pay for a special train.

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HM, Jr: Could we say this? That 248 would be loaded tonight?

Admiral Stark: I will check that to make sure.

HM, Jr: And the factories would start the adapters. Could these things be flown to Halifax?

Admiral Stark: Yes, sir. I think so. They will not be very large.

HM, Jr: What do you think, Nelson and Young? Does that sound all right?

Mr. Nelson: That sounds all right. We will go back to the hotel. We can get Hotchkiss and change the numbers on the contract.

Admiral Stark: That will make a total of 248 from Yorktown and the total number required is 750. And 248 from 750

HM, Jr: If you want to be generous, we will take the whole thousand at Hawthorne.

Admiral Stark: Yes, we can spare them.

HM, Jr: All right. Let's take a thousand bombs at Hawthorne. Let's take all of them.

Mr. Young: Those bombs don't fit the Army planes, do they?

General Marshall: I would be merely thinking. I can find out in the morning very quickly, but I am fearful to ask the question.

HM, Jr: What the deuce is there so difficult about making a bomb? Is it something that takes six months? Do they make them by hand?

General Marshall: Took a long time to make the case and then they developed a process which cut

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that down from a year to 8 months or 6 months. Takes a long time too to get fuses, apparently.

HM, Jr: More than one company make them?

Secretary Woodring: We have educational orders out to two other companies, but we are making fuses ourselves. There is the Younghouse fuse. I tried a year ago to get the Tavara. You would be surprised to know that Senator Nye was interested in having us use the Tavara fuse, which the British and French use. I begged Ordnance to do it, but they would not do it. It's really a better fuse, but Ordnance was fearful that we would be switching over to Tavara and we have \$1,500,000 in machinery and probably \$2,500,000 in royalties that we have paid on the Younghouse and I think Ordnance was a little fearful of their having adopted it in their opinion in comparison with Tavara.

General Marshall: How did Nye come into it?

Secretary Woodring: Somebody had been to see him and sold him on it.

General Marshall: Ours is the Younghouse.

Secretary Woodring: I know why he was interested. The Younghouse is a German patent. The Tavara is Swiss.

HM, Jr: Do we make our fuses at more than one place?

Secretary Woodring: Not ours. I think the Navy uses Younghouse. We have orders out for educational. One may be at the arsenal at Springfield. I think we have one educational order with the Elgin Watch Company. The other with Waltham, I think, up in Massachusetts.

General Marshall: Educational orders have just begun to come in. A year ago they did not appropriate anything. Just squeezed out \$2,000,000 to get started. They did not appropriate that, but agreed to a diversion

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of the money, off the record, and then we got how many? Sixteen last

Secretary Woodring: Half of -- we asked for \$25,000,000. Got \$12,500,000.

General Marshall: Something like that.

Secretary Woodring: The President did not want to approve the money for the educational, you remember that.

HM, Jr: No. I wasn't in on that. In those days I had nothing to do with the Army.

General Marshall: I remember when we were battling for the \$110,000,000 we did not get anywhere until we made this point -- everybody was talking about the number of planes the Germans were turning out. At that time our opinion was, in the late winter of 1939, that for over three years they had been accumulating 2,000,000 rounds of artillery ammunition a week and we had gotten \$375,000 worth a year to replace that we used in target practice.

Secretary Woodring: You sat in on that. That was in the oval room at the White House.

HM, Jr: I don't remember that. I do remember I wrote a letter four or five months ago, last November, recommending \$90,000,000 for strategic war materials.

Secretary Woodring: This was when Craig was still here.

HM, Jr: I don't think I was in on that.

General Marshall: That was on the build-up to his message of January 1939.

Secretary Woodring: I think we could follow that Navy bomb thing, fitting it on our racks. It's a funny thing to me that the Navy and Army don't have the same bomb racks.

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General Marshall: I say I would be afraid to ask.

HM, Jr: I would be amazed if they did.

Is there anything we want out of the Army tonight while we are waiting on the Navy?

You (Young) have done a good presentation on the machinery.

We talked about 93 planes which Mr. Woodring will work on tomorrow.

I know one other thing, but I think that's Navy. Thompson machine guns. They are up in Philadelphia. Not the 12. Are you going to take care of him on that?

General Marshall: We have had the grandest jam on that. We had them delivered to La Guardia Field. Eleven. We got five out of Springfield and captured six at West Point. They have been turned over to the Communication Man of the State Department, but the trouble was Early talked to me last night and I tried to tell him of -- he was talking about the difficulties of Pan America, letting off mail and letting off important passengers -- and I was trying to tell him that he was discussing that with the wrong person, but I did not get very far. And at 7:30 he told me why it was a terrible thing for Pan America. In the first place, it displaced mail and important passengers. Next thing it was larger than anything they had before. It jeopardized their contract with Portugal. There was a wholesale list. I tried to interrupt once, but finally he did hit a period and I said, "Mr. Early, you are repeating what the State Department told you. Why don't you tell Mr. Welles that because he's the fellow who gave me instructions to do it." So then they went across to the State Department. The State Department was ordering it on one side and objecting to it on the other side. They are there because they wanted them. So then I put an officer on it and Smith was in it. He arranged it in the first place. And Smith told me that the thing had gotten to the point where Mr. Welles was trying to persuade the President

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not to do it because when his people got to him they were talking about the illegality, but this was sitting right in his lap. We have turned them over to the State Department representative at La Guardia Field. They have them stored there.

HM, Jr: Bill Bullitt called me and I got word to Herbert Gaston and he called up Mr. Welles and Welles said, "That's the third person who has asked to do this," so I kind of gathered he was beginning to turn a little sour. I would be amazed to have the Clipper carry arms.

General Marshall: I think it is a deadly thing.

HM, Jr: Would the George Washington carry arms?

General Marshall: If the Clipper carries arms they can be shot down.

(At this point Admiral Stark returned to the meeting.)

Admiral Stark: I think we have them there.

General Marshall: You took them from a ship over there?

Admiral Stark: Yes.

HM, Jr: I was going to take them from the White House guard!

Admiral Stark: We sent a courier down to get them. We did not have Thompsons, but we had some Lewis. That will answer his purpose. (Laughter among the group.)

HM, Jr: Where are we now?

Admiral Stark: I am working through a third person. He has to go to the Bureau. I told them to let the 180 go tonight and he will check back with me

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tomorrow to make certain they are able to do that, but send them right along with the others. I told them we wanted a minimum of 502 of the 1,000 pound bombs at Hawthorne and check and see whether all the thousand were available.

The fuse situation is not as simple as I thought it was. They gave me a guess of 24 hours to manufacture the fuses. I doubled it and made it 2 days and the gun factories think it may take 4 or 5 days if they have the stock. They are not sure they have the proper stock for them. They will find that out first thing in the morning.

Incidentally, those are brand new, which are not obsolete or anything else. If the President orders it, we will do it but we are on very thin ice.

HM, Jr.: I will send one of my boys down and take a chip off of them.

General Marshall: Better chip it just lightly or you won't see the boy around again.

Admiral Stark: I checked on those at Cocoa Sola. They will give us 750 fuses.

Mr. Foley: How about the fuses in Panama?

Admiral Stark: With the 350 in Cocoa Sola -- it's an old type but a good fuse -- it would give us 700 and that would take care of their original order of 750. We would strip Panama. Pretty well take every fuse they have got down there. Of course, ships are carrying their own fuses, but I am checking up on that to see if we can't take that chance. Then we can make the adapters and send some down to Panama. They could get those up here -- in about high speed, four or five days.

HM, Jr.: I am going to report to the President tonight that the matter is well in hand. 248 are going to be loaded tonight, on their way to Canada, and you

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are working out some way or other to have the fuses go with them and you are thinking of 502 more out of Hawthorne and possibly another 500.

Admiral Stark: The fuse situation -- for the additional 500 -- if they only asked for 750, let it go. If you want that, we will give the order. Where do you want them shipped. From Hawthorne.

HM, Jr: My guess is, as of tonight, I think if agreeable to the Army, ship to the same arsenal.

General Marshall: Raritan.

HM, Jr: You check tomorrow and if they want it anywhere else

Mr. Nelson: What are these?

HM, Jr: Bombs from Nevada.

Mr. Nelson: They had better go to Halifax.

Mr. Young: They are not putting any explosives into Raritan.

Mr. Nelson: No explosives going to Raritan.

HM, Jr: You could have that by tomorrow morning.

Do two things: ask, one, where do they want them to go. Will they be by special train -- and I would be very much surprised and disappointed, after all the work you have done, if they don't have a special train.

Admiral Stark: I will send a telegram tonight to Hawthorne to prepare immediately 502 bombs for shipment and report when they will be ready.

General Marshall: We have a \$350,000 freight bill on deficiency on the stuff we are shipping now.

HM, Jr: What do you mean?

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General Marshall: Transfer of ownership has not taken place. The stuff is rolling and the freight bill is \$350,000. I am hopeful they can gather that up and withdraw the Government Bill of Lading and just pay it.

HM, Jr: I don't know anything else.

Secretary Woodring: Let's ask one question. Admiral, would the Navy bombs fit in our racks?

Admiral Stark: Our later ones do. Our older ones are interchangeable.

Secretary Woodring: What fuse do you use? The Younghouse?

Admiral Stark: I don't know who makes them. Some of our fuses are French.

Secretary Woodring: That's what I thought.

HM, Jr: I am ever so much obliged and I will report the things accomplished tonight.

June 9, 1940
10:02 pm

HM, Jr phoned Mr. Purvis and the following is HM, Jr's end of the conversation:

"We just got through this minute. They only got the formula signed up at 7 o'clock tonight. They worked all day long. Had the darndest time. Nelson, Phil Young, Cox, our lawyer, finally got the thing and they were to get 68 and they were loading those tonight at Yorktown, but I wangled another 180 out of them so that makes 248 and we are going to get 502 more out of Nevada. So you get your 750. And these are all 1,000 pound. The damn fuses are down at Panama. But they will fly them up in a seaplane.

"Nelson and Young told me the number of Generals and Admirals they talked to today would make a regiment, but we did get this through and then tomorrow morning the first thing they will want to know where those 502 bombs from Nevada should go to and whether you want a special train. I should think they would.

"Well, I think the thing to do tomorrow is have your man come in and talk to either Nelson or Young, either one.

"Well, just so they could let us know in the morning, first, whether you will pay for a special train. I should think you would.

"Well, I will tell them this. But they will want shipping instructions on whether this should go to New York or Halifax. The 502. They have shipping instructions on the others.

"That takes care of your getting 750 - 1,000 pound bombs for the 50 planes and then tomorrow we start ...

"I think Phil (Young) did a swell job on machinery for powder factories. I think we are going to get it. I think you will have an answer on that tomorrow.

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"Right!

"That would be for the B3.

"Now, the Army will have those B3 assembled somewhere tomorrow, but the big question on that is bombs, but maybe -- they think -- they said maybe by accident they are the same bombs as the Navy uses. So by accident it may be the same bombs. And we have some more bombs out at Nevada, 1000 pound. But that's another story. But this one thing now is really an accomplished fact.

"I am sure it is and we are doing everything we can within and without the law.

"Well, that will be nice.

"I really am.

"Well, thank you. Good night."

* * * * *

He said you can't tell what this means abroad. It just means everything to them. Just means everything.