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Please note the contents of the Japanese government through such a procedure could hardly be arrested or reached.

The employment of the American community in Bankhead negates that those

July 18, 1940

SECRETARY OF STATE

The Honorable

No. 616

Re: Sale of Japanese Goods to the United States

Secretary of War

To: Tohono Hoop, Sacaton

Re: Sale of Japanese Goods to the United States

The Honorable
will be permitted to arrange for the shipment of Japanese goods to the United States at a discount of 10% of its value. In other words a designated shipper of raw silk in Japan, for example, would receive Yen 100,000 from the General Motors Corporation in Japan for Yen 90,000 worth of raw silk. The raw silk importer in the United States would pay the General Motors Corporation in the United States the equivalent of Yen 90,000 in American currency. Thus, the raw silk shipper in Japan received from General Motors Corporation a commission of Yen 10,000 solely for permitting the General Motors Corporation in Japan in handling the shipment. The American importer neither gains nor loses. The Japanese Government loses foreign exchange. No reason has been suggested as to why the Japanese Government is permitting General Motors Corporation to transmit their capital to the United States.

The above examples, if true, indicate a definite policy of dumping on the part of the Japanese Government. In the case of the shipment via Shanghai, the system offers an opportunity for the Japanese to export to non-yen bloc markets with the advantage of a devalued currency, without officially devaluing the Japanese yen. Shipments made in this method would seem to be at the cost of business carried on by Japanese firms through the orthodox manner. On the other hand these shipments may be made to markets which have already been closed to sales by the orthodox manner. Such a system, if materially developed, would have a serious effect on present trade conditions in non-yen bloc countries.

Respectfully yours,

Richard F. Boyce,
American Consul.

610,2/868.15/869.11
REB/rk

Distribution:
Original and 2 copies Department of State, Washington, D.C.
1 copy Reporting Section, Tokyo.
1 copy American Consulate General, Shanghai.
1 copy Files.
Transactions in official sterling grew in volume, and open market dealings in sterling were reduced to insignificant proportions on the coming into effect of Britain's new exchange measures. These require the use of official sterling or dollars for practically all transactions between the sterling area and the United States.

On the basis of the official rates of 4.03-1/2 and 4.05-1/2, four of the six reporting banks consummated the following transactions:

1. Sales of £5,000 to the British Control, all of which were effected directly through authorized banks in London.

2. Purchases of £120,000 from the British Control, of which £65,000 were acquired through the Federal Reserve Bank of New York, and the remaining £55,000 directly from authorized banks in London.

As anticipated, dealings in the open market for sterling were extremely small. The sterling rate in this market opened at 3.73-3/4, advanced to 3.86-1/4 by noontime, and then eased to close at 3.81-1/2.

Of the six reporting banks, only four executed transactions in open market sterling on behalf of their customers.

Sales of spot sterling in the open market totaled £29,000, from the following sources:

- By commercial concerns...........................................£14,000
- By foreign banks (Far East)......................................£15,000
  
  Total...........................................£29,000

Purchases of spot sterling amounted to £41,000, as indicated below:

- By commercial concerns...........................................£41,000
- By foreign banks....................................................0
  
  Total...........................................£41,000

Developments in the other currencies were as follows:

The Canadian dollar improved today to 11-5/8% discount, the best rate for that currency in several months. It closed at 11-3/4%.
The Swiss franc lost ground in a very narrow market, closing at .2266.

The lira and reichsmark were again unchanged at .0505 and .4004 respectively.

The Cuban peso was unchanged at a discount of 9-15/16%. The Mexican peso improved to .2012 bid, .2040 offered.

We purchased $51,500,000 in gold from the earmarked account of His Britannic Majesty’s Government.

The Federal Reserve Bank of New York reported that the Bank of Canada was shipping $50,000,000 in gold from Canada to it, to be earmarked for account of His Britannic Majesty’s Government.

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

$1,402,000 from Sweden, shipped via Petsamo, Finland, by the Bank of Sweden for its own account to the Federal Reserve Bank of New York, disposition unknown.

243,000 from England, representing four shipments consigned to three commercial banks in New York, for sale to the U.S. Assay Office.

$1,645,000 Total

The bullion markets in Bombay were reported to have been closed today, and no quotations were received from that center.

In London, the prices fixed for spot and forward silver both advanced 1/8d to 22-1/2d and 21-15/16d respectively. The U.S. equivalents were 40.91¢ and 39.88¢.

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

We made three purchases of silver totaling 475,000 ounces under the Silver Purchase Act. Of this amount, 425,000 ounces represented sales from inventory, and the remaining 50,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL
Secretary Morgenthau

Philip Young and E. H. Foley, Jr.

Subject: Priority of National Defense Orders Over Deliveries for Export

As far as we know, no definitive action has been taken as yet to exercise the priority powers granted to the President by recent legislation. (Section 2(a), Public No. 671 - 76th Congress /H.R.9822/)

This recent legislation grants the President the discretionary power, whenever he deems it in the best interests of the national defense, to give priority to any Army and Navy contracts and orders over all deliveries for private account or for export.

As a legal proposition, the President's power to give priority probably cannot be completely delegated.

The power to make recommendations on priorities can and has already been delegated in general terms. Section (7) of the Council of National Defense Order, approved by the President on June 27, 1940, provides that the Coordinator of National Defense Purchases (Donald M. Nelson) shall:

"investigate the necessity for and make recommendations to the President relative to the granting of priority to orders for material essential to the national defense over deliveries for private account or for export."

Mr. Donald Nelson asked Oscar Cox if he could assist him in preparing recommendations to the President in connection with the priority of national defense orders over deliveries for export. Cox has prepared a rough draft of suggested recommendations. A copy of it is annexed herewith.

In substance this rough draft provides for: (1) The obtaining of adequate and detailed information relating to all war material on order for export; (2) The furnishing to you of a copy of such information in inventory form similar to what the Treasury now has on aircraft; (3) The obtaining of your recommendation before the Coordinator of National Defense Purchases makes any recommendation that an Army or Navy order be given priority over the order of any foreign government.

(Initialed) E. H. F., Jr.

"P.Y.

OSOth
To: The President
From: The Coordinator of National Defense Purchases

**Recommendations of Coordinator of National Defense Purchases On Priority of National Defense Orders Over Deliveries for Private Account or for Export.**

Section (7) of the Council of National Defense Order approved by you on June 27, 1940 provides that, in cooperation with the Advisory Commission, I shall:

"Investigate the necessity for and make recommendations to the President relative to the granting of priority to orders for material essential to the national defense over deliveries for private account or for export."

Section 2(a) of Public—No. 671—76th Congress [H.R. 9622] grants you the discretionary power, whenever you deem it in the best interests of the national defense, to give priority to all Army and Navy contracts and orders over all deliveries for private account or for export.

In order to obtain adequate and detailed information and in order that I can comply effectively with the duties imposed on me with reference to priorities, I recommend that:

(1) **Advisory Commission to the Council of National Defense be requested to prepare a complete and detailed inventory of all arms, munitions, implements of war, and military and naval equipment or component parts thereof, machinery, tools, or material or supplies necessary for the**
manufactured, servicing or operation thereof, and of all strategic and critical materials which are on order for export.

This inventory should show the name of the contracting party, the material on order, the price to be paid for it, the destination of it, and the schedule of contemplated deliveries.

This inventory should be kept up to date by monthly supplements.

(2) The Advisory Commission is requested to furnish such inventories and monthly supplements to the Coordinator of National Defense Purchases.

(3) The Advisory Commission is requested to furnish to the Secretary of the Treasury the inventories of all foreign government orders.

(4) The Administrator of Export Control is requested to furnish to the Advisory Commission, to the Coordinator of Defense Purchases, and to the Secretary of the Treasury copies of his directives and copies of each application for export.

(5) If necessary, regulations be issued by you in the form of an Executive Order under either Public No. 703--76th Congress [H.R. 9820] or Public No. 671--76th Congress requiring the submission to the Advisory Commission or to the Coordinator of National Defense Purchases detailed information of orders or contracts placed for the kind of material set forth in (1) above within 10 days after the order or contract is placed.

(6) In any case where the Coordinator of Defense Purchases recommends that the Administrator of Export Control be withhold the granting of an export license pending a determination on any recommendation on priority which the Coordinator shall make to the President, the Administrator shall do so.
[5] The Secretary of War and the Secretary of the Navy, or person designated by them, shall, in the first instance, make recommendations to the President to the Secretary of Defense for their attention or upon the President of the Coordinator.

[6] In the case of proposed recommendations of policies relating to foreign government orders, the Coordinator shall also obtain the recommendations of the Secretary of the Treasury before making any recommendations to you.

[7] Then the Coordinator shall recommend to you in such cases you should exercise priority in favor of the Army or Navy.
AN ACT

To expedite national defense, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever in the opinion of the President of the United States such course would be in the best interest of national defense during the national emergency declared by the President on September 8, 1939, to exist, the Secretary of the Navy, or the Secretary of the Treasury in the case of Coast Guard contracts, is authorized to advance, from appropriations available therefor, payments to contractors in amounts not exceeding 30 per centum of the contract price, upon such terms as such Secretary shall prescribe, and adequate security for the protection of the Government for the payments so made shall be required. The Secretary concerned is further authorized in his discretion to make partial payments on the balance of the contract price from time to time during the progress of the work, such partial payments not to exceed the value of the work already done, but to be subject to a lien as provided by the Act of August 22, 1911 (37 Stat. 32; U. S. C., title 34, sec. 582), entitled “An Act authorizing the Secretary of the Navy to make partial payments for work already done under public contracts”: Provided, That the Secretary concerned shall report every three months to the Congress the advance payments made under the authority of this section.

Sec. 2. (a) That whenever deemed by the President of the United States to be in the best interests of the national defense during the national emergency declared by the President on September 8, 1939, to exist, the Secretary of the Navy is hereby authorized to negotiate contracts for the acquisition, construction, repair, or alteration of complete naval vessels or aircraft, or any portion thereof, including plans, spare parts, and equipment therefor, that have been or may be authorized, and also for machine tools and other similar equipment, with or without advertising or competitive bidding upon determination that the price is fair and reasonable, and deliveries of material under all orders placed pursuant to the authority of this section and all other naval contracts or orders and all Army contracts and orders shall, in the discretion of the President, take priority over all deliveries for private account or for export: Provided, That the Secretary of the Navy shall report every three months to the Congress the contracts entered into under the authority of this section: Provided further, That contracts negotiated pursuant to the provisions of this section shall not be deemed to be contracts for the purchase of such materials, supplies, articles, or equipment as may usually be bought in the open market within the meaning of section 2 of the Act entitled “An Act to provide conditions for the purchase of supplies and the making of contracts by the United States, and for other purposes”,

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(b) During the national emergency declared by the President on September 8, 1939, to exist, the provisions of the law prohibiting more than eight hours' labor in any one day of persons engaged upon work covered by Army, Navy, and Coast Guard contracts shall be suspended.

Sec. 6. Notwithstanding the provisions of section 2 of the Act of May 29, 1930 (40 Stat. 409), and section 204 of the Act of June 30, 1932 (47 Stat. 404), any person heretofore or hereafter retired under the Civil Service Retirement Act of May 29, 1930, as amended, may be reemployed in the service of the War and Navy Departments: Provided, That there shall be deducted and withheld from the basic salary, pay, or compensation of such person and credited to his account as provided in section 12 (a) of the Act of May 29, 1930, as amended, the regular deductions prescribed by the said Act: Provided further, That upon separation from the service for any cause such person may elect to receive a refund of the total deductions so withheld together with interest at 4 per centum per annum compounded on June 30 of each year, or receive credit for the additional service in the computation of any annuity awarded hereafter: Provided further, That payment of the annuity of such person shall be suspended during the period of such employment: Provided further, That during the national emergency declared by the President on September 8, 1939, to exist, the provisions of section 6 of the Act of August 24, 1912 (37 Stat. 555; U. S. C., title 5, sec. 534), shall not apply to any civil-service employee of the War or Navy Departments or of the Coast Guard, or their field services, whose immediate removal is, in the opinion of the Secretary concerned warranted by the demands of national security, but nothing herein shall be construed to repeal, modify, or suspend the proviso in that section. Those persons summarily removed under the authority of this section may, if in the opinion of the Secretary concerned, subsequent investigation so warrants, be reinstated, and if so reinstated shall be allowed compensation for the period of such removal at the rate they were receiving on the date of removal: And provided further, That within thirty days after such removal any such person shall have an opportunity personally to appear before the official designated by the Secretary concerned and be fully informed of the reasons for such removal, and to submit, within thirty days thereafter, such statement or affidavits, or both, as he may desire to show why he should be retained and not removed.

Sec. 7. The Act of March 14, 1896, entitled "An Act to provide for vacations to Government employees and for other purposes" (49 Stat. 1161) is hereby amended by adding, after section 7, a new section to read as follows:

"Sec. 8. Employees of the Navy Department and the Naval Establishment and of the Coast Guard may, during the period of the national emergency declared by the President on September 8, 1939, to exist, be employed during the time they would otherwise be on vacation without deprivation of their vacation pay for the time so worked. Employees who forgo their vacations in accordance with the provisions of this section may be paid, in addition to their regular pay, the equivalent of the pay they would have drawn during the period of such vacation. The provisions of this section shall be applicable only to employees whose services at the time cannot, in the judgment of the Secretary of the Navy or the Secretary of the Treasury, as the case may be, be spared without detriment to the national defense."

Sec. 8. (a) The limit of cost of the vessels authorized by the Act of July 30, 1937 (50 Stat. 544), and any statutory limitation with respect to the cost of any other individual naval project of construction are hereby increased as may be necessary to expedite national defense and otherwise effectuate the purposes of this Act: Provided, That the monetary limitations on payments out of appropriations available to the Navy Department for employees in the Navy Department and for employees in the field service assigned to group IV (b) and those performing similar services carried under the Native and Alien Schedules of Wages of civil employees in the field services of the Navy Department shall be suspended during the limited national emergency declared by the President on September 8, 1939, to exist: Provided further, That the Secretary of the Navy is authorized to employ such additional personnel at the seat of government and elsewhere, and to provide out of any appropriations available to the Navy Department, for their salaries and for such printing and binding, communication service, supplies, and travel expenses, as he may deem necessary to carry out the purposes of this Act.

(b) Whenever the Secretary of the Navy finds it impossible to make contracts or obtain facilities to effectuate the purposes of this Act in the procurement or construction of items authorized in connection with national defense he is hereby authorized to provide, out of appropriations available to the Navy Department for such purposes, the necessary buildings, facilities, utilities, and appurtenances thereto on Government owned land or elsewhere, and to operate them, either by means of Government personnel or otherwise: Provided, That the Secretary of the Navy is further authorized, under the general direction of the President, whenever he deems any existing manufacturing plant or facility necessary for the national defense, and whenever he is unable to arrive at an agreement with the owner of any such plant or facility for its use or operation, to take over and operate such plant or facility either by Government personnel or by contract with private firms: Provided further, That the Secretary of the Navy shall report to the Congress, every three months, the contracts entered into under the provisions of this subsection.

Sec. 9. The Secretary of the Navy and the Secretary of the Treasury are hereby authorized to modify existing contracts, including Coast Guard contracts, as the Secretary concerned may deem necessary to expedite military and naval defense, and to otherwise effectuate the purposes of this Act.
Sec. 10. Hereafter the approval of the Secretary of the Navy, acting by direction of the President, shall constitute approval by the President as required by section 4 of the Act approved April 20, 1869 (53 Stat. 500, 592), necessary to the validity of any contract entered into under authority contained in said section.

Sec. 11. (a) No aliens employed by a contractor in the performance of secret, confidential, or restricted Government contracts shall be permitted to have access to the plans or specifications, or the work under such contracts, or to participate in the contract trials, unless the written consent of the head of the Government department concerned has first been obtained, and any person who willfully violates or through negligence permits the violation of the provisions of this subsection shall be fined not more than $10,000 or imprisoned not more than five years, or both.

(b) Any alien who obtains employment on secret, confidential, or restricted Government contracts by willful misrepresentation of his alien status, or who makes such willful misrepresentation while seeking such employment, shall be fined not more than $10,000 or imprisoned not more than five years, or both.

(c) For the purpose of this section, the term “person” shall be construed to include an individual, partnership, association, corporation, or other business enterprise.

Sec. 12. The provisions of all preceding sections of this Act shall terminate June 30, 1942, unless the Congress shall otherwise provide.

Sec. 13. Section 6 of the Act approved June 30, 1936 (49 Stat. 2036; U. S. C., Supp. V, title 41, secs. 35-48), is hereby amended by adding “Provided, That whenever in his judgment such course is in the public interest, the President is authorized to suspend any or all of the representations and stipulations contained in section 1 of this Act.”

Sec. 14. (a) Notwithstanding the provision of any other law, no military or naval weapon, ship, boat, aircraft, munitions, supplies, or equipment, to which the United States has title, in whole or in part, or which have been contracted for, shall hereafter be transferred, exchanged, sold, or otherwise disposed of in any manner whatsoever unless the Chief of Naval Operations in the case of naval material, and the Chief of Staff of the Army in the case of military material, shall first certify that such material is not essential to the defense of the United States.

(b) The Secretary of War and the Secretary of the Navy shall, as the case may be, be hereby requested and directed to furnish or cause to be furnished to the respective chairman of the Committees on Military Affairs and the Committee on Naval Affairs of the Senate and the House of Representatives a copy of each contract, order, or agreement covering exchange of deteriorated, unserviceable, obsolete, or surplus military or naval equipment, munitions, or supplies exchanged for other military or naval equipment, munitions or supplies, and a copy of each contract, order, or agreement shall be furnished regarding any other disposition of military or naval equipment, munitions and supplies by which the title passes, either de jure or de facto, from the United States, or by which delivery of material thereunder is deferred, whereas the original cost of such military or naval equipment, munitions or supplies exceeded or

exceeds $2,000. The copies of such contract, order or agreement herein referred to shall be transmitted to the respective chairman of the committees not later than twenty-four hours after such contract, order or agreement is made, and the chairman of each committee shall consider such contracts, orders or agreements confidential unless a majority of the members of his committee shall direct the particular transaction to be made public.

(c) Nothing herein shall be construed to repeal or modify sections 3 and 6, title V of the Act approved June 15, 1917 (40 Stat. 222; U. S. C., title 18, secs. 33 and 36).

TITLE II

Sec. 201. In connection with the national defense program, the Navy and War Departments and the United States Housing Authority are hereby authorized to cooperate in making necessary housing available for persons engaged in national defense activities, as hereinafter provided. “Persons engaged in national defense activities” (as that term is used in this title) shall include (i) enlisted men with families, who are in the naval and military service (excluding officers) and employees of the Navy and War Departments who are assigned to duty at naval or military reservations, posts, or bases, and (ii) workers with families, who are engaged or to be engaged in industries connected with and essential to the national defense program. No project shall be developed or assisted for the purposes of this title except with the approval of the President and upon a determination by him that there is an acute shortage of housing in the locality involved which impedes the national defense program.

Sec. 202. (a) Projects may be initiated hereunder by the Navy or War Department to provide dwellings on or near naval or military reservations, posts or bases for rental to the enlisted men and employees of the Navy and War Departments described in section 201. Such projects shall be developed by the Navy or War Department or by the Authority, whichever the President determines is better suited to the fulfillment of the purposes of this title with respect to any particular project. If the development of such project is to be undertaken by the Navy or War Department, the Authority is authorized to aid the development of the project by furnishing technical assistance and by transferring to such Department the funds necessary for the development of the project. Any project developed for the purpose of this section shall be leased to the Navy or War Department by the Authority (which shall have title to such project until repayment of the cost thereof to the Authority as prescribed in such lease) upon such terms as shall be prescribed in the lease, which may be the same terms as are authorized by the United States Housing Act of 1937, as amended, with respect to leases to public housing agencies. All the provisions of said Act which apply to the development of projects by the Authority shall (so far as applicable and not inconsistent herewith) apply to the development of projects by the Navy or War Department. Notwithstanding other provisions of this or any other law, the Department leasing a project shall have the same jurisdiction over such project as it has over the reservation, post or base in connection with which the project is developed.
(b) The Navy or War Department, in connection with any project developed or leased by it, and the Authority, in connection with any project developed or assisted by it, for the purposes of this title, may acquire real or personal property or any interest therein by purchase, eminent domain, gift, lease, or otherwise. The provisions of section 355 of the Revised Statutes shall not apply to the acquisition of any real property by the Navy or War Department or by the Authority for the purposes of this title or to the project developed thereon, and the provisions of section 321 of the Act of June 30, 1932 (U. S. C. 1934 edition, title 40, sec. 396b), shall not apply to any lease of any project developed for the purposes of this title or of any dwelling therein. Condemnation proceedings instituted by the Authority shall be in its own name and the practice and procedure governing such proceedings by the United States shall be followed, and the Authority shall likewise be entitled to proceed in accordance with the provisions of the Act of Congress approved February 26, 1931 (46 Stat. 1421), and an Act of Congress approved March 1, 1929 (45 Stat. 1415). If the Authority acquires land in connection with a project to be assisted for the purposes of this title, it may convey such land to the public housing agency involved for a consideration equal to the cost of the land to the Authority. The Navy and War Departments and the Authority may negotiate, contract and fix such fees as they determine are reasonable for the services of architects, engineers, surveyors, appraisers, title examiners and real estate negotiators in connection with specific projects developed by them under this title. The Secretaries of Navy and War are hereby authorized to make available to the Authority any land that is needed for a project to be developed by the Authority and leased to the Navy or War Department and to execute such leases, agreements and other instruments with the Authority as may be necessary to carry out the purposes of this title.

Sec. 203. In any localities where the President determines that there is an acute shortage of housing which impedes the national defense program and that the necessary housing would not otherwise be provided when needed for persons engaged in national defense activities, the Authority may undertake the development and administration of projects to assure the availability of dwellings in such localities for such persons and their families, or the Authority may extend financial assistance to public housing agencies for the development and administration of such projects. Such financial assistance to public housing agencies shall be extended (except as otherwise provided herein and not inconsistent herewith) under the provisions of, and in the same manner and forms as provided in, title I of the United States Housing Act of 1937, as amended, and during such period such projects shall be deemed projects of a low-rent character for the purposes of any of the applicable provisions in title I of said Act.

Sec. 205. The Authority may use for the purposes of this title any of the funds or authorizations heretofore or hereafter made available to it. The provisions of title I of this Act shall not apply to this title.

Approved, June 28, 1940.
I telephoned Mr. Livsey of the Department of State this morning and reminded him that on July 2 we had asked the Department of State to send a cabledgram to the American Consul at Shanghai seeking information concerning any difficulties being experienced by the Shanghai branch of the Bank of Indo-China as a result of our freezing regulations. Mr. Livsey confirmed that the cabledgram had been sent. He promised to check to see if any reply had been received. He himself had not seen any answer. If no reply has been received, he will cable a reminder to Shanghai. I explained that we desired to answer a cabledgram received yesterday from Saigon on the Bank of Indo-China, but preferred to have information from Shanghai before doing so.

B. 104
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 15, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:15 this morning Mr. Pinsent telephoned me that his Embassy had just received a message from London to the effect that an individual designated as "J.H.L." of New York was advised by Lazard Freres, at Chatel Guyon, that he will today receive from Lazard Freres of New York $550,000 for the account of Lazard Freres, Chatel Guyon. Pinsent desired to know whether we had knowledge of this transaction. He was quite interested in seeing that the funds be blocked if payment is made. I told him that we would look up the records.

Pinsent mentioned a further report that the I. G. Farben was trying to negotiate in New York for the sale of their chief subsidiaries. I told him that we would see what data we had on this subject, if any.

Immediately after the conversation with Mr. Pinsent, I telephoned Mr. Fehle in regard to the Lazard transaction.

The second question raised by Mr. Pinsent, regarding the I. G. Farben, was the subject of Mr. Bernstein's memorandum of July 15, reporting a visit to his office by Mr. Martin Saxe. Mr. Saxe also called on me, following his visit with Mr. Bernstein. The only point he discussed with me was that of a channel for obtaining from Switzerland the additional information which had been requested as to ownership and control of the Swiss corporation to which stock is to be transferred. I told Mr. Saxe that the Swiss company concerned could get in touch with the nearest American diplomatic or consular officer and provide him with official proof as to their position, and ask that this be cabled through the Department of State. I told him that it was not appropriate that this Government should instruct its officers abroad to make an investigation in the premises. The burden of proof was on the parties to the transaction, but the facilities of our Foreign Service might be availed of for transmitting any official information from Switzerland to us.

[Signature]

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Mr. Knoke telephoned me at 6:00 yesterday evening. He had returned earlier in the afternoon to the Federal Reserve Bank, interrupting a fortnight's holiday, in order to discuss final arrangements for the institution today, July 18, of the system of registered sterling. Knoke asked if I had any observations to make on this system. I told him that we had read carefully all of the documents which we had received through the Federal, some of them being communications with the Bank of England, and others being messages to and from the Loan Committee. I told him that we had no comment to make. I recalled to him that the Treasury had informed the British Embassy some days ago, when our reaction to the general scheme was solicited, that we had no new comment to make. We had originally opposed no objection to this system. We did, however, reserve the right to present the complaints of any American citizens who might find their interest prejudiced under this system, the exact working of which was not explained with absolute clarity in the message which had been transmitted to the Treasury from the British Chancellor of the Exchequer. I asked Knoke to keep us informed of any difficulties that might arise and let him know that we were quite interested in observing the working of the plan. We had, however, no comment to make upon the messages recently exchanged between London and New York toward the setting up of the arrangement.
Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, telephoned me yesterday evening from New York. He inquired as to the likelihood of French colonial banks receiving a renewal of their present 25% withdrawal privileges after the termination of the 30-day period specified in current licenses. I told him that I was not aware of any hindrances of renewals. I mentioned this subject to the members of the Exchange Control Group last night and Leroy-Beaulieu will be advised when he visits us tomorrow to have the banks in question make applications as much in advance as possible for their renewals.

Leroy-Beaulieu told me that he had failed to request for the Bank of Guadeloupe an arrangement similar to that which he had sought for the Bank of Martinique. He had been under the impression that the latter institution acts as the central bank for both groups of French islands in the West Indies. He now finds that this is not the case, and asks a license for the Bank of Guadeloupe, which has an account with the French American Banking Corporation in New York. He told me that he had written a letter to Under Secretary Bell on this point. Leroy-Beaulieu reminded me that the French West Indies can now only trade with the United States. The British have already raised the blockade slightly on the island of Martinique to permit a ship to enter carrying food imports from the United States. The French officials in this country are facilitating the exports to Martinique of further food supplies purchased in United States with official French funds. Consequently, Leroy-Beaulieu emphasizes that such privileges as we extend the banking institutions in the French West Indies will result primarily in purchases of American goods.

Leroy-Beaulieu told me that Mr. Alexis Leger, for many years Under Secretary in the French Ministry of Foreign Affairs, had just arrived in New York from Europe, via Canada. He will remain in this country temporarily and probably proceed to Martinique of which island he is a native. Uncertain as to our freezing regulations, Leger is holding all of his personal cash in a hotel safe. Leroy-Beaulieu asked me if there would be any difficulty in Leger obtaining the withdrawal of his funds if he put them in an American bank. I told Leroy-Beaulieu that we could assure Leger there would be no difficulty, and asked that we be informed as to the banking institution which Mr. Leger may select for his account.

In conclusion Mr. Leroy-Beaulieu let me know that so far there has been no break in relations between France and Canada. He hopes that this situation will continue.
President Cardenas has sent a draft of the proposed Social Security Law to Congress with the request that it be studied and if found satisfactory passed during the next ordinary session of Congress which begins September next.

There is still considerable dissatisfaction over the results of the presidential election and the P.R.M. Government Party claims the election of General Avila Camacho while the Almazan supporters claim that he received an overwhelming majority of the votes in Mexico City and notwithstanding illegal procedures followed at other points that he received the majority of the votes legally cast. It is also rumored that neither General Avila Camacho or General Almazan will be President and that a provisional President will be named by Congress when it meets in September; the provisional President to be General Sanchez Tapia. It is rather hard to believe that this will happen. It is however the general impression that regardless of who is finally named President of Mexico there will be an improvement in the economic situation in Mexico, and that the new Government will be very much less radical than the present one. It seems as though the labor leaders were not able to control the individual members of their syndicates in the last election as they have in the past elections.

The statement of the Bank of Mexico for period ended June 30, 1940, showed a metallic reserve of 32.78% with approximately 367 million bank bills in circulation and 307 million in metallic coins in circulation. The statement for July 6 showed a metallic reserve of 33.75% with approximately 368 million in bills and 309 million in metallic coin in circulation.

The exchange has dropped from 4.99 to 4.94-1/2 within the past 48 hours for no apparent reason; however we are under the impression that this break is probably due to the fact that the impression has created in Mexico City that Mexico will greatly benefit by the Havana Conference, and that there will be a surplus of dollars.
I recall that the cable had been sent in a hurry and that all which you wanted was a guarantee that the necessary funds would be available. I then understood that we would be paid through the Copsby's Government account. If you would provide us with the New York market the dollar proceeds of transactions which we should effect at the New York rate according to the Cheque paragraph of the cable we would be satisfied.

I wrote to Mr. Smith that the cable referred to the Cheque paragraph and that you would pay in the New York market. He informed me that you would pay the cable and that the Cheque paragraph would be paid in the New York market.

I am not prepared to accept the Cheque paragraph as we are not prepared to accept the cable.

I assume that the cable referred to the Cheque paragraph and that you would pay in the New York market.

I am not prepared to accept the Cheque paragraph as we are not prepared to accept the cable.
I heard that there was no business in sight at the moment in respect of the

In our advice to the bank here, that, Balfour said, was all right.

In that case, I regretted, we would make no reference to the Her Majesty's Government account of

Bank of England would be bought and sellers of sterling at the above rates. In

to get across to the market was the fact that Federal Reserve Bank as agent of the

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CORRECTED COPY

GRAY
HANOI via N.R.
Dated July 18, 1940
Rec'd 7:25 p.m., 23rd

Secretary of State,
Washington,

July 18, 4 p.m.

The following is a translation of a communication from the Governor of Indo-China dated today:

"By a decision dated June 18, 1940, the American Treasury Department ordered the blocking of all the funds held by American banks for the account of the Bank of Indo-China. A decision dated June 27 released only 25% of the total funds.

The continuance of such a situation is bound to lead to the most serious repercussions on the economic and financial resources.

On the one hand, the Bank of Indo-China is a bank of issue, not only for Indo-China but also for the various French colonies where the bank has agencies. To deprive the Bank of Indo-China of the free disposal of its dollar credits is to deprive the Indo-China currency and the currency of various French colonies of the chief factor of support.

Moreover
July 18, 4 p.m., from Hanoi via N.R.

Moreover the bank of Indo-China performs exchange control functions in Indo-China as well as in other colonies where it has agencies. Therefore, it devolves upon the bank to protect the Indo-China and other colonial currencies, a fact that necessitates above all the free disposal of the sum total of its credits in dollars.

On the other hand, the Bank of Indo-China plays an important role in the financing of the foreign trade of Indo-China as well as that of other French possessions. It is by its mediation that commercial transactions with China, Siam, British Malaya, and the British Indies are conducted; in those countries the bank has maintained agencies for a long time. This role is given an added importance as a result of the interruption of economic and financial relations with France itself.

Under these circumstances by continuing to block the greater part of the credits which the Bank of Indo-China has in the United States, the American Treasury Department deprives it of the major part of its means of assistance to exporters and importers.

I believe it worthwhile to add that the American Government should have a double interest in putting an immediate end to the immobilization of the funds belonging to the Bank of Indo-China.
-3- July 18, 4 p.m., from Hanoi via N.R.

The dollar has become, and justly so, the currency with the most prestige throughout the whole world. But this prestige implies above all the free disposition of dollar credits belonging to non-enemy foreigners and to a foreign bank of issue.

Moreover, Indo-China, deprived of supplies from France, is in great need of innumerable American products. The blocking of the credits of the Bank of Indo-China has had already the effect of forcing the cancellation of orders amounting to several millions of dollars. This effect will continue necessarily in the future if the Bank of Indo-China does not obtain the free disposal of its credits.

For these reasons, I ask you to request your Government by cable to release at once the totality of the credits belonging to the Bank of Indo-China."

Sent to Cavite for repetition to the Department.

REED

NK

NPL
Secretary of State
Washington

83, July 18. (SECTION TWO)

While it has never been vigorously followed it is being lifted today. The banks accordingly have communicated to the French authorities as follows: They are prepared to resume full operations under three conditions (a) that the Bank of France be in a position to supply normal banknote requirements in the occupied territory. (As I reported 5,000,000,000 francs was sent with the first convoy; a second convoy has now reached Paris with an additional 10,000,000,000 francs of currency) (b) movements of capital of the banks between Paris and their vaults in unoccupied territory be free and; (c) that public entities likewise resume their payment services: armament bonds, Treasury bills, coupons, et cetera. The banks further recognized that they cannot refuse to accept Reichmarks in occupied territory and the question of opening mark accounts.
accounts is now under consideration by the Bank of France.

Rueff told me that Governor Fournier is due back in Chat/ Guyon from Paris today; that it will be but a short time, however, before the Governor and he, as well as the principal services of the Bank of France, with the exception of Cariguel and his foreign exchange services, return. Rueff is personally, however, very depressed about the future outlook especially in view of numerous tales of increasing anti-Jewish measures in occupied territory.

He seemed somewhat uncertain as to what the Bank of France's present relations are with the Federal Reserve Bank (an uncertainty apparently increased by your recent inquiry as to ownership of the recent gold shipment). Cariguel is particularly touchy on the subject and endeavored to impute that the Bank of France is far from "supine"; that in fact more vigilance than ever is being exercised to see that exchange transactions are in every respect "legitimate" and not the result of German pressure. (He said that his present dollar transactions average between one and two million a day) The Germans, I hear from Chadnet, are apparently "disappointed" at the
the complete lack of foreign securities and foreign exchange resources in occupied territory; they are taking the view, however, that they cannot be bothered with details and that when the time comes they will demand "say half a million shares of Royal Dutch" and leave the details of where and from whom to obtain them entirely to the French Government.

The Germans are now permitting the opening of safe deposit boxes in occupied territory in the presence of a German finance official but with the requirement that any foreign securities or French securities expressed in foreign currency, gold or precious stones be deposited with the Bank of France or the local bank on behalf of the Bank of France. It is Rueff's belief that in order to prevent leakages in their own foreign exchange control the Germans will superimpose their system on that of the French at the borders of the occupied zone thus further complicating matters and further restricting freedom of movement from occupied to unoccupied territory.

The tragic truth is that the French do not yet realize what German domination will mean for them. They still think they can "negotiate". They are in for a rude awakening and the date when the screws will begin to turn is the only uncertain element. (END OF MESSAGE).

MURPHY

TFV
DEPARTMENT OF STATE  
WASHINGTON

In reply refer to Bu 856.5034/15  

July 16, 1940

CONFIDENTIAL

My dear Mr. Secretary:

With reference to my letter of June 27, 1940 regarding the promulgation by the Royal Netherlands Government of a decree dated May 24, 1940 relating to certain properties of individuals and companies resident in the Kingdom of the Netherlands, there is enclosed for your confidential information a copy of a translation of a note dated July 5, 1940 which has been received from the German Charge d’Affaires in Washington. There is also enclosed a copy of a note which has been sent by the Department of State in reply thereto.

Sincerely yours,

(Signed) Cordell Hull

Enclosures:

1. Translation of note from German Charge d’Affaires, July 5, 1940.
2. Department’s reply thereto.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

OCTY

Regraded Unclassified
(Translation)

GERMAN EMBASSY

II

Washington, D. C., July 5, 1940.

Mr. Secretary of State:

By direction of my Government, I have the honor to advise Your Excellency of the following:

From information which has reached the Government of the German Reich, it appears that the refugee Netherland Government has issued an order according to which all foreign credits of Netherland nationals have been transferred to the ownership of the Netherland Government and such credits can be disposed of only with the consent of the refugee Netherland Government. Notice of the issuance of the order mentioned has been given by the Netherlands Legation in Bucharest to the banks there. It is to be supposed that Netherland missions in other countries have also sent out such notices.

In the name of my Government, I have the honor to call attention to the fact that the measure of the refugee Netherland Government mentioned above lacks any legal basis and

His Excellency

Cordell Hull,

Secretary of State of the United States,

Washington, D. C.
and consequently is to be considered an arbitrary act which is in the most outright contradiction to the principle of the inviolability of private property. A recognition of orders of the refugee Netherland Government concerning assets which do not belong to it would render the depositaries of such assets liable for damages.

Accept, Mr. Secretary of State, the renewed assurance of my most distinguished consideration.

THOMSEN.

TR: JNP: DNL

COPY
Sir:

The receipt is acknowledged of your note dated July 5, 1940 in which you refer to the fact that Netherlands diplomatic missions, presumably including the Netherlands Legation in Washington, have announced the issuance by the Royal Netherlands Government of a decree transferring to the ownership of that Government all foreign credits possessed by nationals of the Netherlands.

It is noted that in the view of the German Government the above-mentioned decree lacks any legal basis and that a recognition of orders of the Royal Netherlands Government concerning assets which do not belong to it would render the depositaries of such assets liable for damages.

While it is not at this time desired to comment on the various points contained in your note, it may be stated that the Government of the United States does not recognize the right of any Government to make representations regarding the protection of the property of persons other than that Government's own nationals unless it has been specifically charged with the representation of the interests of the Government to which such persons owe allegiance.

Accept, Sir, the renewed assurances of my high consideration. (Signed) Cordell Hull

Hans Thomsen, Esquire,
German Charge d'Affaires ad interim.

856.3034/15

COPY

Regraded Unclassified
July 13, 1940

Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Funding Cases

1. A French corporation operating a copper mine in Mexico wishes to obtain departure permits for two vessels under French registry, the ARGILE and the PROVIDENTIAL. The ARGILE carries fuel oil from Los Angeles to Santa Rosalia. The PROVIDENTIAL carries copper from Santa Rosalia to Tacoma, Washington, and lumber on the return voyage. The continual running of these vessels is necessary for the operation of the mine. It is intended to transfer the vessels to Panamanian registry, and the French authorities have consented to this. The question is, can the two vessels call at and leave American ports before the transfer to Panamanian registry, now in course of completion?

2. There is no change in the status of the vessels described in the report of June 17, 1940, copy of which is attached.

(Initialed) H. C.

CC: Miss Chauncey
Mr. Foley
Mr. Bernstein

Regraded Unclassified
Secretary Morgenthau

July 17, 1945

Mr. Gaines

MERCHANT SHIP MOVEMENTS

Closed Cases

1. A departure permit was refused for the American Tanker ANGAR, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

2. A departure permit was refused for the American Tanker KOMAR, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

Pending Cases

1. The Texas Company has submitted a request to export 610,000 tons of petroleum products to Spain for the balance of the year 1945. This would make a grand total of 1,076,000 tons for the year 1945. A memorandum of a conference with representatives of the Texas Company held on July 17, 1945, is attached. This matter is under consideration.

2. The Texas Company has requested advice as to whether or not the SS HONOR JAVALIN, under Spanish registry, will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Nueces, Texas, some time between August 10 and the early part of September. This matter is under consideration.

3. Suspicious circumstances have arisen in connection with the departure of the KUNA, a Norwegian vessel now at the port of Philadelphia. No departure permit has been requested, but a stop order has been placed against such a request when it is received.

4. The Lithuanian Steamship INDA is now in Boston. The Lithuanian-American Export & Export Corporation, 157 Chambers Street, New York City, has requested that it be advised if a departure permit is asked for this vessel. The corporation desires to submit certain facts to the Treasury Department before such permit is granted. This matter is under consideration.

SB/op

(Initialed) H. C.
AS

PLAIN

London
Dated July 18, 1940
Rgt'd 11:07 a.m.

Secretary of State,
Washington.

2250, 18th.

FOR TREASURY FROM BUTTERWORTH.

I have today received via the Legation at Lisbon the following telegram from Vichy dated July 16, 5 p.m.:

"FOR BUTTERWORTH FROM MATTHEWS: Please cable me any information concerning the present status of Balances and holdings of the Bank of France, of French banks and private French individuals in England today. Murphy"

In view of the anomalous nature of Anglo-French relations at this time and the fact that Phillips and Bewley are in Washington and have no doubt made available to you such facts and are discussing with you the larger policies surrounding them, I have not (repeat not) approached the British Treasury in this connection and I have telegraphed Matthews through the Legation at Lisbon that his request has been referred to Washington for reply.

Incidentally Monick called this morning to say goodbye.

He is sailing for France with most of the other members of the
AS-2- #2250, 18th, from London.

the French Embassy at the end of the week but is leaving Peissel, Assistant Financial Attaché, to wind up affairs. Needless to say I made no mention of the above to him.

KENNEDY

TFV
1. In the control by the Coast Guard of ship movements, Assistant Secretary Gaston will be responsible for making decisions in doubtful cases. It also will be his responsibility to keep the Secretary advised in those cases on which in his judgment the Secretary should be informed.

2. In the absence of Mr. Gaston, Assistant General Counsel Cairns will be charged with the above duties. He will also keep Mr. Foley informed in all such matters.

3. Should occasion arise where Mr. Gaston and Mr. Cairns are unavoidably absent at the same time, Mr. Foley will be directly responsible for carrying out the above duties. In this event Mr. Foley in his discretion may assign Mr. Fidler or such other member of his staff as he may designate to carry on the details of Mr. Cairns' duties as above outlined.

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

2253, 18th.

FOR TREASURY FROM BUTTERWORTH.

The steps, as pre-arranged with the concurrence of Washington, for the virtual termination of the free market for sterling were announced in this morning's press. Comment is favorable, and the fact that the free international use of sterling must be sacrificed is reluctantly accepted as inevitable.

One. As regards the arrangements with New York, THE TIMES city editor describes the technique as "a reversion to the simpler practices of 30 or 40 years ago" when an American manufacturer would have relied solely on his local bank to arrange his foreign business. This writer, in common with other financial editors, describes the arrangement as restoring "something in the nature of a gold standard with the United States". THE FINANCIAL TIMES designates it as "a guaranteed sterling-dollar standard" and adds that the new system "means a guaranteed sterling for international use" and indicates that there will...
will doubtless be much argument whether the measures involve blocking of foreign balances. Even if they do not in the strictest interpretation of the word, they do mean virtual blocking except between nationals of the same country." THE FINANCIAL NEWS editorial points out that, "in view of our enormous purchases from the United States, it is inevitable that sterling balances will tend to pile up on the registered accounts, but from the point of view of the holder such sterling will be convertible into dollars at a fixed rate as freely as though the gold standard itself were in operation".

Two. As regards the special accounts established with various countries the financial editor of THE MANCHESTER GUARDIAN gives the best description of the effects: "For the present we shall have, as an inevitable result of exchange control, several kinds of pounds. There will be sterling area pounds, registered account pounds useable only for transactions with the United States and Switzerland, and a variety of clearing pounds of which each is valid only for payments between the sterling area and one particular country. That may be sad but it will give us value for money in trading with the outside world." THE TIMES city editor also points out that the broad effect is to "transform sterling from a freely exchangeable international currency as such into a kind
a kind of 'compartmentalised' currency circulating in strictly bilateral channels. In current circumstances that was doubtless unavoidable. But it is permissible to hope perhaps that eventually sterling will resume its former status by becoming interchangeable between one special account and another." THE FINANCIAL TIMES also expresses a similar hope: "It may not be too much to assume, taking the long view, that the sterling of these several special accounts will become available for international use instead of being bilaterally canalised."

THE NEWS CHRONICLE city editor's comment on this point is as follows: "So we arrive at a state of affairs in which sterling as an international currency no longer exists. It is hoped that it may be possible to make the sterling on the different 'special accounts' to some extent interchangeable but broadly speaking, we must accept the sad fact that for the duration sterling is no longer a single currency of world-wide acceptance but a series of different 'bilateral' currencies."

The editorial in THE FINANCIAL NEWS quoted above also says on this point: "In the space of four months the Treasury will have corrected the harmful depreciation of sterling brought about largely by its own actions and have placed exchange policy on an altogether more logical footing. And this will have been done without
-4- #2253, July 18, 11:35 a.m., from London.

without the formal blocking of foreign balances, and without the emergency of a black market for sterling to which this might have given rise. If the new policy is open to criticism, it is that the international use of sterling is largely destroyed when it might have been preserved if the same results had been achieved by a judicious support of the free market which would have consolidated the free rate and the official rate."

The final sentence seems a strange comment from a paper which has for eleven months been the strongest critic of the very existence of a free market and whose chairman is the Prime Minister's Parliamentary Private Secretary.

Three, THE FINANCIAL TIMES considers as particularly satisfactory "the fact that the regulations emerge as the result of the closest cooperation between the two great democracies", a sentiment also expressed by THE DAILY MAIL. 

KENNEDY

TPV
No. 677

AMERICAN CONSULATE
Yokohama, Japan, July 16, 1940

STRICTLY CONFIDENTIAL

Subject: DUMPING JAPANESE PRINTED SILK TIE MATERIAL

The Honorable
The Secretary of State
Washington

Sir:

The local representative of Finn Fabrics Corporation, New York, importers of high grade Japanese printed silk tie material, reports that he has received information indicating that the Mitsubishi and the Kanegafuchi interests and an individual shipper, William Jacobson, who was formerly with Mitsubishi interests, have either shipped or are planning to ship, via Shanghai, Japanese printed silk tie material. This material is manufactured in Japan at the same or practically the same cost as that which is shipped by Finn Fabrics Corporation. It is shipped to Shanghai and the Japanese importer receives through the Yokohama Specie Bank in Shanghai the yen value of the goods. The goods are then shipped to the United States, presumably quoted in yen at the Shanghai exchange value for the yen, which is considerably less than the official rate in Japan. The quotations for this material, which have already been made in New York, have already threatened to disturb the prices in the United States to the disadvantage of Finn Fabrics Corporation, since they are appreciably lower than it would be possible to quote if shipped from Japan.
There are two possibilities involved in the above procedure. The first and most likely possibility results in decreased American Customs duties. The American importer may pay either to the exporter or to the Yokohama Specie Bank in Shanghai the official Japanese value of the goods, but for Customs purposes the goods would be entered under the Shanghai value of the yen. As the goods are subject to an American Customs tariff of from 45% to 73% ad valorem, a saving of approximately 75% of the import duty would be made if Shanghai values are used. This would result in a reduction of from 22% to 32% in the United States landed cost, ex freight and insurance.

By this method the Japanese Government loses nothing in foreign exchange. The American Government loses Customs revenue and the Japanese exporter is able to sell his article that much more cheaply.

The other possibility is that the American importer pays only the Shanghai value of the yen for the goods. This procedure would result not only in a saving in United States Customs duty but also in a net reduction in the purchase price. However, it also involves a loss in foreign exchange to the Japanese Government. It would seem that the Japanese Government through the Yokohama Specie Bank would not permit this procedure unless Japan were desperately in need of foreign exchange or unless it involved articles which could not be sold at the official yen valuation because of competition with American made goods. In the case of the silk, American makes which are nearly the same quality as those shipped by Finn Fabrics Corporation are said to be on sale for prices running 20% less than the prices of imported goods.
The above procedure presupposes the issuance and certification in Shanghai of American consular invoices. The invoices are presumably requested on the grounds that the contracts for shipment are made in Shanghai.

As stated in the first paragraph above, the Consulate has no evidence as yet of actual shipment of such goods.

Respectfully yours,

Richard F. Boyce,  
American Consul.

858.15/610.2

HFB/rk

Distribution  

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1 copy Reporting Section, Tokyo.
1 copy American Consulate General, Shanghai.
1 copy Files.

A true copy of the signed original.
THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

18 July 1940.

MEMORANDUM FOR - Secretary of the Treasury

Via: Assistant Secretary H. E. Gaston

This is to advise you that the program of overhauling 1200-ton flush-deck destroyers at the Coast Guard Depot has now progressed to a point where the following schedule for work on these vessels is established:

(a) BERNADOU.................19 July to 2 August
(b) ELLIS.....................2 August to 16 August
(c) DICKERSON
   or LAWRENCE.........26 August to 16 September
(d) HERBERT
   or HUMPHREYS........26 August to 16 September
(e) MACKENZIE..............16 September to 9 November

R. R. WADDLE.

Regraded Unclassified
DEPARTMENT OF STATE
WASHINGTON

July 18, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a paraphrase of telegram no. 463 dated July 17, 1940 from the United States High Commissioner to the Philippine Islands.

It is requested that the Secretary of State be advised whether there would be any difference under the applicable laws in the status of the documents under discussion if deposited respectively in Manila, in Hawaii or in the continental United States under the conditions set forth in the telegram, and also as to the reply which can be made to the High Commissioner's inquiry regarding General Ruling No. 5 under Executive Order No. 8389.

Enclosure:
Paraphrase of telegram no. 463 dated July 17 from Philippine Islands.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: United States High Commissioner, Manila, Philippine Islands, via U.S.

No. 463

DATE: July 17, 1940, 3 p.m.

The following is an urgent and confidential message for the Secretary of State from the United States High Commissioner to the Philippines.

It is said by the Chinese Consul General at Manila that Chinese banks would like to send approximately 2,000 (I repeat the number, 2,000) cases of papers belonging to their branches in Indochina, and possibly branches located elsewhere as well, to Manila to be placed in customs bonded warehouses. We have no information concerning the vessels on which it is proposed to make these shipments, but it is anticipated that such shipments will arrive soon. I should like to have the views of the Department concerning this matter. From the standpoint of general policy I can see no objection to depositing the property of Chinese banks in bonded warehouses whether or not it may be considered that such banks are instrumentalities of the Government of China.

I shall appreciate it if, with reference to the shipment mentioned above, you will secure the views of the Treasury Department on the following points as soon as possible: It is believed that securities are included in
in these papers. What steps should be taken by this office for the enforcement of Executive Order No. 8869 and the Treasury's General Ruling No. 67? I refer especially to the provision in the ruling prohibiting, on or after the 7th of June 1940, the importing, sending, mailing or bringing into the United States in any other way of securities or evidences of securities from any foreign country and prohibiting the receiving or holding in the United States of any securities or evidences of securities thus brought into the United States. It would seem that this would necessitate that the papers be delivered to and examined by this office, but obviously it would be impracticable to examine carefully so many papers. Would it be possible to dispense with the examination for securities so long as this office makes sure that the cases in question are placed in bonded warehouses and remain there?

SAYRE
PARAPHRASE

A telegram of July 16, 1940, from the American Consul at Rangoon reads substantially as follows:

A complete prohibition is to be imposed by the Government of Burma, effective probably on July 16, upon the exportation to China from Burma of such commodities as arms and ammunition including explosives, railway track and materials, gasoline, motor trucks, trailers, chassis and parts, and railway rolling stock and parts. No period of grace is to be allowed before the prohibition becomes effective. Aircraft material is not included in the prohibition. As yet the Burma Government has not received complete details of the British-Japanese (?) and may later change or add to the list. There are now in Burma, intended for the Chinese Government and probably undeliverable, 471 American trucks held by the Southwest Transportation Company, in addition to 16,000 tons of supplies in Lashio and 4562 tons in Rangoon, most of which originated in the United States. The Standard Vacuum Oil Company and the Texaco Oil Company have 10,000 tons of American gasoline at sea en route and 200 tons undelivered in Rangoon. It is thought by Chinese in Rangoon that a gasoline shortage will result from the export restrictions precluding the continuance to the United States through Rangoon of shipments of tung oil.

COPY
Mr. Knudsen rode down with me this morning and I told him I was greatly disturbed when I had heard that they were thinking of taking away some of the engines from the English and I suggested that to do anything like this at this time I thought was terrible. That the President had charged me with the responsibility of seeing that everything be done for them so that they could not quite and hold us responsible because we would not give them supplies.

I said furthermore the President had specifically mentioned in his message to Congress that our preparedness program must be built on top of the Allied orders. This seemed to be news to Knudsen.

I showed him the engine orders, how they ran through until September '41. He said, "We are not going to take any in '40. We are not talking about anything in '41." He said, "What we are talking about is the 800,000 engines they have on option for '42."

I said, "Will you say that you won't take anything away from them prior to October 1, 1941?" Well, he hesitated a little bit at that. He said, "I will tell you what I will do." He said, "I promise you that if we have a row or can't come to an agreement with the English, before I do anything I will talk it over with you." I said, "Well, before you take a single engine away from the English, I want to sit down with you and Stimson." He agreed. I said, "See this fellow Captain Kelsey." He said, "I expect to." He said, "They say they are going to win." I said, "Yes. All this defeatism around Washington is terrible and it's just this time that you take the engines away from them. You can't do it." He said, "Don't worry. Don't worry."

He said Purvis said he was going to order 3,000 planes a month and Knudsen said, "Are you prepared to place an order of 40,000 planes." Then, he said, Purvis backed off. I said, "Now, you have got to put Purvis on the back and keep up his morale and not undermine it." I said, "The man is on the point of a nervous breakdown"
and he has to have some encouragement." He said, "You just leave him to me. I knew Purvis before he came down here and I will take good care of him."

"And," I said, "that goes for the rest of the Commission as well."

The thing that started this was last night Phil Young came to the house. He told me they had this terrible meeting over at Knudsen's office and George Mead said he was going to take not 2,000 engines but 14,000 engines away from the English and, therefore, I called up Knudsen early this morning, had him ride down with me and gave him this pep talk.

-o0o-
July 18, 1940

My dear Mr. Stimson:

I am sending you herewith a copy of the President’s message to the Congress of May 16, 1940. I want to draw your particular attention to Page 4 where the President said:

“For the permanent record, I ask the Congress not to take any action which would in any way hamper or delay the delivery of American-made planes to foreign nations which have ordered them, or seek to purchase more planes. That, from the point of view of our own national defense, would be extremely shortsighted.

***

“Our immediate problem is to superimpose on this production capacity a greatly increased additional production capacity.”

I am sure I am correct in interpreting the President’s message that when he referred to American-made planes he meant the complete planes with engines.

Yours sincerely,

(Signed) E. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War.

Ex.
July 18, 1940

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(Signed) H. Morgenthau, Jr

Honorable Henry L. Stimson,
Secretary of War.
July 18, 1940

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(Signed) M. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War.

By Messenger
July 18, 1940

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Yours sincerely,

Honorable Frank Knox,
Secretary of Navy.

(Signed) H. Morgenthau, Jr.

By Messenger 1045
July 18, 1940

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Secretary of Navy.

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Honorable Frank Knox,
Secretary of Navy.

By Messenger
July 18, 1940

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Yours sincerely,

(Signed) H. Hugnumsen, Jr.

Mr. William E. Knudsen,
Chairman, Advisory Commission to the Council of National Defense,
Room 2205 Secretary's Building,
Washington, D. C.

Enc.

By Messenger 1045
July 18, 1940

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Yours sincerely,

(Sealed) E. Morganhan, Jr.

Mr. William S. Knudsen,  
Chairman, Advisory Commission to the  
Council of National Defense,  
Room 2925 Munitions Building,  
Washington, D. C.

By Messenger
July 18, 1940

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Yours sincerely,

(Signed) E. Morganhan, Jr.

Mr. William E. Knudsen,
Chairman, Advisory Commission to the Council of National Defense,
Room 2058, Munitions Building,
Washington, D. C.

By Messenger
Mr. Philip Young  
Assistant to the Secretary  
U. S. Treasury  

Dear Mr. Young:

Referring to Secretary Morgenthau's memorandum of July 16th on the subject of drawings for the Rolls Royce Griffon Engine, please be advised that the plans are in my charge and that we have taken out drawings of crankcase, crankshaft, camshaft and cylinders for necessary study in connection with machinery purchases for the Rolls Royce XX Merlin Engine. As soon as these studies are finished, the plans will be returned to the custody of Wright Field in Dayton from where they were obtained.

While in my charge the drawings will be kept under lock and key.

Yours sincerely,

William S. Knudsen

K:c
July 18, 1940

To Mr. Secretary:

In the letter of July 2nd which I received from Mr. Norris V. Wilson, Representative of the British Ministry of Aircraft Production, copy of which I forwarded to you on July 15th, concerning the Rolls Royce plans, it was requested that the car and experimental drawings be turned over to the proper Rolls Royce representative.

Would you be good enough to see that this request is complied with.

Sincerely,

(Sgd) H.H. Morgenthau, Jr.

The Honorable,

The Secretary of War.

Forwarded by Special Messenger
9:45 A.M. July 18, 1940

W/Th/ 2/17/40
July 18, 1940

My dear Mr. Secretary:

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9:45 A.M. July 18, 1940

FT(bj)
1/17/40
July 18, 1940

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Sincerely,

(Sgd) H. Morganham Jr.

The Honorable,

The Secretary of War.

Forwarded by Special Messenger
9:45 A.M. July 18, 1940

P.S.
1/17/40

Regarded Unclassified
The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

In reply to your letters of July 15 and July 16 concerning certain Rolls-Royce drawings in the possession of the Air Corps, you are informed that the following action has been taken:

(1) The Rolls-Royce Griffin engine drawings are being turned over to Mr. Knudsen with appropriate receipt.

(2) The Halifax Handley Page drawings are being forwarded, express collect, to Mr. Morris W. Wilson, The Royal Bank of Canada, Montreal, Canada.

(3) The balance of the drawings itemized as per inventory are being forwarded to the office of the Chief, Material Division, Washington, D. C., to be turned over to the representative of the Rolls-Royce Company, who will be notified upon their receipt.

May I suggest that the above action in compliance with your communications be noted and this office informed should there be any further changes.

Sincerely yours,

[Signature]

Secretary of War.
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,

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.
Telegram despatched from London on the evening of July 17th.

A force of 4 cruisers and 8 destroyers left Scapa Flow yesterday to intercept enemy forces expected to pass through area west of Jutland.

Enemy aircraft shadowed the force from 1530 onwards when visibility was good; our reconnaissance aircraft having sighted no enemy our naval force withdrew. At 16.30 they were bombed; no damage was reported.

At 18.45 an enemy force of 1 cruiser or destroyer, 6 submarines, 12 smaller vessels was sighted by reconnaissance aircraft 20 miles west of Jutland. The submarines were steering west having left the surface ships which were retreating southeast and were attacked by our aircraft without result.

Our naval force was unable to re-enter Scapa Flow owing to thick fog and about midnight the cruiser "Glasgow" and the destroyer "Imogen" were in collision. Ten officers and 125 men from "Imogen" were taken on board "Glasgow", the others believed to be in boats. Visibility was nil; "Glasgow" has one small compartment flooded forward.

Air/
Air reconnaissance on July 19th over Kiel showed Scharnhorst, 1 Hipper class cruiser, Kola and Lutjess in dock; also several destroyers and U boats. Aircraft carrier located at Kiel on July 3rd was not there on July 19th. Scharnhorst reported seriously damaged and likely to be out of action for some time.

2. Bombing attacks on the night of July 16th at Hanover and Paderborn reported yesterday were successful; fires were observed at the former place. Other targets attacked were marshalling yards at Osnabruck and a blast furnace at Hamburg where explosions and large fires were caused. Aerodromes at De Kooy and Norderney, a hangar was set on fire and other intense fires started.

Yesterday bombing had to be curtailed by bad weather. One aircraft bombed aerodrome at St. Inglebert, another bombed barges near Armentières. One aircraft missing. All operations last night were cancelled owing to weather conditions.

3. Proportion of recent enemy air activity has been in the form of shipping reconnaissance of southern North Sea, English Channel, Bay of Biscay and southwest approaches as far as 250 miles west of Ushant.

Enemy air activity yesterday on much reduced scale; some bombs dropped, no serious casualties or damage. Two enemy bombers shot down.
4. British ship "Bellerophon" (1800 tons) sunk by mine in Bristol Channel July 15th and British tanker "Scottish Minstrel" (7000 tons) homeward-bound (in convoy) torpedoed by U boat northwestern approaches.

5. **Egypt.** Successful air attacks by Blenheims July 14th to July 15th on ships and dumps at Bardia and on aircraft at El Gazala aerodrome. Night of July 15th to 16th three Blenheims attacked oil tanks at Tobruk, attack successful, one Blenheim did not return.

6. **Malta.** On July 16th six Italian C. R. 42 fighters were engaged by one Hurricane and one Gladiator; one Hurricane and one C. R. 42 shot down.

7. **Malta.** Enemy air attack on Irsan Petroleum Company's tanks July 15th registered six direct hits, three tanks set on fire.

8. **Libya.** Italian air force reinforced here by 33 C. R. 42 fighters flown from Pantelleria. Official Italian air force casualty list includes many of Italy's most famous pilots.

9. **Further reports on the effects of our bombing in northwest Germany refer to growing exhaustion amongst the population in the areas frequently attacked and adverse effect on production especially in large factories.** Evacuation
of women and children from the Rhineland towns to Czechoslovakia said to be in progress. Reports from Hamburg state that many of the population leave the city at night and sleep in the neighbourhood, often in fields. A Brussels report states that Krupp's works have been badly damaged.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:30 this morning Secretary Morgenthau received Sir Frederick Phillips, accompanied by Mr. Bewley. Messrs. Bell, White and Cochran were present. The Secretary asked Mr. Bell what subjects remained for discussion. When Mr. Bell mentioned China, the Secretary indicated his preference that we should not embark upon this subject, since there was apparently some difference between our two governments on diplomatic problems concerned with China, particularly the closing of the Burma road.

Mr. Bell then raised the question as to whether the British were consuming any financial arrangement with Russia. Sir Frederick understood that Ambassador Gripps was working on some barter arrangement with Russia, whereby England might obtain necessary supplies of timber and flax, but he was not aware of any straight financial negotiations. As to whether there were any diplomatic advances being made to Russia by Great Britain Sir Frederick was obliged to refer us to his Embassy.

On the question of French assets in Great Britain, Sir Frederick stated that the gold which had been earmarked there by the Bank of France had been held with the Bank of England, and consequently was not actually in British Government hands. It was, however, blocked, in such a manner that it could not be withdrawn. Sir Frederick and Bewley would not attempt to forecast what action might eventually be taken with respect to French assets in Great Britain. They recalled that a financial agreement had been reached between Great Britain and France when they as aliens last Autumn used pooled resources to a certain extent. France was to make francs available to the British and the latter were to make sterling available to the French. While accurate figures are not yet available, Sir Frederick thought that the French owed the British at least $20,000,000 on balance under this arrangement. From a conversation which we had with Messrs. Bewley and Finest yesterday afternoon the impression was gained that the British might hold certain payments due France "on account" delaying actual payments until a final settlement of balances may be arranged.

In reply to the Secretary's inquiry, Sir Frederick stated that English exports were principally in manufactured goods of a large variety of lines. Exports went rather well in April and May but have since declined, partly to markets being closed to the British or becoming more difficult of access. Furthermore, war production has priority claims on goods and labor, and engineers, for example, have recently been taken out of manufacturing for export to be utilized in war production. British coal exports to France were very important in the past, and have now stopped. Some of the British coal has been diverted to South America. The Secretary stated that he had not discussed the question with any of his colleagues in the American Government, but was interested in knowing whether there might be a way for Great Britain to acquire more foreign exchange in trade with Latin America, without there being a trade war between Great Britain and the United States. He felt that there might be some arrangement possible whereby one country could supplement rather than compete with the products
of the other on Latin American markets. Sir Frederick stated that this was a little out of his line also, but that Sir Andrew Duncan, President of the British Board of Trade, had been quite active since taking office in March. He has an advisory council, of which Sir Frederick is a member, which is progressing in its efforts to make British manufacturers export conscious. Sir Frederick was sure that Sir Andrew would be agreeable to sending someone over here to discuss possibilities along the line suggested if we may desire it. He pointed out that British exporters were already educated up to a policy of cooperating with each other rather than competing to the detriment of all, and he thought that some progress in the same direction between American and British exporters would be entirely desirable.

In talking of trade policies, Sir Frederick illustrated types of desirable and undesirable transactions as follows, that is, from the exchange standpoint. He said his people were naturally anxious to buy wool from Australia in pounds sterling and sell the manufactured product to the United States for American dollars. The less profitable transaction from the foreign exchange standpoint was to pay dollars to the United States for cotton and manufacture it into piece goods to be sold in the sterling area for sterling.

It was agreed that Bewley would see whether he had available or could obtain from England while still on this continent any additional data helpful in filling out the forms which Dr. White had submitted to him. The Secretary appreciated the memorandum which the British had given him yesterday, and which had been presented to the President. He hoped Sir Frederick could give us, through Pinsent, data sufficient to keep this memorandum correct by months. Phillips agreed to endeavor to do this.

The Secretary emphasized that it was necessary that he know both the bad and the good of the British situation. He explained the responsibility which he has toward Mr. Knudsen and other members of the Defense Committee, as well as American manufacturers. The Secretary suggested that British aviators who have been decorated or that British Naval officers who have rendered distinguished service, might do a good service by coming to this country and letting our people learn from them what they have been accomplishing in this war. Returning to the subject of information, the Secretary stressed his desire to obtain certain data, to the extent the British can provide them, irrespective of the headings under which they may be classified. That is, he did not want data refused on the ground that we had used the wrong title in referring to it.

In reply to Mr. Cochran's inquiry as to whether the British had been able yet to do any thinking or planning as to the international monetary setup after the war, or as to whether their arrangement with Belgium and the Netherlands was purely temporary, for wartime purposes, Sir Frederick stated that it was too early to think in definite terms on this subject. He emphasized, however, that the British would desire to return to liberal monetary and trade policies as early as possible. During war, however, it is absolutely necessary to have exchange control or money will quit the country.
The question of guilder contracts was raised and it was understood that Sewley would see just what the British position is. If the British are long on Dutch guilders there might be possible some arrangement to transfer these to the American market, which is short of guilders, in exchange for dollars.

When Sir Frederick was asked whether he had given any thought as to their desires with respect to the Treasury freezing British balances in the United States in certain circumstances, Sir Frederick quickly responded that he had thought of this in advance of our question. He would later let us have any opinion which he might be able to express on the subject.

Phillips agreed to obtain for us such information as his Government may have in regard to German balances being reportedly held in the United States under Swiss names.

Sir Frederick was not able to give us any breakdown of Hong Kong dollar balances, amounting to some $75,000,000, according to Dr. White's statistics.

In answer to Mr. Cochran's question as to the final fate or destination of the approximately $500,000,000 gold reserve of the National Bank of Belgium and $80,000,000 gold reserve of the National Bank of Poland, both of which reserves had been in France, Phillips replied that he knew nothing beyond the fact that the ship which sailed from Lorient reportedly carrying these two gold reserves reached Dakar. He was not sure to what destination the ship thence sailed, but thought this was either North America or Martinique.

Sir Frederick thought that the Germans may easily have acquired as much as $100,000,000 in gold in the Netherlands. He did not have exact figures as to other possible collections.
July 18, 1940
12:55 p.m.

H.M.Jr: Hello.
Operator: Mr. Knudsen.
H.M.Jr: Hello.
Wm. S. Knudsen: This is Knudsen.
H.M.Jr: I thought your name was Bill.
K: All right. (Laughs).
H.M.Jr: This is Henry.
K: All right, Henry. (Laughs). You remind me of a story.
H.M.Jr: Go ahead.
K: It's a Ford story.
H.M.Jr: All right.
K: Many years ago the story goes that a Model T was stalled in the road and the owner couldn't get it going, and old Henry came along and he said -- the man was crabbing about it -- and Henry, he leaned over and lifted the hood and whispered something and the car started.

H.M.Jr: Yeah.
K: So the man said, what the dickens did you say? He said, I said, turn over Lizzie, this is Henry.
H.M.Jr: (Laughs). Well, does that mean when I call you up, you're Lizzie?
K: (Laughs). Well, we'll see when we get through with this. I've been talking and of course I get all snarled up in the number of engines for this and the number of engines for that.
H.M. Jr.: Yeah.

K: Then I look at our schedule and I see that we have about the same number of airplanes on order -- both the Americans and the British. We have about 10% on the "cats and dogs", meaning little countries, see?

H.M. Jr.: Yeah.

K: Now, these little countries, we don't need to care very much about them unless it's South America, do we?

H.M. Jr.: That's right.

K: What?

H.M. Jr.: That's right.

K: Well, what would you say just as a shot in the dark if we say, well, now, from now on here we go. We're going to give one to Britain and keep one for ourselves.

H.M. Jr.: I don't know quite what you mean.

K: I mean, we say we have about the same number of airplanes on order, that every time we make two, they get one and we take one.

H.M. Jr.: Well, you mean -- now, wait a minute. You're going too fast for me.

K: Yes, I know it. That's the reason I want to talk it -- I'm not making a definite proposal in writing.

H.M. Jr.: No, because that would mean -- I've got the schedule in front of me. Now, for instance, in August -- I'm talking engines, now. Hello?

K: Yes.

H.M. Jr.: In August the Army is supposed to get 545 engines. Hello?
K: Yes.

H.M. Jr: And the English are supposed to get 1,137. Well, that would mean that if they were just left alone, England would get two and we'd get one.

K: Well, of course, but the engines all go in airplanes and if the British got all 2-engine planes and the Americans got all 1-engine planes, the engines don't mean anything.

H.M. Jr: Now, I think that that's too simple, Bill.

K: What's that?

H.M. Jr: I think you're formula is too simple.

K: Uh-huh.

H.M. Jr: Now, that sounds too easy.

K: Well, wait a minute. I've got the book here. Hold the phone just a minute. (Pause). Hello? On your schedule, the last one I had on July 6th, and I'm talking airplanes now.

H.M. Jr: Yeah.

K: You had 8571 airplanes on order for the British, and they are asking for clearance for 1281. See?

H.M. Jr: More, you mean?

K: Yeah.

H.M. Jr: I see.

K: So that leaves 9852.

H.M. Jr: 9852.

K: The Americans have 5942 on order and are going to place with this 2066 and 2021 program they'll be placing 4740 -- no -- 4247.

H.M. Jr: 42 what?

K: 4247.
H.M. Jr: Yeah.

K: That's 9-5-11 -- that's 10,189, see? Now, that's practically 50-50, isn't it?

H.M. Jr: Yeah.

K: Suppose we make a deal that from now on we give one plane to the British and one to the Americans.

H.M. Jr: One plane.

K: With engines, yeah.

H.M. Jr: Beginning when?

K: Beginning now.

H.M. Jr: But you fellows haven't got them on order.

K: What's that?

H.M. Jr: You haven't got them on order.

K: Well, we've got them on order -- we've got the money for them and the men have all been told about it and but for this contract squabble on the Vinson-Trammell Act .......

H.M. Jr: If you place the order today, you wouldn't get your planes the rest of this year.

K: No. But, of course, we got 6,000 in there beforehand.

H.M. Jr: Granted.

K: So that we're bound to get some of them and on the delivery schedules .......

H.M. Jr: Well, I'm talking about somebody else's property. I couldn't answer that.

K: No. I was just consulting you, you see. Now, your schedule for August is 399 for America and 364 for foreign and your schedule for September is 403 and 311. The next is 443 and 427, then you get 473 and 372, then 453 and 419 -- 419 -- and 472 and 455. So you're practically running 50-50.
H.M. Jr: Well, I haven't got -- I just have the engine thing in front of me, I didn't have planes.

K: Well, the engines, of course -- it's a question of how many engines do you want beyond the planes and we have tried here to place planes for the engines and we're trying to get the engines shipped.

H.M. Jr: Well, now, look. Let me see whether Purvis has left town. Hello?

K: Yes.

H.M. Jr: And if he hasn't left town I'll get him to come over here this afternoon. How's that?

K: Well, I'm just consulting you because I want to see if I can sell this to the Army.

H.M. Jr: Oh.

K: See? And if you think it's a fair and I think it is, we can say one for us and one for them. They couldn't very well ask for any more than that. Then as we get more planes we'll give them more planes.

H.M. Jr: Are you talking about combat planes or are you talking .......

K: I'm talking about any kind of planes -- trainers and everything else.

H.M. Jr: Yeah, but if we say one for us and one for them that means it would be one combat and one trainer. I mean, when we go one-and-one, we're talking about the same kind of planes, if you know what I mean.

K: Oh, yes. I think that's all right.

H.M. Jr: I mean, we can't say one combat for us and one trainer plane for you.

K: Oh -- (laughs) -- no. In other words, one Boeing and one Vultee, huh?

H.M. Jr: Yeah.
K: No, no, that isn't the idea. The idea was that wherever the orders are placed, see? That company will be instructed to give us 50-50.

H.M.Jr: Well, off hand it sounds fair.

K: It looks like it, but I just wanted to consult you. I'll dig into it a little further and I'll get in touch with you again but we won't upset Purvis yet, because before I get the fellows here solid in agreement, don't you see?

H.M.Jr: But that -- now just let me -- just so we understand -- that would mean that right now that we'd be taking anything away from them.

K: No, we wouldn't take anything away from them, and we'll give them the 1287, see? I thought first that I'd clear the 1287 planes that they are asking for in addition by saying that we would take preference with our 20 -- 4247 -- the two orders here, and it puts them way back until next July and August.

H.M.Jr: Oh.

K: And of course then they probably won't want the 1287, see? So I thought this. Now, we're all talking plant expansion and all that sort of thing -- say we split 50-50 -- they couldn't certainly ask us to give them 75 and 25 in the position we're in over here.

H.M.Jr: You mean -- and that would go for everything.

K: That would go right across the board. Now, that's an awful rough way of doing it but we'll never get through figuring around here. We've been figuring ever since this morning and we've still very far from sure.

H.M.Jr: And that, according to what you've got on your figures there, that wouldn't mean, for instance, we'd be taking anything away from them through August and September.

K: No. Not a thing.
H.M.Jr: You're sure?
K: They'll always get half of what we've got anyway.

H.M.Jr: Yeah. But just take a look at your plane figures. Would that mean we're taking anything away from them in August or September?
K: No. When you get back to August and September of next year, they get more planes than we do because we didn't have the orders out there, see?

H.M.Jr: But I mean this August and September -- 1940.
K: Oh, hell, no!

H.M.Jr: How about this August?
K: Oh, no, no, no. See, the actual figures are 399 and really only 285 for the British Empire and France, but I took in the other foreign, see? Because we're going to allot the other foreign to them -- if you didn't care who got them. So it's 399 and 364 and 403 and 311, and 443 and 427 .......

H.M.Jr: Which figures are you reading first -- theirs?
K: No. That's ours. 443 and 427, 473 and 372, 453 and 419 -- that's up to December, see? So they're really getting a better break than what they were expecting.

H.M.Jr: Well, .......
K: If that sounds all right to you, I'll work some more. I've got to get some more figures, then I'll come over and see you.

H.M.Jr: Well, it's -- off hand it sounds fair?
K: Yeah.

H.M.Jr: Yeah.
K: Well, I wouldn't have proposed anything that was unfair. I'm not trying to trick them or us or anybody else. See?
H.M. Jr: No.

K: But I do think that if we went to bat and say, well, now, here. You're getting half of the planes we produce and that's all you can get.

H.M. Jr: And that would go for -- would that go right down the line for tanks, guns and everything else?

K: No, I couldn't say that because we haven't any capacity for tanks. I couldn't promise anything.

H.M. Jr: Yeah, but supposing you order 1,000 tanks and they want 500. Would you give them half of them?

K: Well, I'd have to sell that proposition to the Army over here. They haven't got -- they've got several tanks right now. I don't know whether they'd be willing to do that, but they've still got some airplanes, you see?

H.M. Jr: Yeah. But why wouldn't that be fair? Now, on Rolls Royce engines we're using them and we get two-thirds -- we're tickled to death they take two-thirds.

K: Well, of course, they haven't put up a dollar for tanks but they put up a lot of money for airplanes.

H.M. Jr: Well, have you asked them to put up any money on . . . .

K: No, we haven't any tanks to offer.

H.M. Jr: But they want them, don't they?

K: They told me last night they wanted 2,000.

H.M. Jr: Well.

K: And of course if you want to get in on that, that's all right, but I haven't any tank capacity and I haven't any tank contract on account of these damn changes we got into on the tank, you see.
H.M. Jr: Yeah. But supposing when you -- some day you're going to place a contract for tanks.

K: Sure.

H.M. Jr: Any why couldn't they have half, if they want them, up to the amount that they want?

K: Yes, well last night when he was here and he told me he wanted 2,000, I took a note of it and when I talk contracts on tanks why then we'll talk his 2,000 along with the others, of course. But we're not far enough along with the design, Mr. Morgenthau.

H.M. Jr: I know. But they're fighting and as long as they fight, we don't have to.

K: Yeah. But on the other hand, you know what I said to you this morning -- we've certainly got to look out that the funds we get to spend here that they get spent in a reasonable way so we get something out of it.

H.M. Jr: That's right. But this formula -- we'll call it the Knudsen formula -- I thought you were going to apply that right down the line.

K: You mean the 50-50?

H.M. Jr: Yeah.

K: Well, I haven't got that far yet. I haven't even got the Knudsen formula. I thought I'd talk it over with you.

H.M. Jr: (Laughs).

K: But you leave it with me a while and if you think it's fair, I'll work on it.

H.M. Jr: I will.

K: All right, sir.

H.M. Jr: Thank you.
July 18, 1940
11:00 a.m.

Present: Mr. Purvis
Mr. Ballantyne (for part of the meeting)
Mr. Young
Mrs. Klotz

HM Jr.: What I want to tell you is this. Don't worry as long as I tell you not to.

Purvis: No. Quite.

HM Jr.: When the time comes that I can't handle the situation . . .

Purvis: Quite.

HM Jr.: ... I will let you know.

Purvis: Thank you. That's splendid.

HM Jr.: I had Mr. Knudsen at 8:00. I had him come to my house and I had most of the story last night from Phil . . .

Purvis: Quite.

HM Jr.: ... and I told him what my orders were . . .

Purvis: Quite.

HM Jr.: ... and that there were no changes . . .

Purvis: Quite.

HM Jr.: ... and of all the time to pick now . . .

Purvis: Quite.

HM Jr.: ... when it looked as though you fellows might win . . .
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HM Jr: ... and I told him what my orders were ...

Purvis: Quite.

HM Jr: ... and that there were no changes ...

Purvis: Quite.

HM Jr: ... and of all the time to pick now ...

Purvis: Quite.

HM Jr: ... when it looked as though you fellows might win ...
Purvis: Quite.

HM Jr: ... to take anything away from you was just criminal.


Young: You did a beautiful job, too.

HM Jr: So I understand Mr. Purvis did. Knudsen has given me his word he is not going to take an engine away from you on order without first talking to me. He wants to talk with you, but if you are unhappy about any of this stuff he will talk with me first.

Purvis: Yes. Quite.

HM Jr: Now on the things you have under option ...

Purvis: Yes.

HM Jr: ... in '42 he wants to talk.

Purvis: Well, I should invite it and go to it, don't you think, and bring it along to a stage where I can post Young here?

HM Jr: On the thing you run along in a big way until October 1, 1941.

Purvis: Yes, under the so-called new aircraft program.

HM Jr: 1,693 engines. Both together. That's September, 1941, and then you drop to 350. While he did not definitely promise, he practically promised me he would not take anything before October 1, 1941. But he said if you are unhappy about this thing before he does anything he will talk to me.
Purvis: That gives me a comfortable situation in the meantime. I was really worried about it.

HM Jr: I hope you did not send a cable.

Purvis: Oh, not a thing.

HM Jr: As you know, he tells me he knew you before he knew me.

Purvis: Yes. Quite.

HM Jr: But I consider Knudsen a man of his word.

Purvis: Absolutely. I was a little worried. I felt for the first time I was up against an influence of a different nature from which I have had since I have been down here.

HM Jr: What I told him is plenty. Then I had Mr. McReynolds over here at 9:00 and I went much, much further with McReynolds.

Purvis: Quite.

HM Jr: And, well, on influences which I did not understand and I called them by name.

Purvis: Yes. Quite.

HM Jr: This morning Mead, Knudsen and McReynolds are sitting down together, and Knudsen left no doubt in McReynolds mind whatsoever.

Purvis: I am much re-assured.

HM Jr: What Knudsen did not know and what he has now, and Mr. Stimson has now, and Mr. Knox has now, are these two paragraphs which you know which I wrote them about. Those two things they have on their desks now. (President’s message to Congress on national defense of May 16, 1940).
Purvis: Grand person, isn't he? Well, that's a little better. I feel distinctly relieved.

(Further discussion was not recorded while the Secretary was out of the room.)

(HM Jr returned to his office)

HM Jr: That's the principal thing and I don't think anything else is very important, is it?

Purvis: Only one. I want to hand you, or rather give to Mrs. Klotz, a cable which gives the oil picture. Have you had it indirectly?

HM Jr: No, I had nothing.

Purvis: I sent a cable to Mr. Salter. I did not mention, of course, any sources of information. I have received the oil picture as they see it up until the spring of 1941. That will be in your possession in 20 minutes.

HM Jr: (To Mrs. Klotz) When you get that I want Huntington Cairns to see it and talk to me about it.

Purvis: I have obtained from them - I stuck into my cable the thing I knew would not go into an official cable of the Ambassador - I stuck in the point that I wanted to know that business as usual, which I had struck from time to time, would not hold up any active support of anything that might be possible here through temporizing with the problem. In this very cable that came back is a definite assurance of business as usual and anything of that kind will influence English action and it's a positive declaration.

(At this point HM Jr rang for Lieutenant McKay.)

HM Jr: (To McKay) Call up Summer Welles and ask him if he could come to see me tomorrow morning between 10:00 and 11:00.
Purvis: The other thing is - I just wanted to see - I won't bother you about these other things. Of course, the idea from their viewpoint is that all oil owned directly or indirectly...

(At this point Mr. Ballantyne joined the meeting.)

Purvis: ... that includes South American, but the United States companies should not get to those points.

HM Jr: That's what I want Mr. Welles for because I want to make sure that part was given to the State Department by the President. And I'm willing to bet ten to one nothing has happened. If you have consuls down there and you could tell me that the stuff is going, please do so.

Purvis: Yes. Then there's the alternative that if it is impossible to get a general assurance, and that I thought might bring it closer to your bailiwick, it would be possible to influence the situation with the United States companies so that no foreign flag tankers owned by United States companies carry oil to those places.

HM Jr: What the President told the State Department is this - I told him the five companies operating in South and Central America, if we just lift a little finger, would stop shipping oil in American tankers sailing under foreign flags which in most cases is the British flag or Panama but usually British. I went all through this similar thing in the bootlegging days when 90% of the bootleggers flew the British flag off our coast.

Purvis: I had forgotten those were twelve-mile-limit days.

HM Jr: Well, Canada and I were in the same boat and Canada would complain about the British flags landing Scottish whiskey on their shores, "What could I do to stop it?"
Purvis: The other one is shorter, a neutral flag. That would be better even. It might be the company might determine no oil could go...

HM Jr: I'm sorry. I can only run my own Department, but if your consuls down there can tell me what ships are going out of these ports and what flag they are flying, name of the ship, and so forth and so on...


HM Jr: But the President told the State Department in no uncertain terms that he did not want it to get out.

Purvis: Quite.

HM Jr: But Mr. Welles will be Acting Secretary of State tomorrow.


(At this point Lieutenant McKay came in and reported that Welles is not expected back tomorrow and HM Jr told him to find out who would be the Acting Secretary of State, and whoever it is, HM Jr wants him over here tomorrow between 10:00 and 11:00.)

Purvis: The last paragraph of that gives the whole story on oil.

(HM Jr started to read the cable.)

Purvis: I don't know whether it is worth your while reading now. The last two paragraphs are the ones and it gives the picture up until 1941.

There is also the question of chrome ore. The French and English joined in buying the chrome ore crop of Turkey. The French crop has been taken over by you, French share.
One of our men, a fellow who has come out to be coordinator on this economic warfare thing between the Embassy, British Embassy, the British Consulate General and the British Purchasing Commission, is a good young fellow who was in London and has had some experience of what they should have done that they haven't. He knows how to plan the things. He has an idea that it might suit your book and might suit the British book if the ownership of the remainder of the chrome ore, if it were shipped away from Turkey . . .

HM Jr: We will buy it.

Purvis: . . . into your hands.

HM Jr: How can we get hold of it?

Purvis: We could sell it to you theoretically. What I wondered, this fellow, Maris, is there anybody here he could come and talk his ideas?

HM Jr: (To Mr. Young) Find out who is handling strategic materials. Fix it up so that he can meet Mr. Stettinius. He will most likely grab it.

Purvis: One other thing I wanted to ask you. I'm still pressed hard . . .

(At this point Lieutenant McKay came in and said there would not be an Acting Secretary of State until the afternoon. Welles will not be in until 2:30 unless he gets in on the 9:00 train. Berle has gone to Havana and Mr. Welles' Secretary says there will not be anybody Acting Secretary until Mr. Welles gets there. HM Jr told McKay to tell Mr. Welles' Secretary to telephone him HM Jr wants to see him right after lunch, that he has to see him before he leaves town. Lieutenant McKay said Mr. Welles' Secretary was sure HM Jr could see Mr. Welles in the afternoon, and HM Jr told McKay to have Welles in his office at 3:00 tomorrow.)
all to Sulzberger, and he didn't do anything about it. The facts are Curtiss Wright have 54 completed planes waiting on engines, and I wondered if you could not call up Curtiss Wright and ask them what the trouble is, you see? 54. That was as of Saturday.

(At this point the operator reported that Secretary Stimson was out of his office.)

HM Jr: But there are 54 Curtiss Wright planes. 43 of these have no Wright engines.

Purvis: I see.

HM Jr: 11 of them - 43 are P-36s and 11 of them are P-40s with no Allison engines. But the Allison engine I understand. But why doesn't Wright deliver the Wright engines? And if you could get word back to Phil Young, you see?

Purvis: I will ring up this morning.

HM Jr: But 43 P-36s standing in Buffalo as of Saturday with no Wright engines. 43 is quite a tidy number. And 11 P-40s. On the Allison situation, last week they jumped from 6 to 18 engines.

Purvis: That's good.

HM Jr: Very good.

Purvis: Sloan told me again not to worry. "Sorry we are behind but you will see a very big improvement in the immediate future."

HM Jr: As of Saturday, Allison is 85 engines short on their production for everybody.

Purvis: I see.

HM Jr: Which isn't very bad.
Purvis: No, not if they are beginning to go out. On these two priorities they are back of me. I was just saying to Mr. Young, "I suppose they are thinking we can't get anywhere there until going to the State Department." Salter has rung me up and I have simply said, "Hold your horses." But there are two more priorities.

HM Jr: Give them to Young and I will send them over.

(Purvis handed the original documents to Mr. Young)

HM Jr: But the principal thing, the one big and important thing I wanted to get over to you is that as far as Mr. Roosevelt and I are concerned, there has been no change whatsoever, see?

Purvis: That's a great relief.

HM Jr: And when you find that you are up against it with Knudsen or anybody else come in and see me.

Purvis: It's up to me to do my very utmost to prevent getting to a point where one has to come in more often than necessary.

HM Jr: And Phil Young said you did a beautiful job. What I want to ask you is this. These engines which you have taken over because, I mean you're going to run up to 1500 to 1600 a month. Do you really want all of these?

Purvis: I really am going to the mat to find out about that so we will know the truth. I may have to do some questioning if it comes back in a way that gives me any suspicion. I am perfectly prepared to sit with you and try to tell you the truth about airplanes and engines, if I have any suspicion that the information is being held back on me. I am quite willing to assume that if
I keep on with the old policy of giving you the full picture that the best will be done. I do not want my people on the air end - and, of course, I have a slight problem there - to hold back a little on me. That's for me to watch my own thing.

HM Jr: When will you be back?

Purvis: I'm coming on your suggestion Tuesday and Wednesday each week any way and then fly down for a short time when you call me.

HM Jr: Supposing you say I have lunch with you Tuesday this week?

Purvis: Fine.

HM Jr: And then you can stay on behind and talk it over again.

Purvis: Splendid.

HM Jr: But I will expect you down Tuesday.

Purvis: Yes, and I shall not be half hour late through being five hours in an airplane.

(Secretary excused Miss Chauncey from taking any more notes but what he discussed with Mr. Purvis was the suggestion which he had previously made to him and which he gave to Ambassador Lothian last night that a Flight Officer or some Torpedo Captain be brought over here as part of his reward to stay in Washington for a week or so.)
MOST SECRET

Please convey to State Department our warmest appreciation of steps which they are prepared to take to restrict imports of oil to Spain and Portugal.

2. We have already taken as a result of your previous telegram all steps necessary to prevent British controlled oil and tankers from reaching Spain and Tenerife. UNIWALECO has been requisitioned and is now in Freetown. No considerations of "business as usual" for British controlled firms will be allowed to interfere with this policy.

3. As regards Portugal stocks are already low and would be reduced to zero within period of about two months if proposals put forward by State Department for Spanish imports were also applied to Portugal. The question of forcing down stocks to a reasonable level therefore does not arise in the case of Portugal and I had intended only to restrict Portuguese imports to small quantities necessary for essential consumption and not to cut them off entirely. You will appreciate that there are also political reasons for not depriving Portugal entirely of necessary supplies. She is at present cooperating Faithfully with us and we may want to use bunkering stations in Portuguese Islands when supplies are no longer available in Cahary Islands. We do not however wish to suggest special treatment for Portugal if by doing so we might in any way jeopardise the action which United States Government are prepared to take. Do you consider proposal to allow strictly limited supplies to Portugal would be acceptable to State Department?

5. Pending your reply which I shall be glad to receive urgently we shall of course hold up all supplies of British controlled oil to Portugal.

6. With reference to paragraph 7 of Purco telegram No. 301, you may disclose following information in strict confidence to the State Department. Stocks of oil in Europe excluding Russia, Rumania and Turkey are estimated at 8 million tons of which about 40 per cent consist of crude and fuel oil. Sources of supply are
(a) Rumania;
(b) Russia;
(c) German synthetic production
(d) Yugo-Slavia and crude production in
Greater Germany, Hungary and Albania. The total
annual supplies for twelve months ending June 30th,
1941 allowing for 500,000 tons from Russia are
estimated at 7,600,000 tons if the Dardanelles are
closed and 9,700,000 tons if open. Even on a
basis of restricted warfare the minimum requirements
of Germany and Italy together are estimated at
8,500,000 tons, so that on the larger estimation
of current supplies and assuming no supplies from
the Middle East or overseas sources there will
remain only about 1,000,000 tons of current supplies
to meet the needs of an area which in 1928 consumed about
14,000,000 tons. Stocks would therefore have to be
heavily drawn upon in any event during the next twelve
months. When account is taken of the fact that probably
a minimum of 2,500,000 tons are required as a permanent
stock to maintain war system; that percentage of crude
and fuel oil in stocks is so large; that Dardanelles
are most unlikely to be kept open by the enemy and that
stocks and production will, we hope, be seriously
damaged by bombing and other offensive operations,
it is highly probable that a crisis will develop in
the spring of 1941. Please repeat to Purvis with
whom you will doubtless concert any future action.
July 18, 1940
2:30 p.m.

I sent for Arthur Purvis and told him of my conversation with Mr. Knudsen. That Mr. Knudsen proposed that from now on for every two planes produced in the United States, the English get one and the United States gets one. At first Purvis was a little reluctant. He looked at the figures and he was afraid that if his production went up in the Spring of 1941 and orders fell off, that he would get less planes that way.

I told him that if the United States Government placed the order for 4247 planes, as Knudsen told me, and that Knudsen made it possible for England to place an order for another 1200 planes, that it would increase the entire production of planes in the United States and I did not feel that England would be any worse off on the number of deliveries and might be a little bit better off after the first of January.

The more he thought of it the more he liked it and I said this same formula had been applied to tanks, etc., and when he began to think of that his face brightened and he said, "That might be a solution to my whole problem."

He wanted to send his production man on planes down here and I said no, that the next new move came from Mr. Knudsen and we had better keep the thing between Knudsen, Purvis and myself.
July 18, 1940
2:40 p.m.

Operator: He'll be right on.
Secretary Stimson: Hello.
H.M.Jr: Morgenthau talking.
H.M.Jr: I'm all right. How are you?
S: Oh, I'm pretty well.
H.M.Jr: Have you got something or should I shoot first.
S: Well, no. I have nothing official nor anything important.
H.M.Jr: Well, I called this morning because Mr. Purvis was in.
S: Mr. who?
S: Oh, yes, Purvis.
H.M.Jr: And he said if you could see your way clear on those 50,000 Enfields it would help him tremendously.....
S: On those how many thousands?
H.M.Jr: 50 -- 50.
S: Well, now, Mr. Morgenthau, the difficulty that I find here and one -- it's a very serious one that I had no idea of before I came here -- that's the difficulty of powder.
H.M.Jr: I see.
S: It's really a very serious thing. We turned
over all our powder when we gave them the other
Enfields -- we gave all our surplus powder to
Great Britain and now, for instance, the
Philippines are stripped absolutely bare.
They lost out on the deal -- they didn't know
anything about it and it's ridiculous with no
chance apparently -- it's such a slow turnover
in making that I hesitate to say how long
before we'll begin to get in on our new
supplies.

H.M.Jr: Of powder.

S: Powder.

H.M.Jr: Yes. But all I'm asking for for these people
......

S: I know, but they asked for the powder with it --
ammunition with it, and that means powder.

H.M.Jr: Well, supposing we just say the rifles and
nothing else. They'll have to get their own
ammunition.

S: Well, now is this for Canada or for ......

H.M.Jr: Canada. This is for Canada.

S: Well, now I'd like to talk to the others
about it. I mean -- you know I'm trying to
help out on the opposite side -- across the
water very much, but from what I hear, what
Canada's situation is, she's stripped herself
bare up there so that if anything happens up
there we've got to go up and take the burden
of it.

H.M.Jr: That's right.

S: You know that.

H.M.Jr: I know all about it. I saw Moffat when he
was down here -- our Minister.

S: And my position has been, how far -- my test
was as I told the Senate Committee -- where the
munition in question would do the best work in
the interest of the United States whether on
this side of the Atlantic or the other. In
the case of most of the things for Great Britain
I had no hesitation in saying that it was on
the other side at present, but in Canada it's
a little bit different. I think we could --
I don't say that we can't get those 80,000,
but there are some things coming after it
on his list here that I don't think we can
give you.

H.M.Jr:  Well, he was -- this morning he simply said
that Mr. Howe, the Minister for National Defense,
was on his neck on those rifles. Of course,
General Marshall I think already said they
could spare 45,000.

S:  48, yes, I think so. But I've been going
through this myself but I haven't yet conferred
with him. I've been going through it with
other people he sent in. Of course, I wanted
to get my own view of it.

H.M.Jr:  Well, supposing I ask Mr. Purvis again if he
could get these 50,000 rifles without any
ammunition, would they be of any use to them.

S:  Yes.

H.M.Jr:  How's that?

S:  You see, he's put in the ammunition here
and even then I can't commit myself absolutely
to the full amount. I'm going to see.

H.M.Jr:  You mean, on the rifles.

S:  On the rifles.

H.M.Jr:  I understand. Well, let me ask him whether
rifles are of any use without ammunition.

S:  Yes, because I don't think we can touch the
ammunition.

H.M.Jr:  I see.

S:  It's a pitiful situation. I don't see how in
thunder they ever got into that hole. It's .....
H.M.Jr: I don't know but all the stuff they released I think was ......

S: I've heard, I mean, I've heard -- I won't say it over the telephone, but I've heard of the rather stormy interviews in which that powder was taken away and it wasn't the fault of our Department here, according to their story.

H.M.Jr: I'm not ......

S: I mean, it's quite a long story, I won't try to put ......

H.M.Jr: Yeah, well, I don't know what happened over there but when the powder went -- we have our letters covering all of that.

S: Yes. Oh, yes. They gave it out, but they did it under duress.

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

S: Well, they say so.

H.M.Jr: What?

S: (laughs).

H.M.Jr: Well, here's how I feel, that each -- hello?

Operator: Operator.

H.M.Jr: Hello.

S: Hello.

H.M.Jr: I say, each fellow -- it's up to him to say yes or no and I always feel if a man is asked to do something which he thinks is wrong, he can say yes or go home. He doesn't have to stay, you know.

S: I know, but I don't want to ......

H.M.Jr: No, but I just meant as to duress, I don't think there was -- I've had this up with General Marshall and Marshall has told me and there is no case where Marshall was under pressure -- real pressure.
B: Yes. Well, this had nothing to do with -- the story I was speaking about had nothing to do with your negotiations.

H.M. Jr: Oh!

B: No. Not a bit with you.

H.M. Jr: Oh, I thought you meant I ....

B: Oh, no! Oh, no. You hadn't done it. No, you misunderstood me entirely.

H.M. Jr: Because I don't ..... 

B: No, it was higher up.

H.M. Jr: Oh.

B: Quite a stormy interview.

H.M. Jr: Oh, that I don't know about.

B: Yes.

H.M. Jr: No. I meant between General Marshall and I there's never been any pressure.

B: Oh, I know that. I know that. At least, I haven't heard of a word.

H.M. Jr: No. Oh, I thought you meant I put pressure on ..... 

B: Oh, no! Oh, no! I beg your pardon. Don't think that a minute. On the contrary, there hasn't been a suggestion of it.

H.M. Jr: Fine. Well, let me ask him if I could -- if x number of rifles, I'll put it that way to him, could be made available would they be of any use without ammunition.

B: Yes.

H.M. Jr: How's that.

B: Yes.
H.M. Jr: May I call you back.
S: Yes.
H.M. Jr: You don't call this putting pressure on you, now do you?
S: What's that?
H.M. Jr: I hope you don't call this putting pressure on you.
S: Oh, no, no. Goodness, I'm here to take the pressure, but the poor fellow on the technical end sometimes has a different proposition.
H.M. Jr: All right. Thank you.
S: Don't worry at all on that.
S: Good-bye.
July 16, 1940
3:50 p.m.

H.M.Jr: Hello.
Operator: Mr. Purvis.
H.M.Jr: Hello.
Arthur Purvis: Yes.
P: Yes, Henry.
H.M.Jr: I've talked to Mr. Stimson on these Enfield rifles for Canada and the thing that he said he's working on it. But he said it's out of the question to get any ammunition.
P: Oh.
H.M.Jr: Now would the rifles be of any use without any ammunition?
P: Yes.
H.M.Jr: They would.
P: Yes. I think actually we -- what I promised that I would do with Howe in the event that -- of that, by hook or by crook I'd give him four million out of our lot that you let us have just now and they must be careful how they use it, that's all. And then by September we could begin to get real cartridges coming along because we'd get the machine tools at this end you see for producing that which by September would begin to get real quantities out from the first of September on.
H.M.Jr: Well, what I'm asking for is 50,000.
PP: Excellent.
H.M.Jr: Well, I'll tell him that you ......
H.M. Jr: You'll need them and you'll take them without the ammunition.

F: Yes. The point being, you see, that actually the fellows have been called up to the colors there and have nothing to drill with and they feel that it just doesn't go. I mean, you can't get the men enthused that way.

H.M. Jr: Well, I'll call him right away again.

F: Thank you so much.

H.M. Jr: Right.
July 18, 1940
3:51 p.m.

H.M.Jr: Hello.

Secretary
Stimson: Yes.

H.M.Jr: Mr. Stimson, I located Arthur Purvis and he
says the Canadian Government will be delighted
to get the rifles without any ammunition.

S: Well, now ......

H.M.Jr: Yeah. The boys up there that they're calling
up to the colors haven't even got a gun and
it's very bad for their morale.

S: I know that, but will they do this additional?
Isn't this important? They've got now contracts
with us for -- we're delivering to them, as I
understand it, 4 million rounds a month for the
next two months and 10 million for the next five
months after that. Why couldn't they release
a million of those a month to Canada?

H.M.Jr: A million a month?

S: Yes, sir.

H.M.Jr: A million rounds?

S: No, a million all together, see?

H.M.Jr: A million rounds?

S: Yes.

H.M.Jr: You mean to go with these.

S: Yes, to go with the guns. I don't want to have
you coming back on us ......

H.M.Jr: I'll tell you this, I'll make a commitment ......

S: ....... because that's all target practice,
as I understand it.
H.M. Jr: You mean -- well, can I say this? If he will take a million rounds of ammunition which he has on order for England, you'll give him ..... 

S: Well, enough to satisfy the Canadians so that they won't come onto us.

H.M. Jr: I get you. I'll put it up to him. I'll put it up to him that he's to give them enough -- the Canadians -- to satisfy them so that they won't ask any of us.

S: Absolutely.

H.M. Jr: Is that the proposal?

S: Yes, that's what my proposal is.

H.M. Jr: Well, now, he's up at the Embassy. I'll call him and if I get him may I call you back again?

S: Yes. I shall be going pretty soon but then that will stand.

H.M. Jr: What's that?

S: So ..... 

H.M. Jr: So?

S: Yes, with that allowance.

H.M. Jr: With that allowance.

S: With that understanding.

H.M. Jr: Will you be there for five minutes?

S: Yes, but I want to talk to you about something else.

H.M. Jr: Go ahead, please.

S: About this other letter. I've been making examination of that -- about the engines -- and I think what we're entitled to there is a round-table ..... 

H.M. Jr: I see.
S: ...... and it's very difficult for me or for anybody here in the Department to take it up piecemeal, and I think that there should be a round-table to sit on it which will cover these points. Can you take them down so that you can ......

H.M.Jr: Yeah. I'll take them down.

S: First, we want a resume of all engines under order in the United States for the United States and for all other foreign nations, you see?

H.M.Jr: Well, we have that and ......

S: Well, we don't have it.

H.M.Jr: Yes, you -- pardon me -- I send it ......

S: I'm told we don't have it.

H.M.Jr: Well, I send it -- I just sent it over -- I send it every week to General Marshall.

S: Well, I'll put that note down.

H.M.Jr: Every week and this week ......

S: That is of all airplane engines under order for the United States and for all other foreign nations.

H.M.Jr: Yes. General Marshall has that on his desk now. I sent it over -- the weekly report I sent it over to him within the hour. He gets it every week from me.

S: Just hold on a minute. (Talks aside) Well, I'll go on with the rest. (2). A resume of Allied production of airplanes and the requirements of engines for that -- that is, American engines manufactured in the United States for those frames.

H.M.Jr: Yeah.

S: So that we'll see what they need.

H.M.Jr: Right.
S: (3). The allocations of all American engines manufactured in the United States to airplanes manufactured in the United States for foreign governments.

H.M. Jr: Yeah. O.K.

S: The result of that ought to give us a balance of the American engines available for allocation to either the United States or to Britain and for allocation to additional airplane construction. You see?

H.M. Jr: I've got it.

S: Beyond what's already allocated.

H.M. Jr: I've got it.

S: And then we can tell -- we'll have the basis for an equitable division or an equitable treatment at any rate of that balance.

H.M. Jr: Right.

S: And I want to share in that responsibility -- the responsibility rests on me somewhat, you see.......

H.M. Jr: Well, I think it rests on you greatly. Now here's the thing. When we have this roundtable, Mr. Knudsen should be in because he's talked to me about the same thing twice today.

S: Sure he ought to be in because the possibilities of future construction enter into this problem.....

H.M. Jr: Well, now.....

S: ..... the dates of future delivery.

H.M. Jr: ..... this thing that you're asking of me, I'll have to get that to Purvis, you see?

S: Yes, I know it and Purvis ought to be there. In other words -- what?

H.M. Jr: Would Monday or Tuesday be all right?

S: Yes.
H.M. Jr.: I mean, to give him time.
S: What?
H.M. Jr.: In order to give him time.
S: Yes.
H.M. Jr.: Do you want to set it for Tuesday -- is Tuesday time enough?
S: What?
H.M. Jr.: Would Tuesday be time enough?
S: Well, of course, we're all -- our interests are all the same in that way. That is, for speed. The quicker you can do it, the better.
H.M. Jr.: Well, do you want it Monday afternoon?
S: I'm willing if you're willing, Monday afternoon.
H.M. Jr.: Ah ..... 
S: Monday afternoon would suit me if you think -- if there'd be any danger of a slip-up, make it Tuesday morning.
H.M. Jr.: Well, I want to put it up to him. Today's Thursday -- I want to give him time enough. I think it's a little short notice but ..... 
S: All right. All right.
H.M. Jr.: Supposing I say 10 o'clock Tuesday morning.
S: 10 o'clock Tuesday morning.
H.M. Jr.: Yes.
S: All right. We'll put that down.
H.M. Jr.: Where would you like to hold it?
S: Well, I think it's your right to say that.
H.M. Jr.: Well, I've got to get Mr. Knudsen -- is my office agreeable?
S: That's all right, but of course I want to bring General Brett with me.

H.M.Jr: Oh, I'd miss him if you didn't bring him with you.

S: What?

H.M.Jr: I would miss him very much.

S: Yes, I understand so.

H.M.Jr: And General Brett and I get along fine.

S: All right.

H.M.Jr: And I'll tell Mr. Knudsen if he'd be here at 10 o'clock and he can bring whoever he wants and I'll have Purvis here.

S: You'll have Purvis there and you'll have Knudsen there.

H.M.Jr: Right.

S: Fine. Tuesday at 10 a.m.

H.M.Jr: That's right.

S: I'll have General Brett there.

H.M.Jr: And if I can get hold of Purvis in the next two or three minutes, I'm going to call you back if I may.

S: All right.

H.M.Jr: I either can get him right away or not at all.

S: Yes. All right.

H.M.Jr: Thank you.
July 16, 1940.

1. A resume of all engines under order in the United States for the United States and for all other foreign nations.

2. A resume of Allied production of airplanes and the requirements of American engines, manufactured in the United States, for those planes.

3. The allocations of all American engines, manufactured in the United States, to airplanes manufactured in the United States for foreign governments.

Handed to Phil Young by McHugh, personally, per HSK.
July 16, 1940
4:03 p.m.

H.M.Jr: Hello.
Operator: Mr. Purvis.
Arthur Purvis: Yes, Henry.
H.M.Jr: I'm spending most of my time -- but now the 80,000 rifles is this -- Mr. Stimson says will you supply the necessary ammunition to Canada so they won't come back on us?
P: Yes.
H.M.Jr: How much will you supply them?
P: Well, I told Howe that I would supply him with four million rounds this month if he took -- he said that would satisfy him.
H.M.Jr: You'll give him four million rounds.
P: Yeah. That's right.
H.M.Jr: This month and that's for the month of July?
P: Yes. And he said that that would take care of it.
H.M.Jr: And they will not come back on us, say, for August or September.
P: That's correct.
H.M.Jr: What?
P: That's correct.
H.M.Jr: So, in other words, if they release the 80,000 rifles, Canada will not expect any ammunition from us.
P: That's the answer.
H.M.Jr: Now where do you get this four million rounds from?

P: (Laughs). We got it from you, sir.

H.M.Jr: Oh, is that part of the surplus.

P: That's part of the surplus stuff that you released which I said in that case we would pass over the July quota.

H.M.Jr: Oh. Is this newly manufactured?

P: Oh, yes. You see, what we got from you at that time were (a) release of 130 million rounds of 30 ball ammunition and then later 8 million from the Navy of which they only finally came through with 6½ million.

H.M.Jr: Yes.

P: Then they also gave us specifically and definitely priorities on 4 million for July -- June; 4 million for July and 10 million a month from August to December making 58 million....

H.M.Jr: I see.

P: ..... of new stuff as it came out -- or rather, it isn't really new stuff. What they do is as they get the new stuff, they release 10 million of the old. Do you see what I mean?

H.M.Jr: I didn't quite get that.

P: What I understand happens is this: they don't give us what comes out of the factory. What they do is to take the new stuff that comes out of the factory themselves and as it comes they let us have extra out of their own surplus.

H.M.Jr: Well, anyway, I can tell him that you will take care of Canada and that Canada will not come back on us.

P: That's it.
H.M. Jr: Well, I think on that basis — if you don’t hear from me again within the next five minutes, you can consider that you’ve got it.

P: Thank you very much indeed.

H.M. Jr: All right.

P: Thank you.
July 18, 1940
4:05 p.m.

H.M.Jr: Hello.
Operator: Stimson.
H.M.Jr: Hello.
Secretary Stimson: Yes.
H.M.Jr: Morgenthau again and for the last time today, I promise.
S: Yes.
H.M.Jr: I again located Purvis and he said he will give them four million rounds this month and will promise that they will take care of Canada and that Canada will make no requests on United States for any ammunition in connection with the 80,000 rifles.
S: Well, of course, that's four million against us. I mean, that relieves us of that much.
H.M.Jr: Well, he's going to give them four million of ammunition which has already been allocated to the English.
S: Yes, from our manufacturer.
H.M.Jr: That's right.
S: All right. Well, then, I think that's clearly understood.
H.M.Jr: Well, then, on that basis can they have the 80?
S: They can have the 80 on that basis -- four million.
H.M.Jr: Fine. And will you set the machinery going?
S: Yes. I'll start it going.
H.M.Jr: Thank you so much.
S: Thank you.
Wm. S. Knudsen: Hello.

H.M.Jr: Yes. Mr. Knudsen.

K: Yes.

H.M.Jr: This is Henry talking.

K: This is Bill.

H.M.Jr: How are you?

K: Fine.

H.M.Jr: Any more good Ford stories?

K: No. (Laughs). It was just the name that brought it to my mind.

H.M.Jr: Well, all right. Listen, Bill. Mr. Stimson just has found out that there's an airplane program and a problem, see?

K: Yeah.

H.M.Jr: And he says he's got a responsibility and so forth and so on.

K: Yes.

H.M.Jr: So he's asked me a lot of questions and he had Brett sitting next to him giving him these questions, you see?

K: Yeah.

H.M.Jr: And so he wants to sit around a table, so I said 10 o'clock Tuesday morning at my office and we'll have Arthur Purvis here at that time.

K: All right, sir.
H.M.Jr: Now, do you want to -- I'm writing out the
things that Stimson gave me -- the 1, 2, 3 --
and I'll copy them over and send them to you.

K: All right.

H.M.Jr: The things that you want to know.

K: You can give them to me over the phone if
you want.

H.M.Jr: I haven't got them -- I sent them out to be
typed.

K: All right, sir.

H.M.Jr: And if there's anything additional that you
want from Purvis yourself, if you'd let me
have it I'll send it up to New York.

K: No, I think by Tuesday I can have the tank
program so we can talk about that 2,000 tanks.

H.M.Jr: But if we could do it all at one time because --
here I get some kind of an understanding with
you this morning and now Stimson starts me all
over again.

K: I see. What does he want? Does he want 50%?

H.M.Jr: No, he didn't know what he wants.

K: (Laughs). I see. All right, sir. Ten
o'clock.

H.M.Jr: Doesn't General Brett ever talk with you
fellows over there?

K: Sure.

H.M.Jr: Well -- O.K.

K: All right.

H.M.Jr: Think me up a couple of good stories now.

K: (laughs). All right, Henry.

H.M.Jr: Good-bye.

K: Good-bye.
Original

Sent to

June Peterson

July 18, 64

S.S.

9:28 a.m.
CONFIDENTIAL

This message contains sensitive information that is classified. It is intended for the exclusive use of the recipient.

Date: October 1943

Subject: Confidential

Dear Mr. Secretary:

The situation is as follows:

[Redacted]

Yours sincerely,

[Signature]

The Secretary of the Treasury

MD 440-4-37 (09-13-00)
Pratt and Whitney Company

2000 B-1830 engines
908 B-2800 engines

Vought Aeronautical Corporation

2961 B-2600 engines

If these surplus engines, formerly allocated to French built
airplanes, can be reallocated to the use of the United States Army, the
tactical requirements of the Air Corps program might possibly be met.
However, unless these engines are made available, there will be practi-
cally no deliveries of combat airplanes, beyond those now on order, to
the Army prior to October 1, 1941.

It is requested that steps be taken to make available to the
Army the surplus engines referred to above.

Sincerely yours,

[Signature]

Secretary of War
TO Secretary Morgenthau

FROM Philip Young and E. H. Foley, Jr.

Subject: Priority of National Defense Orders Over Deliveries for Export

As far as we know, no definitive action has been taken as yet to exercise the priority powers granted to the President by recent legislation. (Section 2(a), Public No. 671 - 76th Congress /H.R.9822/)

This recent legislation grants the President the discretionary power, whenever he deems it in the best interests of the national defense, to give priority to any Army and Navy contracts and orders over all deliveries for private account or for export.

As a legal proposition, the President’s power to give priority probably cannot be completely delegated.

The power to make recommendations on priorities can and has already been delegated in general terms. Section (7) of the Council of National Defense Order, approved by the President on June 27, 1940, provides that the Coordinator of National Defense Purchases (Donald H. Nelson) shall:

"investigate the necessity for and make recommendations to the President relative to the granting of priority to orders for material essential to the national defense over deliveries for private account or for export".

Mr. Donald Nelson asked Oscar Cox if he would assist him in preparing recommendations to the President in connection with the priority of national defense orders over deliveries for export. Cox has prepared a rough draft of suggested recommendations. A copy of it is annexed here with.

In substance this rough draft provides for: (1) The obtaining of adequate and detailed information relating to all war material on order for export; (2) The furnishing to you of a copy of such information in inventory form similar to what the Treasury now has on aircraft; (3) The obtaining of your recommendation before the Coordinator of National Defense Purchases makes any recommendation that an Army or Navy order be given priority over the order of any foreign government.
MEMORANDUM

To: The President

From: The Coordinator of National Defense Purchases


Section (7) of the Council of National Defense Order approved by you on June 27, 1940 provides that, in cooperation with the Advisory Commission, I shall:

"investigate the necessity for and make recommendations to the President relative to the granting of priority to orders for material essential to the national defense over deliveries for private account or for export."

Section 2(a) of Public--No. 671--76th Congress [H.R. 9822] grants you the discretionary power, whenever you deem it in the best interests of the national defense, to give priority to all Army and Navy contracts and orders over all deliveries for private account or for export.

In order to obtain adequate and detailed information and in order that I can comply effectively with the duties imposed on me with reference to priorities, I recommend that:

(1) Advisory Commission to the Council of National Defense be requested to prepare a complete and detailed inventory of all arms, munitions, implements of war, and military and naval equipment or component parts thereof, machinery, tools, or material or supplies necessary for the
manufacture, servicing or operation thereof, and of all strategic and critical materials which are on order for export.

This inventory should show the names of the contracting parties, the material on order, the price to be paid for it, the destination of it, and the schedule of contemplated deliveries.

This inventory should be kept up to date by monthly supplements.

(2) The Advisory Commission be requested to furnish such inventories and monthly supplements to the Coordinator of National Defense Purchases.

(3) The Advisory Commission be requested to furnish to the Secretary of the Treasury the inventories of all foreign government orders.

(4) The Administrator of Export Control be requested to furnish to the Advisory Commission, to the Coordinator of Defense Purchases, and to the Secretary of the Treasury copies of his directives and copies of each application for export.

(5) If necessary, regulations be issued by you in the form of an Executive Order under either Public—No. 703—76th Congress /H.R. 9850/ or Public—No. 671—76th Congress requiring the submission to the Advisory Commission or to the Coordinator of National Defense Purchases detailed information of orders or contracts placed for the kind of material set forth in (1) above within 10 days after the order or contract is placed.

(6) In any case where the Coordinator of Defense Purchases recommends to the Administrator of Export Control that he withhold the granting of an export license pending a determination on any recommendation on priority which the Coordinator shall make to the President, the Administrator shall do so.
(7) The Secretary of War and the Secretary of the Navy, or persons designated by them, shall, in the first instance, make recommendations as to priorities to the Coordinator of Defense Purchases upon their own motion or upon the request of the Coordinator.

(8) In the case of proposed recommendations of priorities relating to foreign government orders the Coordinator shall also obtain the recommendations of the Secretary of the Treasury before making any recommendations to you.

(9) Then the Coordinator shall recommend to you in what cases you should exercise priority in favor of the Army or Navy.
Note: a copy of this memo was sent to 120.

Mr. 

Mr. 

on 6/6/41 and etc.

suggested by him.

Regraded Unclassified
To:  Mrs. Klotz
From:  H. D. White

This is the only carbon in existence.

Original given to the Secretary.

MR. WHITE
Branch 2058 - Room 210
MEMORANDUM FOR THE PRESIDENT:

There is possibility that a plan can be quickly developed with the cooperation of the British Government to prevent further supplies of oil and gasoline from going to Japan. Lord Lothian, whose proposal it partly is, is enthusiastic about its possibilities and will ascertain his Government's reaction at once should you deem the plan feasible. The proposal is as follows:

1. That you prohibit the export of petroleum and petroleum products "in the interest of national defense". The justification for taking such action at this time is a report just prepared by the Department of Interior which concludes that an adequate supply of oil for our own national defense calls for a prohibition on oil exports from the United States for some time to come. (During the first five months of this year we have exported $33 million of petroleum and products, including $3 million worth of aviation gasoline to Japan.) The British Government would then obtain all her petroleum needs from Colombia, Venezuela and Mexico. The British Government contemplates purchasing approximately $5 million worth of oil and gasoline each month from the United States, but could easily divert those purchases to Caribbean areas.

2. That Great Britain on her part, according to Lord Lothian, will undertake to destroy at once the oil wells of the Dutch East Indies.

3. That the British Government, according to Lord Lothian, will concentrate its air bombardment in Germany on the plants producing synthetic gasoline which they feel to be vulnerable to air attack.

4. That the British and United States Governments undertake to purchase all the oil and gasoline available for export from Colombia, Venezuela and Mexico. The arrangement with each country would, naturally, vary. The fact that Colombia and Venezuela have their oil refined in the Netherlands West Indies by refineries owned by Dutch Shell and Standard Oil should facilitate the arrangements.
The acting chairman of the speakers committee of the Press Club has invited Capt. Kelsey to address an off-the-record luncheon. The captain is asking to clear the matter with his superiors. It develops that the committee man had known Capt. Kelsey well some years ago and is delighted to be in touch with him again.

Mr. Schwarz
July 15, 1940.

Dear Admiral Stark:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes
Deliveries of and New Orders for Airplanes,
May 1 - July 13, 1940; Unfilled Orders and
Estimated Deliveries on July 13, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane
Engines, May 1 - July 13, 1940; Unfilled Orders and
Estimated Deliveries on July 13, 1940.

These tables carry forward through July 13, 1940 the
information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Admiral Harold R. Stark,
Chief of Naval Operations,
Navy Department,
Washington, D. C.
July 15, 1940.

Dear General Marshall:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes
Deliveries of and New Orders for Airplanes,
May 1 - July 13, 1940; Unfilled Orders and Estimated Deliveries on July 13, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane Engines,
May 1 - July 13, 1940; Unfilled Orders and Estimated Deliveries on July 13, 1940.

These tables carry forward through July 13, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
War Department,
Washington, D. C.
July 13, 1940.

Dear Mr. Emsden:

I am sending you herewith, for your confidential use, two copies of each of the following reports:

Part I - Airplanes
Deliveries of and New Orders for Airplanes, May 1 - July 13, 1940; Unfilled Orders and Estimated Deliveries on July 13, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane Engines, May 1 - July 13, 1940; Unfilled Orders and Estimated Deliveries on July 13, 1940.

These tables carry forward through July 13, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Emsden,
Chairman, Advisory Commission to the Council of National Defense,
Room 5322, Federal Reserve Building,
Washington, D. C.
THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

July 19, 1940

MEMORANDUM FOR THE SECRETARY:

Treasury Financing in 1941

Budget - The most recent estimates from the Bureau of the Budget indicate that the total expenditures for the fiscal year 1941, exclusive of any additional expenditures contemplated for national defense under the President's message of July 10, 1940, will amount to $10,547,000,000, and that the net receipts including revenues under the Revenue Act of 1940 will amount to $6,357,000,000, or a net deficit of $4,180,000,000. This estimate includes for account of national defense estimated aggregate expenditures of $3,600,000,000, but, as stated above, excludes any expenditures on account of the new program submitted with the President's message of July 10, 1940, which asks for additional appropriations of $2,161,000,000 and additional contract authorizations of $2,687,000,000. The Army and Navy have insisted that they can spend the total amount of $2,161,000,000 asked for in this message in the form of appropriations. The Budget feels that $1,500,000,000 is about all that can be spent on this account, but cannot make an official estimate on this until the appropriations are actually passed by the Congress. Personally, I feel that the Army and Navy cannot spend more than a billion dollars under this additional program.
If the Army figures are correct, the deficit for the fiscal year 1941 will be $6,341,000,000. If the Budget figures are correct, it will be $5,580,000,000, and according to my figures it will be $5,180,000,000. Even at the lower figure, $4,600,000,000 would be for account of national defense, which is $600,000,000 more than the borrowing authority given us by the Congress in the last revenue bill.

The following table sets out the revised Budget estimates as of July 9, 1940, and a comparison with the estimates contained in the 1941 Budget submitted last January, so that you can see just what the picture is so far as has been estimated up to July 9th.

<table>
<thead>
<tr>
<th></th>
<th>Revised Budget July 9, 1940</th>
<th>In 1941 Budget January 3, 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td>$ 6,367,000,000</td>
<td>$ 5,548,000,000</td>
</tr>
<tr>
<td><strong>Expenditures:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular activities</td>
<td>6,947,000,000</td>
<td>6,519,000,000</td>
</tr>
<tr>
<td>National defense</td>
<td>3,600,000,000</td>
<td>1,905,000,000</td>
</tr>
<tr>
<td></td>
<td>10,547,000,000</td>
<td>8,424,000,000</td>
</tr>
<tr>
<td><strong>Net deficit</strong></td>
<td>4,180,000,000</td>
<td>2,576,000,000</td>
</tr>
<tr>
<td>Add supplemental national defense (President's message of July 10, 1940)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>War and Navy estimates $ 2,161M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget tentative &quot; 1,100M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bell's &quot; 1,000M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,000,000,000</td>
<td>---</td>
</tr>
<tr>
<td><strong>Net deficit on lowest basis</strong></td>
<td>$ 5,180,000,000</td>
<td>$ 2,876,000,000</td>
</tr>
</tbody>
</table>
In excess of the special defence expenditure are $60,000,000 under special defence previsions for national defence purposes. The expected expenditure on account of national defence purposes is $70,000,000. In addition, we have authority to borrow up to $70,000,000, to be further decreased in the public debt during the month of July, but not further increased.

The balance of borrowing authority under the general limitation 1940, unless we take some emergency action will be essential to increase our borrowing authority before December 1940. It will be essential to increase our borrowing authority by at least $70,000,000. In any event, the question is to whether we should authorize another increase in the general defense special fund for national defence and seek for an increase in the general defense special fund for national defence. We should also consider at the same time the question of whether we should authorize another increase in that limitation. We might also consider the same limitation at this session under the four billion dollar national defense appropriation.
There is set out below a table indicating how the 1941 deficit can be financed.

**FINANCING THE 1941 DEFICIT**

<table>
<thead>
<tr>
<th>Cash resources available:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National defense obligations ($600M short)....</td>
<td>$4,000M</td>
</tr>
<tr>
<td>U. S. Savings Bonds</td>
<td>720</td>
</tr>
<tr>
<td>Capital return from credit agencies</td>
<td>708</td>
</tr>
<tr>
<td>Treasury bonds of 1934-36 (July 22, 1940).....</td>
<td>630</td>
</tr>
<tr>
<td>Unemployment Trust Fund</td>
<td>432</td>
</tr>
<tr>
<td>Old-Age Reserve Account</td>
<td>457</td>
</tr>
</tbody>
</table>

**Less:**

| Debt retirement under general limitation        | $280M   |
| Debt retirement under National defense limitation | 550   | 530   | 6,167 |
| Excess funds available for debt retirement      |         |         | 987M  |

You will note from the above table that the Treasury will have, assuming that national defense obligations will be issued to finance $4,000,000,000 of national defense expenditures, an aggregate of $6,167,000,000 to finance a deficit of $5,180,000,000. This gives us $987,000,000 in excess funds which must be used to retire debt under the general limitation in order to keep the public debt within the $4,500,000,000 limitation. In other words, the total increase above, under the general limitation, is $1,700,000,000, including future accruals on Savings Bonds, whereas there is a balance of less than $1,000,000,000 with which to meet this increase. According to my
estimates this balance will be down to $664,000,000 on September 30; $305,000,000 on November 30; and $248,000,000 on December 31, 1940; and will be practically exhausted by January 31, 1941.

The following table shows the debt maturing or callable during the fiscal year 1941, excluding Treasury bills, and the premiums in each case in excess of zero yield.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 15, 1940</td>
<td>Treasury notes</td>
<td>$737M</td>
<td>18/32</td>
</tr>
<tr>
<td>March 15, 1941</td>
<td>Treasury notes</td>
<td>677</td>
<td>14/32</td>
</tr>
<tr>
<td>March 15, 1941</td>
<td>Treasury Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 15, 1941</td>
<td>1941-43 (callable)</td>
<td>514</td>
<td>14/32</td>
</tr>
<tr>
<td>June 15, 1941</td>
<td>Treasury notes</td>
<td>504</td>
<td>7/32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$2,463M</td>
<td></td>
</tr>
</tbody>
</table>

All of these maturities as indicated are selling on a negative yield basis on the assumption that the Treasury will offer another Treasury security in exchange for these maturing securities.

I should think we might give consideration to the payment of some part of each of the above maturing issues, and to announcing this within the course of the next two or three weeks. We could pay off a small part of the December 15 maturity because of its high premium at the present time above a no-yield basis. I think 20 per cent would be sufficient, or a total of $147,000,000. The fact that we would allow an exchange of only a part of this maturity would give notice that the other maturities
would be treated on a somewhat similar basis and the prices would be
adjusted accordingly. We could increase the percentage for the later
maturities. If we decide to pay off any of these maturing securities,
it seems to me only fair to the market to give it as much advance notice
as possible. Any reductions in the debt through this method would
increase or relieve our borrowing authorization under the general
limitation of $45,000,000,000.

The Revenue Bill of 1940 sets up a special fund and directs you to
cover all of the additional taxes levied under Title II thereof into this
special fund for the purpose of retiring any national defense obligations
issued under the $4,000,000,000 limitation. We indicated to the
Committees in Congress that the amount available each year would actually
be used for this purpose. An estimate of the receipts by months indicates
that we will have accumulated by March 31, approximately $410,000,000
in this fund and by June 30 a total of $570,000,000 for the fiscal year
1941. We should consider in this connection the matter of issuing
additional Treasury bills, running for, say six months, of $50,000,000
a week beginning September 18 and running through October 15 and maturing
March 19 to April 16, 1941, or a total of $250,000,000. Then, beginning
December 11 to December 24 a weekly issue of six months' bills for
$100,000,000 a week maturing June 11 to June 25, 1941, or a total of
$300,000,000. This would enable us to retire during the fiscal year 1941
a total of $550,000,000 of national defense obligations from the special
fund created by the Revenue Act of 1940. It would, at the same time,
reduce our borrowing authorization for national defense purposes from
$4,000,000,000 to $3,450,000,000. The effect of this retirement is,
of course, to shift the debt from the limitation for national defense purposes to the limitation for general purposes.

I hope it will be possible to raise additional funds in December, March, and June, through the sale of Treasury national defense notes or other short-term defense securities which will mature beginning in 1942, so that additional revenues earmarked for debt retirement can be used in that and subsequent years.
July 19, 1940

My dear Mr. Hoover:

Thank you for your letter of July 18th. I appreciate having further facts relative to the activity of William H. Muller and Company, Inc.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
July 19, 1940

My dear Mr. Hoover:

Thank you for your letter of July 19th. I appreciate having further facts relative to the activity of William H. Muller and Company, Inc.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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July 19, 1940

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Yours sincerely,

(Signed) E. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Reference is made to my letter dated May 10, 1940, with reference to the activities of William H. Muller and Company, Inc., New York, New York. The following supplemental information has been obtained.

William H. Muller and Company, Inc., is a New York corporation with offices at 122 East 42nd Street, New York, New York. The officers of this concern are: Paul G. Leoni, President; J. Freling, Vice President; Archibald D. Field, Treasurer; John I. Pearce, Secretary; Edward H. Clayton, Assistant Treasurer; and William Barsch, Assistant Secretary.

William H. Muller and Company, Inc., was incorporated under the laws of the State of New York on January 17, 1920, with an authorized capital of $500,000, $225,000 of which is now outstanding. The corporation took over the importing division of the Iron and Ore Corporation of America, which latter corporation now confines its activities to exporting various coals and functions as a subsidiary.

The parent company of William H. Muller and Company, Inc., namely William H. Muller Company N.V. Rotterdam,
Holland, was founded in 1876 and for many years has occupied a prominent position in European mining and shipping circles.

William H. Muller and Company, Inc., imports iron ore, pig iron, cement, barytes, fluor spar, chrome and manganese ore as well as ferro-alloys and other raw materials for the steel and allied industries. No direct purchases are made from foreign affiliated companies but William H. Muller and Company, Inc., occasionally acts as sales agent for various European affiliates of the parent organization.

It was ascertained that William H. Muller and Company, Inc., has a wholly owned subsidiary in Florida, the William H. Muller and Company, Inc., Florida. This latter corporation was chartered under the laws of Florida on September 2, 1938, with an authorized capital of $50,000 common stock, par value of $1.00 per share. The company is located at Miami Beach, Florida, where it owns a waterfront pier and warehouses. It is engaged principally in the importation of cement which is obtained from William H. Muller and Company, Inc., New York, New York.

Examination of the consolidated balance sheets of William H. Muller and Company, Inc., as of December 31, 1939, showed that they had on hand cash in the amount of $173,016.91; common stock outstanding, $225,000; surplus, $158,659.81; and total assets of $486,582.12.

Paul G. Leoni, President of William H. Muller and Company, Inc., is fifty-two years of age, married, and was formerly employed as Manager of the Paris, France, branch of William H. Muller and Company N.Y. Holland. In 1914 he was appointed American representative of the Holland company. When the American branch of the Holland company was incorporated in 1917 as the Iron and Ore Corporation of America, Leoni was elected President, an office which he holds at the present time.
Leon became President of William H. Muller and

It was ascertained that Paul G. Leoni occupies
Apartment 8-E at 77 Park Avenue, New York, New York, which
is a six-room apartment and where he has resided with his
wife for the past four years, paying an annual rental of
$2,600. He is considered a highly desirable tenant. His
annual salary is said to be $23,700.

It was also learned that Mr. Leoni is a Director
of the Zeeland Steamship Company of Flushing, Holland.

Paul G. Leoni is listed as a member of the German-
American Board of Trade as follows: "Paul G. Leoni (Iron
and Ore Corporation of America), American agents for the
German Armament and Munitions Manufacturers, Griessheim
Electron and Metalurgische Gesellschaft."

It was determined that J. Freling is forty-five
years of age and was elected Vice President of William H.
Muller and Company, Inc., in 1937. He had been identified
with William H. Muller and Company, Inc., N.V. Holland,
for some years.

Archibald D. Field, Treasurer, William H. Muller
and Company, Inc., was born in Edinburgh, Scotland, in
1883. He was graduated from Stewart's College, Scotland,
in 1899. He is married and resides at 690 Wyoming Avenue,
Elizabeth, New Jersey. He is an accountant by profession
and has been Treasurer of William H. Muller and Company,
Inc., since 1922. He is in charge of finances and sales.
He is also a Director of Iron and Ore Corporation of America.

John I. Pearce, Secretary of William H. Muller
and Company, Inc., is thirty-nine years of age, married
and has been identified with the company since 1921. He
is in charge of Traffic Management.
Edward H. Clayton, Assistant Treasurer of William H. Muller and Company, Inc., is fifty-three years of age, and is married. He has been active in a financial capacity and has been Treasurer of Iron and Ore Corporation of America since 1918.

William Barsch, Assistant Secretary of William H. Muller and Company, Inc., is forty-five years of age and is single. He is active in a sales capacity. He has been employed for a number of years by the Iron and Ore Corporation of America.

With reference to the Iron and Ore Corporation of America, a wholly owned subsidiary of William H. Muller and Company, Inc., in New York, New York, the officers of this concern are: Paul G. Leoni, President; Edward H. Clayton, Treasurer; John I. Pearce, Secretary; and Archibald D. Field, Assistant Treasurer.

The address of the Iron and Ore Corporation of America is the same as that of William H. Muller and Company, Inc., namely, 122 East 42nd Street, New York, New York.

Iron and Ore Corporation of America was incorporated under the laws of the State of New York on July 14, 1917, with a capital of $250,000, $125,000 now outstanding. The corporation took over a business operated by Paul G. Leoni who prior to the incorporation, as an individual, was the American representative for William H. Muller and Company of Rotterdam, Holland. Iron and Ore Corporation of America exports special cokes and iron products to foreign countries.

Any further information which I receive concerning this matter I will gladly transmit to you.

Sincerely yours,

J. E. Hoover
Memorandum from J. W. McKeon
Federal Reserve Bank of New York,
July 19, 1940.

Deposits for the account of Asia as reported by the New York agencies
of Japanese banks as of July 17, 1940 are as follows:
(In thousands of dollars)

<table>
<thead>
<tr>
<th>CHINA</th>
<th>HONG KONG</th>
<th>JAPAN &amp; MANCHURIA</th>
<th>PHILIPPINE ISLANDS</th>
<th>OTHER ASIA</th>
<th>TOTAL ASIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Chosen</td>
<td>195</td>
<td></td>
<td>123</td>
<td></td>
<td>318</td>
</tr>
<tr>
<td>Bank of Taiwan</td>
<td>-</td>
<td></td>
<td>1,069</td>
<td></td>
<td>1,069</td>
</tr>
<tr>
<td>Mitsubishi Bank</td>
<td>316</td>
<td></td>
<td>1,043</td>
<td></td>
<td>1,359</td>
</tr>
<tr>
<td>Mitsui Bank</td>
<td>175</td>
<td></td>
<td>8</td>
<td></td>
<td>183</td>
</tr>
<tr>
<td>Sumitomo Bank</td>
<td>436</td>
<td></td>
<td>4,471</td>
<td></td>
<td>4,909</td>
</tr>
<tr>
<td>Yokohama Specie Bk.</td>
<td>29,133</td>
<td>74</td>
<td>477</td>
<td>380</td>
<td>30,064</td>
</tr>
<tr>
<td>Total</td>
<td>30,257</td>
<td>74</td>
<td>6,714</td>
<td>477</td>
<td>380</td>
</tr>
</tbody>
</table>

* Overdraft $61,076,000
BUREAU OF FOREIGN AND DOMESTIC COMMERCE

July 22, 1940

Fr: Bruce Berkman

To: Hon. Henry Morgenthau, Jr.
   Secretary of the Treasury

Sent at the request of
Mr. Noble, Under Secretary
of Commerce.

Bruce Berkman,
Acting Director.
ECONOMIC DEVELOPMENTS

EXPORTS OF UNITED STATES MERCHANDISE rose to $445 million in June (preliminary data) despite the contraction in our available trading area resulting from the war's extension. Though $14 million under the peak for the war period made in January, the June total represented a gain of 8 percent over the $436 million recorded for May. This gain was due almost entirely to the direct impact of the European war. The major changes in the trade by countries were as follows:

1. With a decline of $11 million, exports to Italy fell to relative insignificance. Furthermore, the virtual stoppage of shipments to Turkey indicate that other Mediterranean countries have been removed from our trading orbit. (These are the only Mediterranean countries in our preliminary tabulations.)

<table>
<thead>
<tr>
<th>Country</th>
<th>May (Million dollars)</th>
<th>June (Million dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>12.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Turkey</td>
<td>1.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

2. Exports to North European countries, already sharply reduced in May, fell further in June. Apparently the only markets in this area open to our products are Sweden and Finland.

<table>
<thead>
<tr>
<th>Country</th>
<th>April (Million dollars)</th>
<th>May (Million dollars)</th>
<th>June (Million dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>0.5</td>
<td>0.01</td>
<td>--</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.1</td>
<td>0.02</td>
<td>--</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.6</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>4.2</td>
<td>1.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.3</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Finland</td>
<td>0.8</td>
<td>3.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

3. To the three major Allied countries, there was a $41 million increase in total shipments, of which $22 million was accounted for by the United Kingdom. Exports to the United Kingdom were higher than in any June since the World War years; they exceeded the monthly average for 1929 though they were still well below the seasonally high fall months in that year, in spite of France's capitulation.
on June 18 our exports to that nation were $9 million over boy to almost $16 million, a figure well above any month since the build up. As only six vessels returned and unloaded cargo during the last third of the month, it is likely that a considerable volume of cargo consigned to France was subsequently diverted to British ports.

<table>
<thead>
<tr>
<th></th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>49.9</td>
<td>77.0</td>
</tr>
<tr>
<td>Canada</td>
<td>52.1</td>
<td>61.2</td>
</tr>
<tr>
<td>France</td>
<td>24.6</td>
<td>45.7</td>
</tr>
</tbody>
</table>

4. Relocation of our unofficial exchange has permitted resumption of shipments to Russia in about the pre-May volume.

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Million dollars)</td>
<td>4.0</td>
<td>0.3</td>
<td>4.9</td>
</tr>
</tbody>
</table>

5. Reports to Latin America continued to move ahead in June. The total for the countries available in our preliminary tabulation did not increase as much in June as in the previous month and for individual countries movements were more mixed. The major change was an increase of $4 million for the Argentina.

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Million dollars)</td>
<td>16.0</td>
<td>18.2</td>
<td>18.2</td>
</tr>
</tbody>
</table>

June increases in exports caused almost entirely by Allied war requirements. For the time being these needs have been too offset licenses in the Mediterranean, Dempsey, and Far Eastern. But with the collapse of France the problem of maintaining the volume of exports becomes more difficult, though the British Empire may be expected to further expand its purchases. A large part of our marketed produce is under embargo and has been for some time, that up with the importance and its quantity to the point of no return.
HOW COMPLETELY THE EXPERT INCREASE in June was dominated by war needs is shown in an analysis of the commodity data. The further delimitation of the available trading area resulted in small declines in shipments of many commodities and large decreases of a few, particularly tractors, automobiles, metal-working machinery, coal, and copper. There was also a further sizable decline in cotton and tobacco exports.

A sharp rise in shipments of war materials, however, more than offset these declines. The character of the demand is sufficiently indicated by the few items making major gains: aircraft, semi-manufactured and finished steel products, crude petroleum, and munitions.

**Examples:**

<table>
<thead>
<tr>
<th>Major Decreases</th>
<th>June (Million Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tractors</td>
<td>7.1</td>
</tr>
<tr>
<td>Automobiles</td>
<td>22.3</td>
</tr>
<tr>
<td>Copper</td>
<td>7.2</td>
</tr>
<tr>
<td>Metal-working Machinery</td>
<td>19.8</td>
</tr>
<tr>
<td>Coal</td>
<td>0.5</td>
</tr>
<tr>
<td>Cotton</td>
<td>15.0</td>
</tr>
<tr>
<td>Tobacco</td>
<td>3.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Major Increases</th>
<th>June (Million Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft</td>
<td>22.6</td>
</tr>
<tr>
<td>Steel Products</td>
<td>22.9</td>
</tr>
<tr>
<td>Petroleum</td>
<td>3.4</td>
</tr>
<tr>
<td>Munitions</td>
<td>1.9</td>
</tr>
<tr>
<td>Rifles</td>
<td>0.03</td>
</tr>
<tr>
<td>Machine guns &amp; Ordnance</td>
<td>0.7</td>
</tr>
<tr>
<td>Cartridges</td>
<td>1.5</td>
</tr>
<tr>
<td>Explosive shells</td>
<td>0.03</td>
</tr>
<tr>
<td>Other Ammunition</td>
<td>0.3</td>
</tr>
</tbody>
</table>

**Significance:** It should be noted that a large portion of the June export increase represents the shipment of existing stocks of military equipment and, therefore, did not represent increased demand for the current output of our industries. Practically all the $27 million increase in shipments of munitions and about $2 million of the increase in aircraft was of this sort. Thus $20 million out of the $27 million increase did not come out of current production.
FOREIGN TRADE NOTES

Latin America: A number of letters have been received by the Bureau from American business houses with agencies in Latin America, pointing out the business uncertainty produced by the efforts of the German houses to resume their business relations by promising delivery of German goods in the fall. In some cases the German houses are willing to enter into contracts providing for penalties for non-delivery.

Spain: The influence of Germany on Spanish business is indicated in a recent cable from Madrid to the effect that the German diplomatic representatives have made representations to the Spanish Government protesting against the importation of certain supplies from non-German sources. Certain Spanish industrialists have expressed a fear that German pressure would be exerted against the natural development of Spanish commerce and industry.

Sweden: In a recent cable from Stockholm it is reported that considerable credit will soon be extended by Sweden to enable the Soviet Union to buy Swedish machinery.

Italy: Italian exports to the United States for June show a drop of 80 percent as compared with May. While coal shipments from Germany are claimed to be up to the requirements of about a million tons a month, the rationing of coal is maintained. On July 1 the sale of coffee was suspended and circulation of private automobiles stopped, consumption of sugar for the manufacture of sweets was cut down about 50 percent, and the consumption of rice was restricted until the harvesting of the new crop. Portions of the mobilized troops were furloughed to help out with the wheat harvesting which requires over a million laborers.

Bureau of Foreign and Domestic Commerce
July 17, 1940.
<table>
<thead>
<tr>
<th>Group</th>
<th>1939</th>
<th>1940</th>
<th>'Percentage increase, July 13, 1940 from—</th>
</tr>
</thead>
<tbody>
<tr>
<td>A commodities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm products</td>
<td>75.5</td>
<td>74.6</td>
<td>79.3</td>
</tr>
<tr>
<td>Foods</td>
<td>67.6</td>
<td>66.7</td>
<td>75.5</td>
</tr>
<tr>
<td>All commodities other than</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>farm products and foods</td>
<td>80.4</td>
<td>81.4</td>
<td>82.4</td>
</tr>
<tr>
<td>Hides and leather products</td>
<td>92.6</td>
<td>92.6</td>
<td>98.3</td>
</tr>
<tr>
<td>Textile products</td>
<td>67.1</td>
<td>67.4</td>
<td>72.4</td>
</tr>
<tr>
<td>Fuel and lighting materials</td>
<td>73.4</td>
<td>73.2</td>
<td>74.1</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>93.3</td>
<td>93.5</td>
<td>94.9</td>
</tr>
<tr>
<td>Building materials</td>
<td>89.8</td>
<td>89.7</td>
<td>90.7</td>
</tr>
<tr>
<td>(basics &amp; allied products)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>House-furnishing goods</td>
<td>87.0</td>
<td>87.0</td>
<td>87.3</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>73.3</td>
<td>73.1</td>
<td>76.4</td>
</tr>
<tr>
<td>Raw materials</td>
<td>68.0</td>
<td>66.2</td>
<td>73.0</td>
</tr>
<tr>
<td>Semi-manufactured articles</td>
<td>74.2</td>
<td>74.4</td>
<td>82.0</td>
</tr>
<tr>
<td>Manufactured commodities</td>
<td>79.6</td>
<td>79.3</td>
<td>82.3</td>
</tr>
</tbody>
</table>

Comparable data are not available.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>1939 July 19</th>
<th>1939 August 30</th>
<th>1939 Sept. 15</th>
<th>1940 July 10</th>
<th>1940 July 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper, electrolytic,</td>
<td>lb</td>
<td>10 1/4</td>
<td>10 1/2</td>
<td>12</td>
<td>11 1/2</td>
<td>11 1/2</td>
</tr>
<tr>
<td>New York</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lead, prompt shipment,</td>
<td></td>
<td>4.85</td>
<td>5.05</td>
<td>5.50</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td>New York</td>
<td></td>
<td>4.85</td>
<td>5.14</td>
<td>6.64</td>
<td>6.64</td>
<td>6.64</td>
</tr>
<tr>
<td>Zinc, straits, New York</td>
<td>do</td>
<td>16 1/2</td>
<td>16 1/2</td>
<td>22 1/2</td>
<td>21</td>
<td>19 1/2</td>
</tr>
<tr>
<td>Rubber, plantation,</td>
<td></td>
<td>16 1/2</td>
<td>16 1/2</td>
<td>22 1/2</td>
<td>21</td>
<td>19 1/2</td>
</tr>
<tr>
<td>New York</td>
<td></td>
<td>16 1/2</td>
<td>16 1/2</td>
<td>22 1/2</td>
<td>21</td>
<td>19 1/2</td>
</tr>
<tr>
<td>Mica, Light native</td>
<td></td>
<td>12</td>
<td>11</td>
<td>15</td>
<td>12 1/2</td>
<td>12 1/2</td>
</tr>
<tr>
<td>Cocoa, Chicago</td>
<td></td>
<td>12</td>
<td>11</td>
<td>15</td>
<td>12 1/2</td>
<td>12 1/2</td>
</tr>
<tr>
<td>Silk, 15-15 denier</td>
<td></td>
<td>2.70</td>
<td>2.72</td>
<td>3.21</td>
<td>2.56</td>
<td>2.54</td>
</tr>
<tr>
<td>70% sericline, N. Y.</td>
<td></td>
<td>9.30</td>
<td>8.53</td>
<td>9.41</td>
<td>10.25</td>
<td>10.20</td>
</tr>
<tr>
<td>Cotton, middling, average,</td>
<td></td>
<td>4.3/8</td>
<td>4.3/8</td>
<td>5 3/8</td>
<td>4 3/4</td>
<td>4 3/4</td>
</tr>
<tr>
<td>30 1/2 inches, N. Y.</td>
<td></td>
<td>2/41.5</td>
<td>2/41.5</td>
<td>2/111.9</td>
<td>89.0</td>
<td>87.0</td>
</tr>
<tr>
<td>Futures, New York</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar, raw, 96°, duty</td>
<td></td>
<td>2.88</td>
<td>2.92</td>
<td>3.70</td>
<td>2.68</td>
<td>2.70</td>
</tr>
<tr>
<td>Free, New York</td>
<td></td>
<td>2.88</td>
<td>2.92</td>
<td>3.70</td>
<td>2.68</td>
<td>2.70</td>
</tr>
<tr>
<td>Coffee, Santos, No. 4</td>
<td></td>
<td>4.35</td>
<td>4.36</td>
<td>6.45</td>
<td>4.55</td>
<td>4.65</td>
</tr>
<tr>
<td>New York</td>
<td></td>
<td>5.47</td>
<td>5.65</td>
<td>7.75</td>
<td>5.67</td>
<td>5.75</td>
</tr>
<tr>
<td>Cottonseed oil, Sept.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1940 Futures, N. Y.</td>
<td></td>
<td>1/5.85</td>
<td>1/5.61</td>
<td>1/7.30</td>
<td>6.15</td>
<td>6.08</td>
</tr>
<tr>
<td>Wheat, good and choice,</td>
<td></td>
<td>6.95</td>
<td>6.88</td>
<td>8.13</td>
<td>6.93</td>
<td>6.60</td>
</tr>
<tr>
<td>320-340 lbs., Chicago</td>
<td></td>
<td>6.95</td>
<td>6.88</td>
<td>8.13</td>
<td>6.93</td>
<td>6.60</td>
</tr>
<tr>
<td>750-1,100 lbs., Chi.</td>
<td></td>
<td>6.38</td>
<td>6.38</td>
<td>8.08</td>
<td>9.13</td>
<td>9.13</td>
</tr>
</tbody>
</table>

*Nominal: 2/ October 1939 Futures, 3/ December 1939 Futures, 4/ September 1939 Futures.*

*Sources: All commodities, with the exception of wool tops, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce. Wool tops and cottonseed oil are taken from the Wall Street Journal, and hogs and steers are from the U.S. Department of Agriculture, Bureau of Agricultural Economics.*
American Foreign Service, Hanoi, Indochina,
July 19, 1940.

Subject: Cargo transmitted to China during July, 1940.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 103 of June 12, 1940, in regard to the quantity of cargo transmitted to China via Indochina during the month of May, 1940, and to submit the following information in regard to the quantity transmitted during June, 1940. In summary, it will be noted that the quantity of cargo transported by the railway, the only important means of transportation to China via Indochina, was approximately 11,800 tons – this being the amount transported from June 1 to June 22, the day on which the transit to China was completely stopped.

The following breakdown of the above-mentioned quantity is possible: from Haiphong to Yunnan, 10,513 tons, the amount including 2,205 tons of rice and 228 tons of postal matter; from Hanoi to Yunnan, 923 tons, including 81 tons of rice; and from all other points in Indochina to Yunnan, 296 tons. In addition, about 2,000 tons of coal and construction materials were carried by the railway for its own use.

Other means of transportation to China via Indochina became even more unimportant during June than during preceding months, when the monthly maximum was only a few thousand tons. It is
that on the date of the payment of the cargo to China there remained

the amount of the cargo amounting to 7,000 tons. Consequently, it is estimated

of the amount that more than 90 tons was the cargo in the quantities in the

above quantities, and the quantities in the quantities in the

other parts of the cargo which was then free

there were a number of small

HImatong during the month but these were not more than

2,000 tons. These were so far as I am aware, not transshipped

HImatong during June for transhipment to China, nor were they

arrived at HImatong during the succeeding months.

the import duties were levied on the cargo. The

in the Action Report.

as at least important. In the present situation (despatched on 6th June, 1940)

possible to estimate the quantities of Chinese products which were in the

in holding in India. The small quantity of Chinese Government

of Chinese production. The amount of the Chinese production in

each and every part of the total quantity of cargo transhipped to the

the total quantity of cargo transhipped to the Country.
126,000 tons of cargo at Haiphong and at other points in Indochina, both Chinese Government and commercial cargo.

At this time it does not appear probable that the resumption of transit to China, in important amounts, is possible within the immediate future.

Respectfully yours,

For the Consul at Saigon,

Charles S. Reed II,
American Consul.

In triplicate to the Department (by air mail)
Copies to the Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copies to Consulates, Kunming and Saigon

615.4
CSR:csr
The war and blockade have upset the equilibrium in the international transactions of Argentina. As a result of war policies of the belligerent nations we have accumulated substantial unrealizable balances in blocked currencies; on the other hand the balance of payments in free currencies may show a deficit of more than 450 million pesos in the next twelve months. Our reserves of gold and foreign exchange held abroad amount to approximately 250 million pesos. Under the present rate of deficit accumulation they will be exhausted in the next five months.

The country must export in order to pay for necessary imports. Even if we adopt a policy of drastic curtailment in our imports it is not possible to reduce them beyond certain limits. Moreover, commitments arising from the importation of certain vital necessities must take precedence over and above any other commitments.

The Government is at this moment contemplating the adoption of certain measures in order to minimize the drain on its foreign exchange reserves. These measures will be taken solely with that purpose in view and are to be considered as of an emergency nature.

Imports of goods payable in free currencies, which in this case means chiefly imports from the United States, will be reduced drastically. Certain imports such as jewelry, furs, furniture, perfumes, toys, etc. will be prohibited altogether.

Imports like automobiles, farming machinery, building materials, electrical appliances, transportation equipment, to mention only the most important will be variously reduced to between 40 and 50 percent of the total imported last year.

Iron and steel, industrial equipment, fuel, etc. will
continue to come in as heretofore.

As a second step to be taken at a somewhat later stage the Government is studying the possibility of blocking all private and corporate financial transfers to the free currency countries. It is expected that this will result in a further economy of our rapidly depleting foreign exchange resources.

The Government also intends to take some internal measures such as aid to farmers and other groups which are facing a severe shrinkage in their incomes. We are aware that this and the rearment expenditures will put a severe strain on our finances but they are unavoidable if we desire to preserve our present internal political and social equilibrium. We consider the preservation of our institutions as of paramount importance in order to maintain internal peace and be able to cooperate in continental affairs.

It seems very likely that if active warfare ceases in Europe in the near future our trade with that continent will be carried out under conditions that will not permit a rapid correction of the present situation. The exchange of goods will probably be made through clearing or barter agreements, which naturally will prevent the improvement of our free currencies position.

It is of special interest to note that the German Government has recently approached our Government with a view of starting again the operation of the clearing agreement between both countries which was suspended in September 1939. They expect to be in a position to begin purchases and shipments towards the end of September.

It seems unnecessary to add that in our present situation any buyer of our products would be welcome. And it is also unnecessary to point out that there is no Government in the Argentine that could
refuse to trade with Germany today without exposing itself to the most serious sanctions on the part of public opinion with the natural political consequences.

It would be unfair to our friends in the United States Government if we did not candidly express the feeling prevalent in our country as to the possible outcome of the Havana Conference. Our Government is willing to do its share in bringing about economic cooperation in a continental scale. But past experience have taught us the difficulties involved in such a program and public opinion in the Argentine is highly skeptical as to any tangible and immediate improvement of the present situation resulting from the meeting.

There is no doubt in our minds that the most constructive step that the United States Government could take to help us to meet the present emergency would be to make immediately substantial purchases of some of our surpluses such as linseed, wool, hides and meat. Any such move on the part of the United States would not only result in an immediate improvement in our position but would also be instrumental in bringing about the proper spirit of cooperation in any long term plans that might be developed in this continent.

Any emergency action on the part of the United States of the nature mentioned above should be followed up immediately by some practical and comprehensive trade agreement between the two countries resulting in an increase of our sales in the American market, as well as in greater purchases of American goods on our part. It is to the expansion of our sales here that we must ultimately look to find the means to meet the payments for our imports as well as of all other obligations in this country.
JULY 19TH, 1940.

PERSONAL AND SECRET

DEAR MR. SECRETARY,

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

Believe me,

DEAR MR. SECRETARY,

Very sincerely yours,

[Signature]

THE HONOURABLE

HENRY MORGENTHAU, JR.,

UNITED STATES TREASURY,

WASHINGTON, D.C.
Telegram despatched from London on the evening of July 18th.

1. The "Glasgow-Imogen" collision resulted in one killed, 7 wounded, 23 missing; "Imogen" is abandoned and may have sunk.

2. Bad weather hindered the Royal Air Force operations yesterday; out of 15 Blenheim sorties despatched 11 abandoned tasks. Two aircraft however bombed barges in Zuider Zee and on Bruges Canal and one formation bombed Garc Maritime, Cherbourg, where one Junker 88 was shot down. All our aircraft returned.

Major operations last night cancelled owing to weather, but 6 Blenheims bombed aerodromes, 7 Wellingtons Gelsenkirchen synthetic oil plant and 6 Blenheims petrol tanks at Ghent where operation was successful; elsewhere results awaited. Three aircraft laid mines Frederickshaven area and returned safely.

3. Numerous enemy reconnaissance of English Channel, Southern North Sea and Bay of Biscay as far as Northwest Spain. Yesterday bombs dropped on Portland also Tunbridge Wells and Ashford areas; damage slight, casualties 4 killed, 28 injured. Considerable damage caused upon an Imperial Chemical Industries works at Ardeer. Production not seriously interrupted.
interrupted. Interception by our fighters difficult owing to cloud, but one Junker-88 and one Dornier-17 believed damaged; one Spitfire shot down pilot wounded.

Last night, little possibility of activity. Mine-laying suspected in Bristol Channel, few bombs dropped at Gillingham near Felixstowe and in North area where some damage was caused to railway and road communications.

Regular transport flights continue between Germany and Paris district, and also from Northwest Germany to Aalborg and Celle.

4. U-boat shipping casualties reported yesterday; British “Manipur” (6500 tons) torpedoed in convoy, Swedish “Brutis” (2000 tons) inward-bound from Canada; both July 17th in North Scottish waters. Greek “Io” (3000 tons) torpedoed, probably July 19th. Cable-laying lighter “Steady” sunk by mine.

5. Noahr. On July 19th in Capussa area, 8 field-guns, 3 anti-tank guns, 1 ammunition lorry destroyed by 7th Hussars, 12 prisoners captured. Our casualties one officer killed, one officer and two other ranks wounded. Some motor transports escorted by tanks succeeded in entering Capussa but three lorries containing men were destroyed.

On July 17th 5 British aircraft bombed fuel tanks and coal depot at Tobruk, also aerodrome at Al-Guweil. Results appeared successful.
Merson Boteup, Sidi Barrani and Alexandria bombed July 16th one casualty, one Lycaenae slightly damaged at Sidi was down.

Libya. Reliable indications 80th Italian corps moving to Giremaia. This is the first information of reinforcement from Tripolitania to Giremaia since French-Italian armistice.

Reported that Italian authorities in Libya having great difficulties organising supplies of petrol, water and heavy trucks.

Malta. The Hurricane casualty reported yesterday was first ever Malta since outbreak of hostilities; Italian losses have been 10 confirmed and 7 others probable; our formations of 8 or 8 have sometimes engaged enemy formations up to 30 strong.

Gibraltar. Admiralty reports that Gibraltar bombed 08.00 hours today, particulars not yet available.

Sidi- Our aircraft attacked Sidi night of July 16th - July 17th; fires and explosions observed.

India. Four Wellingtons bombed Aboodat aerodrome, scoring direct hit.

During/
During latter operation, one Wellesley destroyed in collision.

**Sommalland.** On July 18th camel corps patrol attacked and occupied post at Demerabob. Post was destroyed, also twenty thousand rounds small arms ammunition, and counter-attack driven off. Fort then evacuated.

**Reliable report states that Italian pilots are being trained at Grun, Austria, in dive bombing tactics on Junker-87s.**
Both the Secretary and Sir Frederick Phillips thought that much ground had been covered in the conversations held during the week, and everyone seemed pleased with the results. The Secretary told Sir Frederick that he ought to come to this country more frequently, and that he would be glad to welcome him again next summer. When Sir Frederick replied that it was quite difficult for a Treasury official to be away from his Treasury when such large sums are being expended by it daily, the Secretary remarked that Mr. Bell had hesitated to let him read the story of his budget outlook until he was relaxing over the weekend at the farm.

During the series of conferences, there was displayed a tendency on both sides to be frank and helpful. The American group has obtained certainly as complete a picture of the British situation as could have been expected. In turn, the British obviously appreciated the openness with which the Secretary and his assistants discussed matters with them.

The press correspondents thought the communiqué gave more information than was ordinarily made available after such conferences, and were furthermore gratified over the supplementary remarks which Sir Frederick made to them.
Conferences during the past week between Sir Frederick Phillips, Under Secretary of the British Treasury, and Secretary Morgenthau have provided an opportunity for the discussion of questions of mutual interest to the British and American Treasuries.

The British Under Secretary was able to assure Secretary Morgenthau that, while Great Britain is now obliged by the exigencies of war to resort to exchange control and other temporary measures affecting international transactions, his Government plans to return to liberal monetary and trade policies as soon as possible after hostilities cease. Such temporary measures include the arrangement between the financial centers of London and New York inaugurated on July 18 for a system of registered sterling accounts, which should tend toward stabilizing the sterling rate and help protect the American market.

Prospective British purchases in the United States were considered in detail and their effects on the balance of payments between the two countries during the next twelve months were carefully examined.

The controls by the two Governments, as they affect their respective nationals, over assets of invaded countries held in Great Britain and the United States were given attention.

---
The Secretary of the Treasury and
Sir Frederick Phillips, Under Secretary of the
British Treasury, have had a series of meetings
in the course of the last week. They
discussed the financial position of the United
Kingdom with regard to its war effort, and
the effect on the progress of the war of the
German occupation of France and other countries,
the assets of which in the United States have
been frozen. Questions with regard to the
British exchange control policy were also
touched upon. A thorough mutual under-
standing of the position of the two countries
was reached, which will form the basis of
future discussions on any questions affecting
both countries.
The government and the forces of the Reich are committed to the following steps:

1. The exchange of the two prisoners
2. The exchange of the two prisoners
3. The exchange of the two prisoners
4. The exchange of the two prisoners
5. The exchange of the two prisoners

These steps will be taken in the order listed above. The government and the forces of the Reich are committed to adhering to these steps in a timely manner.
He explained that the registered sterling agreement recently formulated between New York and London financiers is expected eventually to help eliminate the wide fluctuations in the free pound value.

"The free sterling market, we hope, is approaching the stage of being defunct," Sir Frederick said. "The sooner that happens, the better."

Sir Frederick, who was accompanied by G. E. S. Pinseit, Financial Attaché of the British Embassy, and T. Kenneth Bewley, of the British Treasury, said that his conferences had been restricted to Treasury officials, except for "a few courtesy visits" which he had made in Washington. He said that he was leaving for Canada today rather than returning directly to England.

Others present at the secrecy-shrouded talks included Merle Cochran, Chief of the Treasury's $2,000,000,000 Stabilization Fund; Undersecretary Bell, authority on freezing arrangements, and Harry D. White, Chief of the Treasury's Monetary Research Division, who is flying to Havana today to join the American delegation to the Pan-American Consultative Conference.
Monthly Changes in Foreign Exchange Position

1. The course of events in the first four months of the war is a subject for academic research rather than one of utility as a guide to the future; the period was marked by wholesale requisitioning of British-owned balances abroad and by vast changes in the method of financing trade due to large scale Government purchases. The precise value of our assets (private plus state) at the outbreak of the war was not then known and could only now be estimated by uncertain calculation working backward from data ascertained much later.

Without having become in any sense stabilised the position since 1st January, 1940, can at any rate be studied.

2. The holdings of gold and foreign exchange (in millions of United States dollars) stood at the dates stated as follows:—

<table>
<thead>
<tr>
<th>Date</th>
<th>31 Dec. 1939</th>
<th>31 Jan. 1940</th>
<th>29 Feb. 1940</th>
<th>31 Mar. 1940</th>
<th>30 April 1940</th>
<th>31 May 1940</th>
<th>29 June 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>2100</td>
<td>2002</td>
<td>1954</td>
<td>1883</td>
<td>1772</td>
<td>1694</td>
<td>1652</td>
<td></td>
</tr>
<tr>
<td>Change on month</td>
<td>98</td>
<td>48</td>
<td>71</td>
<td>111</td>
<td>76</td>
<td>149</td>
<td></td>
</tr>
</tbody>
</table>

3. To find the total monthly drain there must be added the reduction in the securities held. It would be useless to do this by setting out the total market valuation month by month since the figures would then reflect not only sales of securities but also changes in the market value of securities which have not been sold.

The following figures give accordingly the receipts month by month from the sale of securities. The figures include not only direct sales by the

/Equalization
Equalization Fund but also securities sold privately (holders may with permission sell securities themselves and surrender the dollars to the Exchange Control).

Month to:

<table>
<thead>
<tr>
<th>Month</th>
<th>31 Jan 1940</th>
<th>29 Feb 1940</th>
<th>31 March 1940</th>
<th>30 April 1940</th>
<th>31 May 1940</th>
<th>29 June 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts sold</td>
<td>16</td>
<td>25</td>
<td>31</td>
<td>46</td>
<td>20</td>
<td>7</td>
</tr>
</tbody>
</table>

(* not accurately known)

4. The total loss was thus:

- Reduction in gold and dollars: 548
- Sales of securities: 146

   in six months: 694

The pace at which payments fall due will of course increase from now on as war orders are delivered.

5. It will be appreciated that these figures show the net loss after allowing for the purchase of new gold. We have not got the precise figure for June but for the 5 months from January to May the gold purchased was $208 million. But for this, of course, the net loss shown would have been so much higher. The gold purchased is mainly newly-mined gold from sterling area, but in the earlier months included some gold requisitioned from stocks found in the United Kingdom. The latter source of supply seems now about dried up.

6. The estimate of $700 millions for securities remaining as at the present date given in a recent memorandum is reached as follows:

| Market value as at 31st March of registered U.S. securities: 994 |
| Deduct. Amounts sold: 56 |
| Not readily marketable: 100 |
| Losses (e.g. Belgian dollar bonds): 20 |
| Balance: 748 |
| Deduct 17½% for fall in market values: 132 |
| Present value: 616 |

(For corrections made by Mr. Piment on this page, subsequent to delivery thereof to Secretary Morgenthau, see copies made by Treasury.)
This figure has been increased to $700 millions to cover certain Canadian securities saleable in New York, etc.
Monthly Change in Foreign Exchange Position

<table>
<thead>
<tr>
<th>Month</th>
<th>1938</th>
<th>1939</th>
<th>1940</th>
</tr>
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<tbody>
<tr>
<td>Change on</td>
<td>1938</td>
<td>1939</td>
<td>1940</td>
</tr>
<tr>
<td>31 Dec.</td>
<td>1938</td>
<td>1939</td>
<td>1940</td>
</tr>
<tr>
<td>31 Jan.</td>
<td>1938</td>
<td>1939</td>
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</tr>
<tr>
<td>31 Mar.</td>
<td>1938</td>
<td>1939</td>
<td>1940</td>
</tr>
<tr>
<td>31 May</td>
<td>1938</td>
<td>1939</td>
<td>1940</td>
</tr>
<tr>
<td>31 July</td>
<td>1938</td>
<td>1939</td>
<td>1940</td>
</tr>
<tr>
<td>31 Oct.</td>
<td>1938</td>
<td>1939</td>
<td>1940</td>
</tr>
<tr>
<td>31 Dec.</td>
<td>1938</td>
<td>1939</td>
<td>1940</td>
</tr>
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Monthly Change in Foreign Exchange Position

Regraded Unclassified

Regraded Unclassified
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<tbody>
<tr>
<td>Reduction in gold and dollars</td>
<td>16</td>
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reduction in gold and dollars 548
sales of securities 132

in six months 680

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<th>Market value as at 31st March</th>
<th>$ million</th>
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</thead>
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<tr>
<td>of registered U.S. securities</td>
<td>924</td>
</tr>
</tbody>
</table>

Deduct: Amounts sold 56
Not readily marketable 100
Losses (e.g. Belgian dollar bonds) 20

Balance 748
Deduct 17-1/2% for fall in market values 132
Present value 616

This figure has been increased to $700 millions to cover certain Canadian securities saleable in New York, etc.
Mr. Pole

Mr. Cochran

will you kindly send the following cables:

American Embassy London.

For Butterworth from the Treasury Department.

The following communiqué has been given to the American press today noon:

"(see attached text)"

(a similar message should be sent to Berlin for Beth and to France for Mathew.)

B. M.
Conferences during the past week between Sir Frederick Phillips, Under Secretary of the British Treasury, and Secretary Morgenthau have provided an opportunity for the discussion of questions of mutual interest to the British and American Treasuries.

The British Under Secretary was able to assure Secretary Morgenthau that, while Great Britain is now obliged by the exigencies of war to resort to exchange control and other temporary measures affecting international transactions, his Government plans to return to liberal monetary and trade policies as soon as possible after hostilities cease. Such temporary measures include the arrangement between the financial centers of London and New York inaugurated on July 18 for a system of registered sterling accounts, which should tend toward stabilizing the sterling rate and help protect the American market.

Prospective British purchases in the United States were considered in detail and their effects on the balance of payments between the two countries during the next twelve months were carefully examined.

The controls by the two Governments, as they affect their respective nationals, over assets of invaded countries held in Great Britain and the United States were given attention.

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Prospective British purchases in the United States were considered in detail and their effects on the balance of payments between the two countries during the next twelve months were carefully examined.

The controls by the two Governments, as they affect their respective nationals, over assets of invaded countries held in Great Britain and the United States were given attention.

WELLES
(Acting)

SAME TO

AMERICAN EMBASSY BERLIN, as Department's 2001, July 19, FOR HEATH FROM THE TREASURY DEPARTMENT.

AND

AMERICAN EMBASSY PARIS, as Department's 827, July 19, FOR MATTHEWS FROM THE TREASURY DEPARTMENT.
July 20, 1940

Mr. Livesey

Mr. Cohan

Will you kindly send the following cablegrams:

"American Legation Bern.

For the Minister from the Treasury Department.

The following communiqué was issued to the press on

July 19:

"(See attached text)"

Please provide the Swiss Minister of Finance and the
Swiss National Bank with copies of this communiqué. A
copy may also be given unofficially to McKittrick."

[Signature]
Conferences during the past week between Sir Frederick Phillips, Under Secretary of the British Treasury, and Secretary Morgenthau have provided an opportunity for the discussion of questions of mutual interest to the British and American Treasuries.

The British Under Secretary was able to assure Secretary Morgenthau that, while Great Britain is now obliged by the exigencies of war to resort to exchange control and other temporary measures affecting international transactions, his Government plans to return to liberal monetary and trade policies as soon as possible after hostilities cease. Such temporary measures include the arrangement between the financial centers of London and New York inaugurated on July 18 for a system of registered sterling accounts, which should tend toward stabilizing the sterling rate and help protect the American market.

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The controls by the two Governments, as they affect their respective nationals, over assets of invaded countries held in Great Britain and the United States were given attention.
PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Bern.
DATE: July 20, 1940.
FROM THE TREASURY DEPARTMENT FOR THE MINISTER.

On July 19 the following communique was issued to the press:

During the past week conferences between Secretary Morgenthau and the Under Secretary of the British Treasury, Sir Frederick Phillips, have provided an opportunity to discuss questions of mutual interest to the Treasuries of Great Britain and the United States.

Sir Frederick Phillips was able to make assurances to Secretary Morgenthau that although Great Britain at present is forced, by war exigencies, to resort to exchange control and other measures of a temporary nature affecting international transactions, the British Government intends to return to liberal trade and monetary policies as soon as possible after the war is over. The temporary measures referred to include the arrangement between the New York and London financial centers, which was inaugurated on July 18, for a system of registered sterling accounts. This arrangement should not only help to protect the U.S. market, but should tend toward a stabilization of the sterling rate.

British
British purchases in this country which are in prospect were discussed in detail. A careful examination was made of their effects on balance of payments between Great Britain and the United States during the coming 12 months.

Attention was also given to the British and U.S. controls, in the light of their affect on their respective nationals, over the assets of invaded countries held in the U.S. and Great Britain. (End of communique.)

You are requested to give copies of the above communique to the Swiss National Bank and the Minister of Finance of Switzerland. McKittrick may also be given a copy, unofficially.

WELLES (Acting)
(FL)

EA: MSG
Reference is made to my memorandum of July 17 asking for any information which you might receive in confidence upon German balances with the Chase or other banks in New York.

For several months I have been obtaining through Mr. Knocks of the Federal Reserve Bank confidential information with respect to Russian and Italian transactions through the leading New York banks. Some time ago Mr. Pinset told me of inquiries which he had made in New York with the view to obtaining from certain banks friendly to his country information in regard to German operations on this market. At that time he said he had been advised by such banks that they made confidential reports to the F. B. I. on any unusual banking transactions involving Germany. I have made no attempt to confirm this. Unless you or Mr. Gaston may be receiving such reports from the F. B. I., I think we should inquire of the F. B. I. as to whether there are such reports. If the F. B. I. is not receiving reports on German banking operations, I suggest that we endeavor to obtain such data, either through Knocks at the Federal, as in the case of Russia and Japan, or through the F. B. I. My preference would be to try Knocks first.
GROUP MEETING

Present: Mr. Bell
          Mr. Thompson
          Mr. Haas
          Mr. Young
          Mr. Graves
          Mr. White
          Mr. Sullivan
          Mr. Schwartz
          Mr. Cochran
          Mrs Klotz
          Mr. Foley

H.M.Jr: Chick, I wish that you and Cochran would get busy and write me a little something for - that we might submit to Sir Frederick Phillips when he comes in at 11:00 in the way of a release. I will appoint Bell and Cochran and Schwartz to get together right after this meeting. Are you going to the Red Cross?

Bell: 11:30.

H.M.Jr: Well, if you will come in. I don't think it will last very long. I have got nothing to take up.

Schwartz: We will have a draft.

H.M.Jr: And then is Haas so he can go ahead now on his dollar requirements for England? Are you all set, George? Your orders, the way I asked you.

Haas: Yes. As soon as I get the "go" sign, it is all right.

H.M.Jr: The "go" sign?

Bell: Do you mean with Purvis? Purvis said the other day that he is prepared to discuss with Haas' people that new set-up on accounts, the payments made on accounts.

H.M.Jr: I outlined, I want the total outstanding contracts in dollars, if possible, and how they will be distributed by months on deliveries.
I thought I went all over that with you and I asked you to go into Bell's office.

Haas: Then you were going to have a meeting with Phillips to see if you could get all of it to run through the Commission.

H.M. Jr: Well, don't wait for that, just start on it and as we begin to find out things, we will put them in, but start the thing going as of the first of July, will you?

Haas: Yes.

H.M. Jr: I want a report as of July. Then as soon as you have got that lined up, we will take on Canada and then we will go after one right after the other and force these different countries to put their monies through one account in the Federal.

Bell: Well, one organization, I would say, not one account. They have a Canadian section in Purvis' organization that is now giving George information on contracts. They don't give it on the payments or by months.

H.M. Jr: If George will do this and then if you will make a note for me, Purvis will be here Tuesday and I will take up with him the question of forcing it through one account. We will take on Australia next.

Bell: You don't mean one account, you mean one organization, don't you? You can't merge all these dollar balances.

H.M. Jr: No, the Canadians will have an account with the Federal Reserve and the Australians will have an account. Each of these Dominions will have an account.

Bell: I don't think that is so important as it is to get it to go through Purvis so you get uniform reports on all of them.
H.M.Jr: I agree with you, but the other is to check on him. George, are you ready now?

Haas: Yes.

H.M.Jr: Go to it. England and Canada.

Haas: We might as well take Australia, too, because we are getting that.

H.M.Jr: Take them all.

Bell: I think everything that Purvis has.

Haas: He has all the British Empire.

H.M.Jr: You think he has.

Haas: Well, he has some information on it. He has only partial information on Great Britain but most of it is coming through. All the steel is coming through.

(Mr. Foley entered the conference)

H.M.Jr: Come on, now, come on. We are just holding your chair right here.

White: Stand him in a corner.

H.M.Jr: We all listened to Mr. Roosevelt last night. That is no excuse.

White: One of the big discrepancies that we thought—which lead us to assume that we were not getting all the figures has been partly explained. We have said that the Federal Reserve Bank records in New York were indicating that the Government expenditures were several times larger than what we were getting through that account. We made investigations and it appears tentatively that they are including in those Government expenditures things which should not be included.

H.M.Jr: All right. Now, between you (Schwarz) and Bryan downstairs, see whether you can get —
have you got a pencil?

Schwars: Yes, sir.

H.M.Jr: Captain Kelsey, Air Corps, just returned from England. See if we can’t get him an invitation to address the Press Club at their luncheon. I will underwrite it that they will be interested. I have been trying to think of a way to merchandise this fellow and if you could get him this week to address the Press Club, I will guarantee they will be sitting on the edge of their seats.

Schwars: Next week.

H.M.Jr: The sooner the better. Of course, Bryan will have to do it through the Army, but if you have any trouble let me know and I will take it up with the President. I don’t want the Treasury to appear in it. You and Bryan have heard what a wonderful guy this is and you think it would be wonderful for the Press Club to hear him and I will guarantee that it will be a good story. Everybody that has listened to him has been thrilled.

Bell: Is that something he can say publicly?

H.M.Jr: Off the record, yes.

Bell: Yes, but you will have the German correspondent there.

H.M.Jr: Well, it will be good for them, too.

Schwarz: Sure. They attend the White House conferences, also.

H.M.Jr: Harry, here are some figures on scrap iron for Japan. I don’t want to mix the two things up.

See what they think, Chick. If you can get away with it, it will be swell.
This J.H.L., why don't you just ask about it?

Cochran: We have checked through their list of directors and don't find anything.

H.M.Jr: Why not ask them?

Cochran: I can ask them all right.

H.M.Jr: I would just ask them pointblank, have they sent - is it J.H.L. sends $550,000 to --

Cochran: It is being paid to him, reportedly. I don't know whether we have found anything or not. I telephoned today. He didn't report to you, Dan, did he, on that?

H.M.Jr: I would just ask.

Cochran: We can do it.

H.M.Jr: But how could they give $550,000 through France? How could they do that?

Cochran: Well, it would be already on deposit over here, you see, in the name of Lazard Freres at Chatel Guyon.

H.M.Jr: But how did they get the money actually to France?

Cochran: No, it isn't in France, you see. It is here and it is in the name of the French-American Banking Corporation of Lazard Freres at Chatel Guyon.

H.M.Jr: On their own books?

Cochran: Yes, the books of the French-American Banking Corporation.

H.M.Jr: Who is that?

Cochran: That is a bank in New York which is half French and half American.
H.M. Jr: Supposing they had done it, what harm
would there be in it?

Cochran: Well, the British would like to see us
keep that in a blocked account.

H.M. Jr: Keep what in a blocked account?

Cochran: This whole amount. This man, J.H.L., may
be an American, you see, and if it would
get out of this French account, then it
would be absolutely free to use any way
they wish.

Bell: Unless we allowed it to be transferred but
stipulated that it could only be transferred
to an American if we know it is French funds
but they would have to get a license.

H.M. Jr: This Lazard crowd is an awfully smart crowd
and I would be very curious to know what
they are doing.

Cochran: We will find out.

H.M. Jr: I think the easiest way to find out is to
ask them and then if necessary take a look
at the books. It would be very funny if
this turned out to be Mr. Paul Reynaud's
money or something like that.

Norman?

Thompson: The President has approved the appointment
of Mr. Johnson.

H.M. Jr: Where was your publicity on all these letters
and stuff? Did you give it out?

Schwars: We gave out the statement but no letters.

H.M. Jr: The exchange of letters.

Schwars: No, sir.

H.M. Jr: I thought that was part of it.
Schwarz: Not according to the message I received. Some of that was used. It was on the wire yesterday.

H.M.Jr: What, the letters, too?

Schwarz: No, just the announcement that he was leaving. At the same time in New York they announced that he was reselected Executive Vice-President of the Lines.

H.M.Jr: The President approved this?

Thompson: Yes. Forster said he was sending it right over to you.

Schwarz: I am ready on the --

H.M.Jr: What did you say?

Schwarz: I am ready on the new Commissioner when I get approval.

H.M.Jr: Well, don't we swear him in or something?

Thompson: He doesn't need to take an oath. He is already in the service.

Schwarz: We should if we can, I believe.

Thompson: We didn't do it for Clifford Mack.

H.M.Jr: No. What do I hand him?

Thompson: Just the order.

H.M.Jr: What is the order?

Thompson: That is assigning Customs to Mr. Gaston.

H.M.Jr: Herbert will be sick before we stop.

What else?

Thompson: I have an appointment here for Professor Bernstein. That is all.
H.M. Jr: Daniel?

Bell: Bob Rose would like to take a vacation Sunday. He has arrangements made with a party. He says he won't go if you want him to stay for this OCC financing but he thought that Allan Sproul could take it over.

H.M. Jr: Sure. Talking of vacations, I hope to leave here on the 26th and be gone for a week, see, and then I thought that you, Dan, might leave on Friday, August 2nd.

Bell: Any time, I don't mind.

H.M. Jr: I am leaving Friday, the 26th. We can overlap. Even if you left August 1st, Thursday, see --

Bell: Friday will be all right.

H.M. Jr: ....or Friday, the 2nd, and planned to get back here on the 12th or 13th.

Bell: That is all right.

H.M. Jr: That would give you a little break.

Bell: It is all right with me.

H.M. Jr: I hope to take another week sometime in August. You (Sullivan) will get a week off. Any of the rest of you, if you want to go away when I am away, talk it over with Thompson.

Ed, do you want to go away when I go away?

Foley: Yes.

H.M. Jr: How would that be?

Foley: All right.

H.M. Jr: Whenever your tax bill is due, you go.
Sullivan: Thanks.

H.M. Jr: Marle, do you want to leave?

Cochran: I don't think I would want to right then. Maybe some time in August.

H.M. Jr: Phil, I think a week would do you good.

Young: I would rather do it in August some time, if that is convenient.

H.M. Jr: Chick, what about you?

Schwarz: I would like to stay at home, in town.

H.M. Jr: Well, talk it over - just fix it up.

Haas: I would take it any time. I would like to have it then.

H.M. Jr: Around the 26th?

Haas: Any time suits me.

H.M. Jr: Well, I think - why don't you take it on the 26th?

Haas: Yes.

H.M. Jr: Harry is having a week beginning tonight.

White: If I can stand when I come back, I would like to take it.

H.M. Jr: Harold?

Graves: I think I will ride around the country a little.

H.M. Jr: This is all right with me. I want to sit around for a week. All right, everybody has his own choice.

Bell: I will have a memorandum for you this afternoon on this budget situation, in so
far as I have been able to get it. I suggest you read it just before you come back to the Treasury and it won't spoil your week-end.

**H.M. Jr:** Well, incidentally, on this debt limit and all --

**Bell:** Well, that is included in here and we can discuss it the first of the week.

**H.M. Jr:** When are you going to give it to me?

**Bell:** Tonight. I think the first of the week we ought to talk about it. It ties in with John's program on his tax thing.

**H.M. Jr:** Well, John asked me how new money we want and I am just stabbing in the dark. The trouble with these New Deals, I say I want a billion or two billion and Randolph Paul - whew, whew, my, my! They can't take it, you know, until they see what it looks like.

**Sullivan:** It is a question of getting it.

**H.M. Jr:** It is a question of taking it.

**Sullivan:** Getting it.

**H.M. Jr:** Taking it.

**White:** You have got to take it before you can get it.

**H.M. Jr:** It is a funny influence. I don't know what happens to these fellows. They come down here and work in the Treasury and then something happens to them.

**White:** They get stomach trouble mostly.

**H.M. Jr:** All right.

**Sullivan:** But I have got to answer that question Monday.

**Bell:** This last National Defense message, if the Army estimates are correct, the National
Defense expenditures will go from three billion six to about five billion seven. Your deficit will go from four billion one to about six billion three.

H.M. Jr.: Well, along - if I had that and then if you could give me a piece of paper showing what the rates would be for 500 million, a billion, a billion and a half, two billion --

Sullivan: The first two are all you want to see on this one.

H.M. Jr.: You'd be surprised.

Sullivan: I think you are going to be.

H.M. Jr.: Nothing surprises me these days.

Sullivan: I get what you mean and I am with you on that one.

H.M. Jr.: Well, we have got a Republican running.

Sullivan: Where are we going to hang his picture in here?

Foley: Did you see what happened to the New Hampshire delegation? Did you notice they were for McNutt?

Sullivan: Yes. And a hundred percent of their votes were for Roosevelt. Where were yours?

H.M. Jr.: How did we get on this, anyway.

Thompson: I don't know.

Bell: I wonder how it all started?

H.M. Jr.: I liked that gesture. All right.

Bell: This is acknowledging a letter from a guy down in Tennessee who - they think he did a great job on this last issue.
(Mrs. Klotz entered the conference)

H.M.Jr.: You had better stay around. We get very raucous around here.

Klotz: I missed something.

Bell: The President asked you to designate a Treasury representative on a committee to study for the next few months the Government's participation in unemployment compensation. Heffelfinger, assistant to me, has been on that job two or three times. You can just initial the top one.

H.M.Jr.: Harold?

Graves: Nothing.

H.M.Jr.: Harry?

White: We received a letter from the Department of Commerce informing us that they unfortunately have to drop giving us these current trade data because Congress deprived them of their funds. We learned from somebody who does them there that it probably doesn't amount to more than five hundred dollars or so and they could put a man on. If we asked them for the figures, they would have to give them to us. Is it all right with you if we find we have to ask them for it?

H.M.Jr.: Why, sure.

Bell: Five hundred dollars --

White: They will have to find that money. I don't think it amounts to much more than that. I think that is why they stopped doing it, they thought that would give them some additional reason why they should get more money.

H.M.Jr.: If they haven't got enough money, let's take the Bureau and bring it over here.
How is that for an idea?

What else, Harry?

White: Separating departments from bureaus is quite a job.

H.M. Jr: As Ed Foley said last night, make Harold Ickes Secretary of Agriculture and then see whether he still wants the Bureau of Forestry to go to Interior.

George?

Haas: I have nothing.

Schwarz: I have nothing.

Young: There are two ship cases coming up, so I understand. One is immediate and one not so immediate. Also, there seems to be a system whereby shipments of raw material are going to Italy via Brazil.

H.M. Jr: Before you get off this shipping thing, I signed a memorandum on procedure yesterday. On this ship thing, it flows - when Gaston is here - Huntington Cairns is held responsible. It flows from Huntington to Gaston to me, and give him (Young) a copy of that memorandum, will you? I get a memorandum every morning on it now, so I think the best thing - if you have something, I think the best thing would be to tell Huntington.

Bell: Phil got his from the fellow in Cairns' place, didn't you, Phil?

Young: Yes.

H.M. Jr: Well, I just signed this thing yesterday. Phil is carrying enough.

White: Who is responsible where you have shipments prohibited to certain countries and the shipment is taking place possibly through
a third country? Is that the Customs?

H.M.Jr: Colonel Maxwell.

Young: I should think it would be the export control responsibility.

White: Not the Customs? In other words, it is not a question of their determination as to whether the shipments are going to the forbidden spot indirectly or directly.

Young: Well, your export control licenses theoretically have to show the country of ultimate destination, even though there is trans-shipment.

White: And it is not the Customs responsibility?

Young: No.

White: Because up to now we have been following the ships and their ports, which we stopped last week under the assumption it is not our responsibility, so I take it that is all right.

H.M.Jr: Well, is this something important that is going via Brazil?

Young: No, but evidently a good deal of stuff has gone in the latter part of June. Steel, aluminum, manganese, and there is evidently a good deal of stuff now in warehouses in New York for the accounts of these same firms.

H.M.Jr: How does that come to you, Phil?

Young: This came from a letter from Harry Durning to Basil Harris. It originally came through a letter to you from J. Edgar Hoover, calling attention to some items and the Customs uncovered a lot of other items which were not contained in the original message.

H.M.Jr: If you could give me the facts and prepare a letter for me, I will write a letter to
the President bringing this to his attention. I would like to do that this morning.

What else?

Young: Is there anything new on this Swedish ammunition, as far as you know, because evidently the Swedes are still planning to ship it on the next boat and --

H.M. Jr: They still haven't --

Young: They refused to revoke the license and I understand now the President has told Secretary Hull that he wanted the stuff to go out. Have you heard that one?

H.M. Jr: Quite the contrary. I will bring it up again. Outstanding licenses.

Young: Evidently the intention of the Swedish Government is to sue if the next ship is stopped with the ammunition on it.

H.M. Jr: Good. All right.

Young: That is all I have.

Cochran: Do you want to see our draft of the statement before Sir Frederick Phillips comes?

H.M. Jr: Whenever it is ready, let me know.

Cochran: You were speaking to me on the telephone on this subject (handing memorandum to Secretary).

H.M. Jr: Yes.

Cochran: That will just remind you then if you want to speak of it later.

White: You might be interested in a cable that came in yesterday that contained a copy of a statement in one of the British papers which assumed that Sir Frederick Phillips was here to take up one of the very things that you suggested he should be interested in with respect to the Latin American markets. They assumed that was one of the things he was going to discuss.
Cochran: That is all.

Sullivan: There is a vacancy on the Processing Tax Board of Review and the Chairman has written to you asking that that be filled. I think it would be a mistake to do that until after the Hathcock matter is disposed of.

H.M.Jr: I will accept your suggestion.

What else?

Sullivan: That is all.

H.M.Jr: Ed, this joint memorandum, Foley-Young, on priority of national defense, would it be all right if you fellows waited until I read this over the week-end?

Foley: Yes.

H.M.Jr: And then I think this - you see, I got this, so to speak, by accident, but if we are preparing any of this kind of stuff, from your shop particularly, for the National Defense Council, I would like to be kept posted who is working in your shop for any particular person and what they are doing, you see. This may be all right and then maybe it might cross up something that I am trying to do.

Foley: That is what we brought it to your attention for. Nelson asked Cox.

H.M.Jr: But I asked for it. It didn't come to me voluntarily.

Foley: I didn't know that.

H.M.Jr: I asked Phil Young to find out what the status was because he was having trouble with Nelson and I said, "I want the show-down on Nelson, has he got the authority to find out from Ed Foley - has he got the authority to force England to give up some of its engines," you see. And then if you are going to do anything for Knudsen --
Foley: Yes.

H.M.Jr: Just keep me posted. I am glad you do it and I like you to do it just as long as I know what is going on.

Foley: All right.

Keller of Chrysler Corporation came in with his lawyer, Nick Kelly, Dan, last night and he submitted to Knudsen certain plans and statistics in connection with additional plant facilities for Chrysler to build tanks.

H.M.Jr: Tanks.

Foley: He wants the Government to build a plant. He doesn't want to borrow money, and I think he is probably right because we don't produce tanks except for one customer and only at the time of preparedness. He wants it done exactly the same way as the powder plant is being done out in Indiana.

H.M.Jr: What do I do?

Foley: Nothing, I was just telling you.

H.M.Jr: Oh, good.

Talking about a story, in writing a story I guess it is just as well on the Curtiss-Wright thing - I had two meetings with Guy Vaughn and started the whole thing here and practically had it sewed up two months ago.

Schwarz: There is a lapse of time of two months.

H.M.Jr: Incidentally, and this is very much in the room, last night at my house, Phil, between 11:00 and 12:00 - and Ed, particularly - after leaving the British Embassy, I gave Purvis this idea, that he could make a great hit with Knudsen if he would say to him, "Now look, instead of all of us fighting over the existing pool of engines, let's increase the production and have enough to go around.
And therefore I, on behalf of the British Government, am willing to start this formula of one and one and we will give you an order for 6,000 engines of the largest horsepower of Curtiss-Wright to be built in this plant in Ohio if the United States Government will match it with an order for 6,000," and he is doing that this morning. I don’t know how he figures it. He figures 125 million dollars and he is going to offer to buy 6,000 of the biggest horsepower engines that they can produce if the United States Government will do the same.

I said, "If you offer that, Knudsen will go on the Hill and get the money next week." Then they have got an order which solves all the problem, gives us an additional pool of 12,000 engines and they can have those, begin to get those, by the first of July next. That is the way to do, not sit around and try to take the stuff away from them, but produce more. Purvis was crazy about that and I wanted him to get the whole credit so that - you know, Knudsen will feel kindly disposed toward him. I don’t need it and he does. Is that an idea?

Foley: Yes.

H.M.Jr: Those engines cost about $15,000 apiece.

Foley: That would be 90 million.

H.M.Jr: I guess he figured with plant and everything.

(Mr. W. R. Johnson entered the conference)

Hello, Johnson. Come here, Commissioner. Here you are.

Johnson: Thank you.

H.M.Jr: With the approval of the President. You earned it.
Johnson: If I continue to earn it, I will be satisfied.

H.M. Jr: I will expect you to.

Klotz: Congratulations.
Dear Mr. Morgenthau,

I am giving this letter to my friend, Mr. R.J. Stopford, who is coming out to the British Embassy at Washington in order to be Second Financial Adviser to the Ambassador, with the rank of Counsellor. You and your staff are likely to be seeing something of him from time to time and I would like you to know that he is a close friend of mine and a man of high capacity and accomplishment. He has had a wide experience of financial problems in Central Europe, and of late has been helping the British Treasury here in London. I feel sure that he will make a good contribution to that close understanding between the American Government and our Government, which is one of the main grounds for hope for the cause of freedom throughout the world.

Believe me, dear Mr. Morgenthau, yours very sincerely,

Simon

Henry Morgenthau Sr., Jr.,
Secretary to the Treasury,
Washington.
Present: Mr. White
Mrs Klotz

H.M.Jr: Last night I was at the British Embassy. Besides the Ambassador, there were Sir Frederick Phillips, Mr. Bewley, Mr. Casey, the Australian Minister, Mr. Stimson, Mr. Knox and Mr. Weir, who is in production of England's steel, and Arthur Purvis.

After dinner Lothian got Casey to tell about what Australia was doing in the way of getting ready to manufacture planes and after he got through Mr. Stimson said, "Well, that is all very nice but how can you expose Australia this way to Japan by giving in to Japan on the Burma Road?" And he said, "The only way to treat Japan is not to give in to her on anything." Well, this seemed to upset Lothian quite a lot and he said, "Well, Mr. Casey and I went to see Mr. Hull and told him that we would say no to Japan if the United States would join us." He said, "As a matter of fact, we did say no in the first instance, but the United States would give us no assurance, so we had to say yes."

Lothian got quite excited and said, "Well, after all, you are continuing to ship aviation gasoline to Japan," and as much as said, "What right have you got to criticize us?"

So I spoke up and said, "Well, nobody has asked me or even suggested to me that we stop shipping aviation gasoline," so Stimson said, "Well, if you had read my speeches over the last year or so, I have been saying so right along." So then Lothian said, "Well, why don't we do on the gasoline to Japan what we have been doing in connection with the oil to Spain?" I said, "What do you mean?" He said, "Well, we got talking about it today." (In checking this with Purvis after both Purvis and I agreed - then we only thought of it during the evening when Stimson put the heat on.)
His suggestion was this. He said, "If you will stop shipping aviation gasoline to Japan," he said, "we will blow up the oil wells in Dutch East Indies so that the Japanese can't come down and get that, because," he said, "we have all felt that if we put too much pressure on Japan they would go down there and take those oil wells."

Well, for the moment my breath was taken away and I asked him - I said, "Do I understand, Mr. Ambassador that if the United States agrees to stop the shipment of aviation gasoline, that the British Empire will simultaneously blow up the oil wells in East India?" "Well," he said, "that is my idea. I can't talk for my Government." But I said, "Would you be willing to propose it?" and he said, "Absolutely."

Of course, the idea is so exciting, and I said, "I will make the suggestion at once."

I then had Purvis walk down to the house with me and in talking with him I said, "The thing to do is to do it this way; the way to do it is this way: When we talked about oil to Spain in Cabinet last Friday, Mr. Iokes said he would be willing to say from the survey he has recently made that he - for conservation reasons we should stop the export of American oil, and if Iokes would make that statement and we stopped export of oil --"

White:

From the United States?

H.M.Jr:

From the United States. That would keep the State Department from opposing the idea and say if we just did it against Japan it would be an excuse for war, because it would be applying an embargo and then it would be up to us to find out and make certain that there is enough oil flowing from Venezuela and Colombia which the British could get to take care of themselves. I told Purvis that the thing
sounded so simple that I didn't see why we couldn't accomplish it.

To go back, really this whole chain of thought was really started by this man Weir, who said, "After all --" He said, "This whole war is a war of oil and one of propulsion," and he said, "The Germans are entirely dependent on their high octane gas, on getting it out of coal," and he said, "In our bombardments we are concentrating on the synthetic manufacturers of gasoline, which are the most vulnerable."

Then Casey gave us a lot of figures that he had just gotten from the high Commissioner of Australia in England, which I want White to get and check against ours, which he says that the Germans will be up against it for oil this fall and he has checked those figures, evidently, with the Standard Oil of New Jersey, but I really have to give Weir the credit for starting this train of thought.

White: Is this the Weir from National Steel or from England?

H.M. Jr: This is Lord Weir's brother and he is here on steel production. He has got nothing to do with the other. He is coming in at 9:00 o'clock. He is a smart fellow.

What I want White to do is, if we have Cabinet, I want to prepare this in a memorandum form for the President; one, we propose to have the President add to his strategic list of twenty articles, all oil.

White: Oil and their products.

H.M. Jr: All petroleum products, based on a survey of the Department of Interior, for conservation reasons.

White: This survey has been made or will be made?
H.M.Jr: Has been made. Ikes said it was practically finished.

White: Then we can say it is based on it.

H.M.Jr: Somebody should make sure that there is enough oil in Venezuela and Colombia, and White can look that up.

White: We have that information.

H.M.Jr: And also where the refineries are. One is in Trinidad and the other is on a Dutch possession.

White: Curacao.

H.M.Jr: Which is Dutch?

White: Yes.

H.M.Jr: But anyway, are the refineries such that they make the high octane gas that England needs, and this oil also will have to take care of Portugal, and I am going to give White this memorandum and I think it is an amazing memorandum. They have gone right jumped to it, and at my suggestion, on Spain.

White: We prepared the basis for it, the justification for stopping oil.

H.M.Jr: Well, England has just gone to it - they are going to - the suggestion that I made to stop oil to Spain, they have already done it.

White: Oh. Well, I was thinking of the oil boat that we had leaving.

H.M.Jr: Well, anyway, now --

White: Mexico, you haven’t touched that.

H.M.Jr: And we have got to have an agreement with Mexico.

White: Lots of room for it.
H.M. Jr: We can have an agreement with Mexico, and I was telling Purvis about the idea that we had originally, that for five or ten billion dollars several years ago you could have bought up strategic materials and only given them to those countries which are not aggressors and I said this thing that I am talking about, one month of the war would pay for whatever the cost would be of blowing up the oil wells in the Dutch East Indies.

White: There are only two main sources left. One would be the island of Sakhalin for Japan and the other, Rumania. All three are controlled by Russia.

H.M. Jr: Now, on this I want to get the figures because Casey made a statement that Japan had been buying 500 million dollars worth of oil products a year from us, which I think is crazy.

White: Japan has been getting 500 million dollars of oil?

H.M. Jr: Yes.

White: Nonsense!

H.M. Jr: But anyway, what we ought to have is the figures and the breakdown, if possible - I mean the dollar figures on oil for the first six months of this year if we can get it, to Japan, and how much of that is aviation gasoline, and what our shipments of oil are to Russia, because they have been quite heavy to Vladivostok.

White: To Russia?

H.M. Jr: Yes.

White: Aviation gasoline shipments have been very small.

H.M. Jr: Anyway, the principal thing is that you
can knock this together for me. I don't know whether the President will have Cabinet or not, but if he doesn't, I will send it over.

White: What time would you go over?

H.M.Jr: I would go over at 2:00, but I would like to see you about a quarter of 1:00.

White: We will have it. We have got a lot of that material.

H.M.Jr: But this thing is very, very --

White: That is the crux of this --

H.M.Jr: ....thing. It can be done so fast. I said to Purvis, "Now look, what I'm asking is, is it going to be business as usual or will the English really play ball?" And the answer to the memorandum is, "No business as usual."

Now, the other thing which I gave to Purvis was this, on the aviation engine situation; while I was sitting there listening to them talk, it suddenly occurred to me that what they - the fight going on in the last couple of days, how can they take some of the engines away from the English, principally the ones that England got from France, and redistribute them and no one has been thinking about how to increase the pool, so I told Purvis that the trouble that we were having and had had over Curtiss-Wright to get them to sign up a contract and go out in Ohio and build a new plant, but the principal basic reason for the trouble was that they had no orders and that therefore if he would make the suggestion this morning, taking full credit to himself, in order to put Knudsen in the mood that he would be under obligation to Purvis, and call up Knudsen and say, "Now look, I am ready to place an order for 6,000 engines with Curtiss-Wright at their new plant if you will place an order for 6,000 engines, these to
be the highest and largest horsepower that
Curtiss can build," something in that 2,000
or 2,200 horsepower, that would increase the
pool by 12,000 engines and establish with
him at this time this basis, one and one,
that Knudsen talked to me about yesterday.
Well, at first it took his breath away but
he said, "By golly, I will do it," and he
said, "That is the answer, because everybody
is fighting over the existing production
and nobody is doing anything to increase it;"
and he said, "I will call up Knudsen the
first thing in the morning and tell him I am
ready to place an order," and he figured it
was 125 million dollars, and that was all
between 11:00 and 12:00 last night.

White: Did Lothian say he would communicate with
his Government?

H.M.Jr: No, he is waiting to hear from me.

White: Incidentally, you might add for the record
that the reason why I think they are able to
add gasoline to the list is Treasury's con-
tribution to the law, which was passed, per-
mitting the President to place an embargo
on strategic materials. As it was going to
pass, our lawyers thought it wouldn't include
oil, so I came to the committee and gave it
to them to go over it and see whether it
was airtight and they said the way it was
written it wouldn't include oil, so we went
back and we had the word "operation" added,
which made possible oil. It is interesting
just for the record.

H.M.Jr: Wonderful! Who did you give that to?

White: Well, Cairns, chiefly, and a couple of his
men.

H.M.Jr: Wonderful!

Now, the other thing - this is extra-extra-
confidential. I told Purvis that I - through
very confidential sources - that I knew that Lockheed had developed a four-engine stratosphere plane which had certain features which were better than anybody in the world had and that if he got busy he ought to be able to buy some of those and he would be ahead of the whole world and he was very much interested in that. And incidentally, that was the plane that they ought to get to establish service between England and Canada.

White: And Lothian is waiting to hear from you and you are waiting to hear from the President?

H.M.Jr: The next move is from me and that thing, I want that back because they placed it right in the State Department's lap with this Spanish thing.

White: You are familiar with the steps they are considering taking to stop oil boats to Spain from here?

H.M.Jr: I have stopped them. It is entirely my idea.

White: Oh, you stopped them? Why did they ask us - yesterday we had to prepare a memorandum to find out what their normal needs were.

H.M.Jr: I am trying to justify what I have done. It is entirely me. I am trying to justify it. It has been done.

White: I see.

H.M.Jr: But this thing - and Stimson is a man who likes to talk in a big, broad way, but I don't know when it comes down to doing something in the War Department whether he is going to be responsible, whether he is the kind of man who will do it.

On the other hand, Knox impresses me as the kind of fellow who will take the same kind of chances I am taking in the Navy Department. I may be wrong. Time will tell. But is this exciting?
White: Oh yes, very. If you can stop Japan from getting oil and gas and if you can also restrict the supply that is going to Germany, you have hit the vital spot and at the same time you have done the dual objective of taking care of China as well as --

H.M.Jr: I told Purvis this: I said, "This thing, if we could do this and you fellows would blow up the wells, it would simply electrify the world and really put some belief in England."

White: That is right. I think you are a hundred percent right.

H.M.Jr: And he said, "Well, one thing that everybody comes back with is that the spirit was lacking in France to fight," but he said, "In England the old ladies are waiting there with their darning needles to stick them into a German." He said, "That is the way they are." He said, "The spirit is there but it wasn't there in France."

But if you picked up a paper on a thing like this - and I want again to say on the record that Mr. Roosevelt's entire political future depends on England continuing to win.

White: Double check. You see, it won't do any good for the Japanese to go after the Dutch East Indies if you destroy the oil, because the more they go after it, the more oil they need.

H.M.Jr: Do you know how far it is down there? 3,000 miles, they said, from Japan to the Dutch East Indies. Look what it does to Australia. They are shaking like an aspen leaf and this just takes the thing - and this fellow Lothian, I am convinced, only thought of that because he got angry at Stimson and wanted to make a - well, we are willing to do this if you are willing to do that.

White: If his Government backs him up, I will be very surprised.
H.M.Jr: You read that memorandum and you see, I am not communicating through Lord Lothian to the English Government. I do it through Purvis and Purvis has got plenty of contacts and he drags Lothian along with him and everybody was there when he made this statement.

White: If you could do this, you are doing more for China than any other thing you could do.

H.M.Jr: It isn't that, the whole Pacific, because at the rate they are going, if we don't do something and do it fast, Japan is going to just gobble up one thing after another.

White: The recent overturn in Government certainly would seem to indicate that.

H.M.Jr: But if we do this, the State Department can't say it is an act of war because we don't let any oil get out of the United States at all.

White: You say that Ickes will say we need all the oil we have got?

H.M.Jr: For conservation reasons.

White: And we certainly ought to be able to make an arrangement with Mexico.

H.M.Jr: We will pay her whatever is necessary.

White: And Venezuela and Colombia will be taken care of through England.

H.M.Jr: You have got to get their production figures.

White: And of course the British and American companies are dominant in both Venezuela and Colombia.

H.M.Jr: Yes, and all the ships going down there will fly either England or Norwegian flags, to Venezuela or Colombia.
White: Yes, that is right.
H.M.Jr: We won't let any American flagships go down there.

Are you excited?

White: Very. This is very good. I am very glad I stayed.

H.M.Jr: Oh well, this is - Harry, this is the most exciting thing.

White: This has real prospects. If England will only back you up on this, this is - this can turn the tide of events.

H.M.Jr: England will back us up. Now don't worry, after you read that memorandum. As they say in England, they have got their wind up at last.

White: You don't - you are in no doubts that Iokes will support you on this thing?

H.M.Jr: He wouldn't - will Iokes support me?

White: On the conservation.

H.M.Jr: One hundred percent.
RE CONSERVATION OF OIL

July 19, 1940
3:45 p.m.

Present: Mr. Foley
        Mr. White
        Mrs. Klotz

H.M.Jr: Now, here is what happened --

(To Lieutenant McKay) Mac, somebody in the
State Department calls up Admiral Stark
and asks him why we don't let the Swedish
ship sail and she sailed last Saturday and
I blow up at my people, Mac, and Admiral
Stark is suddenly asked - that somebody in
the State Department is worried about that
ship that Mr. Hull talked about last Wednes-
day. It has just got to Admiral Stark now.
Isn't that marvelous?

Foley: Mac, will you tell Commander Derby down-
stairs to let that tanker down in New Orleans
go to Japan?

McKay: That is the one that was held up by Navy?

Foley: Yes, by Navy, by mistake.

H.M.Jr: Now, I wanted to know about the background of
this. I am not going to tell him now, but
you tell him, you see. I want three people
in the Treasury to know about it and nobody
else, because - in other words, you are going
away, you see what I mean, and I don't want
to find myself yelling because nobody in the
Treasury knows about it.

White: Nobody knows about it in my shop. There is
just one boy who works on oil, but he doesn't
know what it is about.

H.M.Jr: I want you to tell Ed. It is terrible on your
nerves, isn't it?

Klotz: I haven't seen you like that in a long, long
time.

H.M.Jr: In going over with the President - you will
have to get this thing, the President - I
told the President that this thing might give us peace in three to six months and he read the thing very carefully and read this Purvis memorandum and he read this memorandum which I signed. I will lend these to you (Foley) and then see that they go in the safe, will you please, tonight? The President was tremendously interested. He said this is very much along the idea he had a couple of months ago whereby he was talking about blocking all of Europe and just leaving a small channel open directly to England through which all ships would have to pass. He didn't say at this time that the plan that he had was when the U. S. Navy would cooperate with the British Navy.

He then went on down and talked about the wells in Iraq, and so on. After we had been going on about half an hour, they came in and said Stimson and Knox were outside and he said, "What do you think about having them in?" I said, "By all means," they were great guys. The President said nothing tickled him as much as the magnificent letters of congratulation he got from Stimson and Knox and he told them that.

As the thing went on Welles called up and congratulated him and he asked what I thought of having Welles come in and I said, "By all means."

Well, everything went swell until Welles came in and then Welles said this would put the people out of work in Colombia and Venezuela, and so forth and so on. I said, "Well, the payrolls can't be more than five or ten million dollars down there and we can shut out the wells and it is cheap." Well, that was that. What about Mexico? So the President said his method would be - this country - to say to an oil operator, "What is your average production last year?" and then pay him to store the oil in the well and then buy
it whenever we need it, not to build storage capacity.

White: Not store it in tanks?
H.M. Jr: No, right in the well. Shut the well off.
White: Some wells can do that.
H.M. Jr: Sumner Welles' objection was that he thought that if we put this plan in now that it would immediately cause Japan to declare war on England. Stimson and I argued very hard against this and Stimson gave his usual argument, that the only way to treat Japan is not to retreat. And then Welles talked about - just about half way making peace for China and Japan, that is what we want.

I said, "Mr. President, only ten days ago you told me to go ahead with T. V. Soong on a Chinese-Russian-U. S. deal to keep China going and I think we should keep them going," and I said, "When we loaned them the money on the night that Canton fell and everybody in the State Department except Sumner Welles said Japan would do this and that they have never done anything yet," and I said, "Canada shut off the nickel and we shut off the molybdenum to Japan." So Welles kept arguing and said, "Why, this is going to have - Japan will immediately declare war on England." Neither Stimson or Knox agreed with him. I said, "Supposing we do nothing and in the next couple of months England goes under." I said, "Won't Japan go down there and take everything in the Pacific, anyway, and then where are you?" He argued and begged and pleaded that we only do this for Europe and leave out the Far East and I said that oil was like water in an ocean, you take it out one place and unless you control the whole thing, it just seeps all over, so I suggested that the person who would be naturally suited for this thing would be Harold Ickes, because he is a conservation man.
When Welles kept arguing against it in a stage whisper, which I am sure was heard, I said, "Mr. President, what you need is a new broom on this."

At the beginning, Knox was a little timid but as the argument went along he got better, and the final thing is, the President says, "Well, Henry Morgenthau and Welles should see the British Ambassador about this thing," and I am supposed to see him at 6:00 o'clock at my house Monday evening, so I mean for the President to say for me to do it is all to the good.

So I said to Summer, "Just for my own interest, did Mr. Hull do anything about the Venezuela-American companies operating there?" He said, "He did nothing and I started it all this morning."

You (Poley) get the picture of it. I said that England, in order to show its good faith, should do what Lothian said they should be willing to do, namely blow up the oil wells in the Netherlands East Indies, Dutch East Indies, and Welles - Summer Welles said if they did that, Japan would immediately declare war. Stimson said, "Why should they declare war if you take the reason for them going down there away from them?" Welles had a bad time over there.

White: They might hope to get them started again in a few months, but still I don't see what they are going to fight England with.

H.M.Jr: It is the most thrilling thing that has happened.

White: Moreover, doesn't Lothian have an idea? If he was ready to do this --

H.M.Jr: It was his suggestion.

Foley: How about scrap iron?
H.M.Jr: Well, I didn't want to bring it up, you see, because this thing is a natural, Ed, on a question of conservation and national defense. We don't let any oil go out of this country. Now, if we begin scrap iron, then the State Department will say Japan will fight, but they can't say Japan is going to fight if we are doing this as a matter of conservation and national defense. We will say no oil can leave the U. S. and that was the trick in this thing that pulled the main argument away from the State Department so that it had no argument. If I say scrap iron - "Aha, see," and so forth and so on, and I said to Sumner Welles, "There will be no possible misunderstanding. I am doing this only for peace and only to bring about peace."

(Telephone conversation with Lord Lothian follows;)

Regraded Unclassified
H.M.Jr: Hello.

Lord Lothian: Mr. Secretary?

H.M.Jr: Hello.

L: Hello, Mr. Secretary.

H.M.Jr: Yes, good evening.

L: Lord Lothian here -- we've just been looking at the situation about oil. I can send you some notes about it if you want it which arrive on Monday, but the most urgent thing is that the Japanese are buying vast quantities of it all over the world at this moment.

H.M.Jr: Well, for your confidential information, we had a long talk with the President today. He gave us almost two hours, and the President has asked Sumner Welles and myself to see you and Welles was going to suggest, if it was agreeable to you, that we'd meet at my house at 6 o'clock on Monday so that it'll attract no attention and the President also, I mean, to show you the importance he put on it, both Mr. Stimson and Mr. Knox were present.

L: I see.

H.M.Jr: And I told the President everything that happened at your house last night.

L: Well, that's very good. I'll get all the information I can together that we've got here about it. The most striking thing is that the enormous -- they're buying a million barrels at this moment and they're buying it all over the world.

H.M.Jr: I think you'll find that we're ready to go -- just meet you, I'm talking, half-way anyway.

L: Yes.
H.M.Jr: You see the President was enough interested to give it almost two hours.
L: Well, then, I'll -- that's 6 o'clock.
H.M.Jr: Well, Mr. Welles will call you on this.
L: Yes. All right.
H.M.Jr: So I thought it had better come that way.
L: All right, Mr. Secretary.
H.M.Jr: But then I'll look forward to seeing you.
L: All right, then. Well, I'm much obliged to you.
H.M.Jr: Thank you.
L: Thank you very much.
H.M. Jr: Can we get a better demonstration than that?

White: Well, apparently England is not worried about Japan declaring war against them if they do this, because they volunteered to do it.

H.M. Jr: I have got to tell --

White: If Welles --

H.M. Jr: Harry, if you can tell me who is the appeaser over there and who is the buck passer, I would like to know. If you ever heard a more beautiful Chamberlain talk than I listened to Sumner Welles give about Russia and Japan and Russia and China getting together, and then of course China wouldn't - everything is going to be lovely.

White: He says Russia and China will get together?

H.M. Jr: I mean Japan and China. Everything is going to be lovely. And after that then Japan is going to come over and kiss our big toe and say, "We love you, darling."

White: And then England and Germany will get together and it will be still more lovely.

What was the President's reaction? Was he sympathetic with Welles?

H.M. Jr: No. He listened very closely. He didn't say much, but thank heavens we have a Simpson with us.

White: He supported you, did he?

H.M. Jr: Oh, baby!

Klotz: Can I say something?

H.M. Jr: Yes.

Klotz: Phil Young said if Sumner Welles came over here, were you going to talk to him about Bloch-Kaine.
H.M. Jr: Not today.

White: Did they say anything about how you might finance the whole thing?

H.M. Jr: No. We will let Lauoh Currie think up a way.

White: Yes, we will figure out a way.

H.M. Jr: It is peanuts. We can't bother with peanuts. Just put on another excess profits tax.

White: It is all music to my ears.

H.M. Jr: It is just peanuts.

(Telephone conversation with Purvis follows:)
July 19, 1940
4:22 p.m.

H.M. Jr: Hello.
Operator: Mr. Purvis. Go ahead.
H.M. Jr: Hello.
Arthur Purvis: Hello.
P: Good afternoon, Henry.
H.M. Jr: How are you?
P: Fine, thank you. I rang our friend Knudsen this morning after talking with Maurice Wilson and made the suggestion to him just along the lines we talked.
H.M. Jr: Yes.
P: He told me, however, that the Curtiss Wright deal was going to be made in any case in the next few days with United States money under the R.F.C.
H.M. Jr: Right.
P: Now then I said to him, well, now is there any other enterprise. I said, we're so anxious to see the size of the kitty enlarged as distinct from this foolish business of fighting around as to who gets what out of the existing kitty that we are prepared to go a long way in joining in any joint enterprise which will increase its size and we're thinking in terms of another order for 6,000 in conjunction with you on the same basis if there is anybody who can do it.
H.M. Jr: Fine.
P: He said, well, I don't think there is anybody. I said, well, now, will you please comb that
over very carefully because we are all out on that one thought how to get it bigger, not how to divide up what we've got.

H.M. Jr: Wonderful.

P: And so I think we've really started it out rightly anyway and on Tuesday it gives us an approach at least, and I have Maurice Wilson sold completely on that thought.

H.M. Jr: Well, what he most likely has in mind is this -- he's had so much trouble closing the Packard deal because Jones didn't want to lend the money when two-thirds of the order was going to England and he most likely has in mind, let him close this deal and sign it up and then give them an order.

P: Yes.

H.M. Jr: You see?

P: He said that he was really going to place an order and I said, is it a big thing. He said, yes, it's of the size that you're mentioning which I take it would mean 12,000, and he said, I hope to close it in three or four days.

H.M. Jr: Well, he has no money for that purpose.

P: Has he not?

H.M. Jr: I don't think he's got a dollar for that.

P: Well, now, he spoke, you see, so firmly and I went back at him two or three times.

H.M. Jr: Maybe he has but I don't know where he'd get the money from.

P: Well, we stand anyway so that on Tuesday we shall be in the same position that that is our view. Now, of course, I put it to him along the line that I would like before Tuesday's meeting, that we were completely sold at this end and we didn't think we'd
have any more difficulty in getting a favorable backing on that from London than we did in the last case and, therefore, what we wanted to do was to be in position so as to say go ahead. And he said, well, there's nothing that we want from you at this minute. I said, well, I shall come back to this on Tuesday.

H.M.Jr: Good for you and now it's up to him.
P: It's up to him now.
H.M.Jr: Right. Thank you.
P: And now there's one other thing. Oh, I found a very, very disgraceful thing. I found that I had brought back with me memorandum.

H.M.Jr: (Laughs).
P: What shall I do with it.
H.M.Jr: Just send it down to Lothian.
P: I'll send it down to Lothian with the suggestion that he exert such pressure as he can.
H.M.Jr: Right. Just put it in an envelope and say that I gave it to you.
P: Yes, that's right.
H.M.Jr: He's waiting for it.
P: All right. Thank you very much.
H.M.Jr: And the third thing that you couldn't remember that I spoke to you and I remembered ......
P: I remembered after.
H.M.Jr: Those high-altitude bombers.
P: That's it.
H.M. Jr: O. K.
P: I remembered it after. Thank you very much.
H.M. Jr: Good-night.
P: Good-night.
Foley: Kmdsen called and said that he was getting more statements from the RFC, that none of their money could be used to finance facilities where they were to be employed for British use, build engines for sale to the British, so he said he had to have a show-down with Jones and would I give him an opinion by Monday, which I promised to give him, that the RFC does have the power.

H.M. Jr: Now look, this is the thing and put it in an envelope and leave it in the safe so that I can have it the first thing Monday morning, will you?

White: We will give it to Miss Chauncey.

H.M. Jr: If you put it in an envelope and seal it --

Foley: I can keep it in my safe.

H.M. Jr: All right. That is all. This has been a big day.
July 19, 1940
10:45 a.m.

H.M.Jr: Hello.
Operator: Mr. Hoover. Go ahead.
H.M.Jr: Thank you.
J. Edgar Hoover: Hello.
H.M.Jr: Hello, Morgenthau.
H: Yes, sir. Hoover talking.
H.M.Jr: I got your letter about that business up with the Purchasing Mission.
H: Isn't that an amazing thing?
H.M.Jr: Yeah.
H: I mean, it's just characteristic of the way they do a whirling dervish, you see. However, we're going to keep a weather eye on the thing just the same because this fellow up there apparently at first -- I don't know whether he was just dumb or whether he was paid or what it was, but he had a talk with Purvis and then he came back again and indicated that it wasn't anything of any consequence, that the French had copies anyway over on the other side and so why bother about it. But I think it's characteristic of their activities.
H.M.Jr: Uh-huh.
H: I'm also taking steps to pass on informally word about that to the British Intelligence that are in this country because they are very much annoyed at the inefficiency of several of these British agencies over here and they're giving a little bit of attention to it and working pretty close with us.
H.M.Jr: I see. Good. Now, what I'm calling you about is this -- for some time I've got -- oh, if there's anything special goes on and any banking
transaction to either Italy or Russia, 
these Banks telephone the Federal Reserve 
they let me know right away.

H: Yes.

H.M.Jr: I've been surprised to find out that we 
weren't doing it for Germany. I'm going to 
start it but I wanted to make sure that I 
wasn't doubling up on you.

H: No. No, I think that's perfectly fine. As 
a matter of fact, I'm sending over to you 
today a list of transfers through the 
American Express Company of sums of money 
to people on this side through banks on this 
side which the British have just given me 
which I think will be very interesting to you.

H.M.Jr: Well, I'll be glad to get it but we get any -- 
any bank that has any unusual transaction 
for both Russia and Italy telephones us but 
they don't for Germany.

H: Fine. Well, it seems to me you ought to 
cover all three.

H.M.Jr: I'm going to cover them today.

H: And then if anything outstanding appears 
if you'd just let us know we might want to 
check in on their funds, you see......

H.M.Jr: That's right.

H: ..... on the spending of any money that they 
got and so forth.

H.M.Jr: That's right.

H: Yes.


H: Good-bye.
SECRET

July 19th, 1940

Dear Mr. Secretary,

I enclose herein a copy of the memorandum about relief supplies for Europe which I promised you last night.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

[Handwritten note: Prof. Chamberlain, please read and discuss with me, H. M.]

Regraded Unclassified
AIDS ENOIXE.

His Majesty's Government in the United Kingdom have recently been examining the question of relief for territories under German control, and feel it important that the results of this examination should immediately be known to the United States Government.

His Majesty's Government have reached the conclusion that they must treat Germany and the territories under her occupation on the same footing, since supplies admitted to the occupied territories must inevitably either fall into German hands or release other supplies for the enemy.

There is no doubt that Germany has it in her power to see that the inhabitants of her occupied territories are adequately fed; there may be scarcity, but Germany has or can obtain from sources immediately accessible sufficient supplies to avert famine. The Germans indeed boast of their ability to feed the conquered territories and as recently as June 27th a German broadcast went so far as to say that, while Mr. Hoover's plans for relief in France, Belgium and Holland deserved commendation, the German authorities had already taken all the necessary steps for the feeding of the populations.

While, therefore, His Majesty's Government appreciate to the full the humanitarian ideals which inspire the desire now becoming apparent to supply relief to the stricken territories, they are convinced that it would be entirely mistaken policy to lengthen the war by allowing Germany to be assisted in the
difficulties which confront her and which are of her own creation. Painful as the decision is, they have, therefore, decided that no exemption from contraband control can be accorded for relief goods.

For the reasons given in the second paragraph above, His Majesty's Government feel obliged to treat unoccupied France for all contraband control purposes in the same way as occupied France. France is well known to be self-supporting in essential foodstuffs and any willingness to allow relief supplies to enter would simply be an encouragement to Germany to remove supplies from France for her own use. His Majesty's Government cannot, therefore, contemplate any general scheme for facilitating the passage of foodstuffs to the former, although in view of the special problems caused by the influx of refugees into unoccupied France and the dislocation of communications, they have agreed to give safe conduct to Marseilles for certain ships already on route for France with cargoes of food.

His Majesty's Government realize that their decision may lay them open to criticism, the sincerity of which is beyond question. But their intention is to win the way in the shortest possible time and so to liberate the peoples from Nazi oppression. They believe that this decision will help them to achieve this. They therefore hope that the United States Government will be able to see the question in
in this light, not as a measure which will inflict avoidable hardships on the helpless, but as one which will shorten the struggle and hasten the day when Germany's victims can regain their liberty and the world enjoy a prospect of lasting peace.

BELFAST EMBASSY,

WASHINGTON, D.C.,

July 17th, 1940.
Dear Professor Chamberlain:

Will you please read the attached and return it to me when you have finished. The Secretary would like to have a conference on this and other related matters tomorrow morning at eleven o'clock in his office.

D.M.B.

[Signature]
Buenos Aires, July 19, 1940.

No. 975

REQUEST OF THE DUTCH MINISTER REGARDING TRANSFER OF FUNDS

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to inform the Department that my Dutch colleague, Mr. P. E. Teppema, called on me today with regard to difficulties he is experiencing in connection with the transfer of funds in the account which he holds in the New York branch of the Bank of London and South America, Ltd., 55 Cedar Street, New York City.

Mr. Teppema stated that, in addition to carrying an account with the above bank, they also hold certain securi-
ties for him and pay into his account dividends from these securities as they accrue. While, under our Government's decree following the German occupation of The Netherlands, credits of Dutch nationals in the United States are not subject to transfer abroad, Mr. Teppema has in the past months not experienced any difficulty in having funds transferred from the New York branch of the London Bank to the Buenos Aires branch. He states, however, that he has just been informed by the Buenos Aires branch of the bank that in the future a special permit will have to be secured in each case, which naturally presents certain difficulties and occasions certain delays and inconvenience to him. For this reason he has asked me whether it would be possible, through the good offices of the Department of State and our Treasury Department, to arrange to have a "blanket permit" issued to the New York branch of the bank to enable the transfer of funds as requested, on the understanding that these funds would of course be used by him only for local use here in Argentina in buying pesos and would not under any circumstances be transferred to Holland or to territory occupied by Germany. Mr. Teppema points out that the Argentine Government has issued a decree similar to our own which, if any further assurance were needed, would be an effective guarantee to our Government against such funds being transferred to German-occupied territory.

I should appreciate receiving from the Department, if possible by air mail, word as to what if any action the Department may find it possible to take in the above matter.

Respectfully yours,
FOR THE HONORABLE SECRETARY OF TREASURY,

LORD BEAVERBROOK TOLD ME TODAY HE IS SHIPPING YOU
A JUNKER ENGINE FROM A JIG UNIT EIGHT EIGHT (JU88) ALSO
A DAIMLE BENZ 601.

ON MAGNETIC MINE DETONATOR HE WILL LET YOU KNOW
LATER.

I HOPE THE ARMY AND NAVY CHIEFS AS WELL AS YOURSELF
REALIZE THAT IN MY TWO AND HALF YEARS HERE I HAVE NEVER
HAD SUCH COOPERATION AS I AM GETTING FROM LORD BEAVERBROOK.

MR. KENNEDY

TOR CORDEROM 2115
July 19, 1940

Dr. Herbert Feis
Henry Morgenthau, Jr.

Will you please transmit the following cable for me:

"To: Ambassador Kennedy, London
From: Henry Morgenthau, Jr.

I wish you would express to Lord Beaverbrook my sincere appreciation for the splendid cooperation which he is giving us, and I want to thank you personally for your admirable cooperation."

Regraded Unclassified
July 19, 1940

Dr. Herbert Feis
Henry Morgenthau, Jr.

Will you please transmit the following cable for me:

"To: Ambassador Kennedy, London
From: Henry Morgenthau, Jr.

I wish you would express to Lord Beaverbrook my sincere appreciation for the splendid cooperation which he is giving us, and I want to thank you personally for your admirable cooperation."

Regraded Unclassified
July 10, 1940

Dr. Herbert Feis
Henry Morgenthau, Jr.

Will you please transmit the following cable for me:

"To: Ambassador Kennedy, London
From: Henry Morgenthau, Jr.

I wish you would express to Lord Beaverbrook my sincere appreciation for the splendid cooperation which he is giving us, and I want to thank you personally for your admirable cooperation."
NAVY DEPARTMENT  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
WASHINGTON  
19 July 1940

My dear Mr. Morgenthau:

This will acknowledge receipt by Admiral Stark of confidential reports, Part I - Airplanes, and Part II, Airplane Engines, which information carries through July 13, 1940.

Yours sincerely,

W.R. Smedberg, U.S. Navy
Lieutenant, Aide to Admiral Stark.

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D.C.
Present:  Mr. White  
          Mr. Foley  
          Mrs. Klotz  
          Mr. Thompson  
          Mr. Young  

H.M.Jr:  All I got was an hour and forty minutes.  
White:  Did you get something else?  
H.M.Jr:  Knox, Stimson, Welles and I.  
White:  You rang the bell?  
H.M.Jr:  Yes. Where is that thing, anyway? I start to do something and one of my clerks - I told Harry White to give you (Mrs. Klotz) a piece of paper. (Lt. to Pres., 7-19-40)  
Klotz:  A carbon copy, yes. I have it.  
White:  What a week!  
H.M.Jr:  I can't even get one person to run this ship business. It is the most asinine performance I ever saw. Somebody is going to get canned around here.  
White:  Well, Cairns' father died.  
H.M.Jr:  Well, God damn it, I signed a memorandum that if Cairns was sick, that there should be a second man, a third man, and when one man goes the whole thing gets --  

(Mr. Thompson and Mr. Young enter the conference)  

Just as soon as Huntington Cairns isn't here - I drew up a letter and I have got to handle this whole ship business every time there is a ship moving and I have got to handle it. Now, I drew up this thing about a second and third man. I am sick and tired of it. With 75,000 people, every time something goes wrong I have to handle it. I have had an
hour and forty minutes with the President. I come back here and everything is always dumped in my lap. Isn't there anybody who can take some responsibility off me? There isn't a single person who will take the responsibility. I come back here every single time and every little ship movement, I have got to do it myself. It is outrageous. Somebody around here could say yes or no and take a chance for me.

(Telephone conversation with Admiral Stark follows.)
July 19, 1940
3:59 p.m.

Operator: Go ahead.

H.M. Jr: Hello.

Admiral Stark: Hello, Mr. Secretary.

H.M. Jr: What's the trouble, Admiral?

S: What's that?

H.M. Jr: What's the trouble that -- can I be helpful -- Morgenthau.

S: I don't think so. What happened was this, Mr. Morgenthau. The State Department called up last night -- Mr. Hornbeck -- and said that he was very -- that the Department was, and I asked him if Mr. Hull felt this way. He said, yes, very strongly -- he wanted to stop these very heavy shipments -- (do you suppose we're safe on this line?)

H.M. Jr: Yeah, you're perfectly safe. My line is checked; I don't know about yours.

S: Yes, well ...

H.M. Jr: My line is checked all the time.

S: Well, this goes through our exchange -- I can get you through the White House if you'll let me call you back.

H.M. Jr: That's all right.

S: All right, sir. I'll call you right back through the White House.

H.M. Jr: Thank you.

S: All right.
July 19, 1940
4:00 p.m.

H.M.Jr: Hello.
Operator: Go ahead.
Admiral Stark: Hello.
H.M.Jr: Yes, Admiral.
S: ..... and wanted to know if there was any way we could solve the stopping of these shipments. Well, I got hold of Spear this morning and he found out what he could about them. As you know, they're not only very heavy shipments of aviation gasoline in barrels to Japan -- exceedingly heavy, all to be delivered, I believe, next month; also shipments to Spain and Portugal. Just how large these were to be I don't know. Now I mentioned it to the Secretary this morning -- we were going to do what we could -- and he said he had understood from you last night that you were stopping these shipments.

H.M.Jr: Well, now, Admiral, may I interrupt?
S: Yes, sir.
H.M.Jr: Triple, triple confidential. I had an hour and forty with the President on this subject at which Colonel Knox, Colonel Stimson, Mr. Welles and I were present.
S: Yes.
H.M.Jr: And I think the thing is just about over. I mean, I was there and I think that if you would speak to Colonel Knox that he could bring you up-to-date on this thing.
S: All right.
H.M.Jr: And the trouble is, the President gave certain orders to the State Department which were never carried out until I called up Mr. Welles
today, and he gave these orders over a week ago.

S: Is that so?

H.M. Jr: Over a week ago he gave his instructions on shipments to Spain at Cabinet and they were never carried out.

S: ..... came to me yesterday afternoon about 6 o'clock.

H.M. Jr: Well, they weren't given to the Navy, but the State Department.

S: Yeah.

H.M. Jr: Only today does Mr. Welles when I called him up this morning -- has ordered Herbert Fels to go to New York to see the oil companies and the whole thing -- Colonel Knox was with us there, he's entirely familiar with it and I'm afraid you've just got one end of the typhoon.

S: Well, I mentioned it to him this morning and the first he'd heard of it too was last night, I think, with you. But I told Mr. Hornbeck what little I knew of it and that I would -- and that the Secretary -- I had told him what had happened, that we didn't see how we could do anything and what had happened to the Belgian ship and the Swedish ship and that I would do nothing unless the Department asked me to do something.

H.M. Jr: Well, now, is there some particular ship in question?

S: No, I think it was general. They said that there was -- I think it was a Swedish ship clearing for Spain.....

H.M. Jr: Well, you see, Admiral ..... 

S: ..... they were embarrassed in stopping her and apparently thought they couldn't do it. Then they said the Belgian ship clearing for Japan was more or less in the same boat so I don't know .....
Well, the trouble is this, Admiral. That Swedish ship cleared last Saturday.

Last Saturday!

Oh, I thought this was something that had broken about ....

Well, I just -- the State Department just drives me crazy and Mr. Hull called up Wednesday and wanted to know about this Swedish ship. I said she'd cleared last Saturday. Now the only two ships we're holding are two American flagships and at the meeting where that was discussed Mr. Compton and Admiral Spear were present.

Yes. That was some time ago. I know about that.

Well, nothing had happened since then and that Swedish ship in question which evidently has now gotten down to somebody in the State Department was cleared last Saturday.

Yeah. Well, they're pretty well behind time, I'd say.

Well, if we call a spade a spade, the President told Mr. Hull he wanted this done a week ago today, Mr. Welles gets back this morning and I asked him about it and told him what the President said and it was only done today. That has to do with Central and South America and Spain. But Colonel Knox is up-to-date on this thing and it's just too bad that these people in the State Department are just about a week late.

Yeah.

Now what I'm saying is just between the two of us.

Yes, all right. All right, thank you.

Thank you.
H.M. Jr: I apologize to all of you, but I am over
tired and this stuff - this is the answer.
Nobody is at fault, but I am just - I can't
do it all, but nobody is at fault, so I
am sorry, but I do these things on my
emotions and I get things done and I am
entitled to blow up once a month.

Klots: Yes, sir.

Thompson: Oftener than that.

White: I would say you were entitled to about
four times.

H.M. Jr: I mean, to come back after an hour and
forty minutes and to be half way through
one of the most important things I have
ever done and then to be told about all
this stuff has upset me.

Thompson: Well, you had an able predecessor here.
Mr. McAdoo used to blow up.

H.M. Jr: I am sorry. I thought you fellows were to
blame, but I can't blame you and they are
still talking about a ship which sailed
last Saturday.

Foley: Does the oil thing apply only to Spain,
Mr. Secretary, or does it apply to Japan?

H.M. Jr: The only thing, as of today, is a matter
of policy. I can't go into the whole story
now, because I am pretty nearly shot. If
I put this thing across - I went over with
a plan on one piece of paper and I told him
he could stop this war in three to six
months and he took an hour and forty minutes
and called Stimson and Knox and Welles and
dropped everything. He thought it was that
important. I am not going to go into it
now, but right now there is nothing except
what we were talking about, Spain. We have
got Japan in mind and that is - but --
Poley: The reason I asked --

H.M.Jr: That is next, but as of now, no.

Poley: There is a tanker with some fuel oil that wants to sail from New Orleans to Japan. We let her go.

H.M.Jr: Let her go until we get this thing cleared, but only today - it is the most outrageous thing I ever heard of. When I told Mr. Welles what I wanted to see him about at 3:00 o'clock, about this Central American business, he immediately gets Herbert Feis in New York and starts talking to the countries in Central America about this thing. Nothing was done. We wrote Mr. Bell - or Mr. Bell wrote Mr. Hull on the sixth of July. Today I got a letter signed July 17th handed to me on this thing. I mean, it is outrageous and I get mad at my people because - for no reason because I thought that somebody had muffed the thing.

Poley: As far as Huntington is concerned, his father died.

H.M.Jr: I understand, but --

White: Is there anybody else in his place?

Poley: Certainly. Ernest Feidler sits at his desk and I have just spent an hour with Commander Derby.

H.M.Jr: I can't help it if the State Department calls up Knox over a ship that sailed last Saturday and I got mad at you fellows, as I say, but run along. Good night. I will feel better.
WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON  

July 19, 1940.

Dear Mr. Morgenthau:

Thank you very much for the following reports which you sent me on July 18, 1940:

Part I - Airplanes
Deliveries of and New Orders for Airplanes, May 1 - July 13, 1940; Unfilled Orders and Estimated Deliveries on July 13, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane Engines, May 1 - July 13, 1940; Unfilled Orders and Estimated Deliveries on July 13, 1940.

Faithfully yours,

[Signature]

Chief of Staff.

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.
WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

July 19, 1940.

My dear Mr. Secretary:

Thank you for letting me have the report of Mr. Carl Ward upon his return from France. I read it over carefully and am passing it on to the interested staff officer concerned.

Faithfully yours,

[Signature]

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 19, 1940

TO Secretary Morgenthau
FROM Mr. Cairns

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury

None.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

1. Attorneys for the French corporation owning the French registry vessels ARGLIL and PROVIDENCIA (referred to in paragraph 1 of the July 12, 1940, report) advised that the vessels will be transferred to Panamanian registry before any request is made to move the vessels in American ports. Departure permits will be authorized in connection with these vessels when requested. Similar departure permits were granted to the French vessel BELAIN D'ESTAMBOU under similar circumstances.

Pending Cases

1. Referring to paragraph 1 under "Pending Cases" in the July 17, 1940, report, Dr. White's office checked the normal peacetime consumption of petroleum products in Spain to ascertain whether the 1,076,000 tons which representatives of the Texas Company state that they wish to send to Spain during the year 1940 (466,000 tons having already been sent) is in excess of normal peacetime consumption. Dr. White's office concludes that the statistics furnished by the Texas Company representatives are high if the term "ton" refers to "metric ton" and high for 1933 and 1935 if the term "ton" refers to "short ton". He also concludes that 1,076,000 tons is high in relation to past U. S. exports. A copy of the memorandum from Dr. White's office is attached.

2. The Greek vessel NEA HELIAS desires to clear for Lisbon with a general cargo. The collector at New York recommends that the vessel be cleared. The NEA HELIAS is owned by Goulondros Brothers of Andros, Greece. No departure permit has been authorized pending receipt of information with regard to the tonnage of the vessel and the exact nature of her cargo.

There is no change in the status of the vessels described in paragraphs 2, 3, and 4 under "Pending Cases" in the July 17, 1940, report.
TO  Mr. White  
FROM  Mr. Ullmann  
Subject: Spanish Petroleum Imports  

I. The information received by Mr. Cairns does not specify whether the "tons" are short tons or metric tons. However, Spain's imports of petroleum products in the 1930-1935 period were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Metric Tons</th>
<th>Short Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>69,000</td>
<td>672,000</td>
</tr>
<tr>
<td>1931</td>
<td>726,000</td>
<td>799,000</td>
</tr>
<tr>
<td>1932</td>
<td>727,000</td>
<td>801,000</td>
</tr>
<tr>
<td>1933</td>
<td>652,000</td>
<td>719,000</td>
</tr>
<tr>
<td>1934</td>
<td>859,000</td>
<td>947,000</td>
</tr>
<tr>
<td>1935</td>
<td>790,000</td>
<td>870,000</td>
</tr>
</tbody>
</table>

Source: "Foreign Commerce Yearbook" (United States Department of Commerce)

The statistics quoted to Mr. Cairns, therefore, appear to be high in terms of metric tons, and high for 1933 and 1935 in short tons.

II. The contemplated 1940 total exports (1,076,000 tons) to Spain appear high in relation to past United States exports. Prior to Spain's civil war, the United States supplied about half of Spain's petroleum imports. Our exports to Spain in 1937, 1938, and 1939 were as follows (in metric tons):

<table>
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<tr>
<th>Year</th>
<th>1937</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude petroleum</td>
<td>19,000</td>
<td>8,000</td>
<td>-</td>
</tr>
<tr>
<td>Motor fuel</td>
<td>97,000</td>
<td>246,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Kerosene</td>
<td>-</td>
<td>2,000</td>
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<td>Gas oil and fuel oil</td>
<td>43,000</td>
<td>105,000</td>
<td>242,000</td>
</tr>
<tr>
<td>Lubricating oil</td>
<td>5,000</td>
<td>15,000</td>
<td>54,000</td>
</tr>
<tr>
<td>Wax</td>
<td>1,000</td>
<td>1,000</td>
<td>3,000</td>
</tr>
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<td></td>
<td>165,000</td>
<td>377,000</td>
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</tbody>
</table>

Expressed in short tons, this would be 182,000; 415,000; and 607,000 respectively.
It is doubtful if the Spanish economy has been sufficiently reconstructed to use more oil for civilian purposes than was used prior to 1936. If we assume that the use of civilian automobiles may have increased, we must recognize that many Spanish factories, destroyed in the war, have not been returned to normal operation. However, if we take Spain's 1935 consumption as a criterion for normal Spanish imports now, this year's contemplated exports would provide Spain with a surplus of 300,000 tons (if metric tons are used) or of 200,000 tons (in terms of short tons), or a surplus somewhere between United States 1937 and 1938 exports to Spain -- when that country was engaged in a mechanized war, and was presumably getting much of its oil from this country.

It appears, therefore, that Spain may be planning to re-export some oil, or may be contemplating some military action of its own. The fact that German troops are now at the Spanish border may not be unconnected with the increase in Spanish imports, since Germany is known to need petroleum products.
July 18, 1940

Secretary Morgenthau

Mr. Cairns

MERCHANDISE MOVEMENTS

Pending Cases

1. A French corporation operating a copper mine in Mexico wishes to obtain departure permits for two vessels under French registry, the ARGYLE and the PROVIDENTIAL. The ARGYLE carries fuel oil from Los Angeles to Santa Rosalia. The PROVIDENTIAL carries copper from Santa Rosalia to Tacoma, Washington, and lumber on the return voyage. The continual running of these vessels is necessary for the operation of the mine. It is intended to transfer the vessels to Panamanian registry, and the French authorities have consented to this. The question is, can the two vessels call at and leave American ports before the transfer to Panamanian registry, now in course of completion.

2. There is no change in the status of the vessels described in the report of July 17, 1940, copy of which is attached.

(Initialed) H. C.
MERCHANT SHIP MOVEMENTS

CLOSED CASES

1. A departure permit was refused for the American Tanker ANTAR, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

2. A departure permit was refused for the American Tanker NEVADA, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

PENDING CASES

1. The Texas Company has submitted a request to export 610,000 tons of petroleum products to Spain for the balance of the year 1940. This would make a grand total of 1,076,000 tons for the year 1940. A memorandum of a conference with representatives of the Texas Company held on July 17, 1940, is attached. This matter is under consideration.

2. The Texas Company has requested advice as to whether or not the SS MUNTE JAVAHON, under Spanish registry, will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Neches, Texas, some time between August 10 and the early part of September. This matter is under consideration.

3. Suspicious circumstances have arisen in connection with the departure of the SIMLA, a Norwegian vessel now at the port of Philadelphia. No departure permit has been requested, but a stop order has been placed against such a request when it is received.

4. The Lithuanian Steamship DEMRY is now in Boston. The Lithuanian-American Import & Export Corporation, 157 Chambers Street, New York City, has requested that it be advised if a departure permit is asked for this vessel. The corporation desires to submit certain facts to the Treasury Department before such permit is granted. This matter is under consideration.

(EO/SP) (Initiated) E. C.
July 19, 1940

Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury

Memo.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

1. Attorney for the French corporation owning the French registry vessels ARDILL and PROVIDENZIA (referred to in paragraph 1 of the July 19, 1940, report) advised that the vessels were to be transferred to Panamanian registry before any request is made to move these vessels in American ports. Departure permits will be authorized in connection with these vessels when requisitioned. Similar departure permits were granted to the French vessel HELAIN D'ESTAMINGU under similar circumstances.

Pending Cases

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There is no change in the status of the vessels described in paragraphs 2, 3, and 4 under "Pending Cases" in the July 17, 1940, report.

(Initialed) H. C.

per RSF
July 18, 1940

Mr. White
Mr. Ulman

Subjects: Spanish Petroleum Imports

I. The information received by Mr. Cairns does not specify whether the "tons" are short tons or metric tons. However, Spain’s imports of petroleum products in the 1930-1935 period were as follows:

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III. It is doubtful if the Spanish economy has been sufficiently reconstructed to use more oil for civilian purposes than was used prior to 1936. If we assume that the use of civilian automobiles may have increased, we must recognize that many Spanish factories, destroyed in the war, have not been returned to normal operation. However, if we take Spain’s 1935 consumption as a criterion for normal Spanish imports now, this year’s contemplated exports would provide Spain with a surplus of 300,000 tons (if metric tons are used) or of 200,000 tons (in terms of short tons), or a surplus somewhere between United States 1937 and 1938 exports to Spain — when that country was engaged in a mechanized war, and was presumably getting much of its oil from this country.

It appears, therefore, that Spain may be planning to re-export some oil, or may be contemplating some military action of its own. The fact that German troops are now at the Spanish border may not be unconnected with the increase in Spanish imports, since Germany is known to need petroleum products.
July 16, 1940

Secretary Morgenthau

Mr. Gaines

MERCHANT SHIP MOVEMENTS

Pending Cases

1. A French corporation operating a copper mine in Mexico wishes to obtain departure permits for two vessels under French registry, the AROYLE and the PROVIDENTIAL. The AROYLE carries fuel oil from Los Angeles to Santa Rosalía. The PROVIDENTIAL carries copper from Santa Rosalía to Tacoma, Washington, and lumber on the return voyage. The continual running of these vessels is necessary for the operation of the mine. It is intended to transfer the vessels to Panamanian registry, and the French authorities have consented to this. The question is, can the two vessels call at and leave American ports before the transfer to Panamanian registry, now in course of completion.

2. There is no change in the status of the vessels described in the report of June 17, 1940, copy of which is attached.

(Initialed) H. C.
Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

July 17, 1940

Closed Cases

1. A departure permit was refused for the American Tanker
   ARZAN, carrying petroleum products to Spain. This vessel is
   owned by the Texas Company, and is at Port Arthur, Texas.

2. A departure permit was refused for the American Tanker
   NEVADA, carrying petroleum products to Spain. This vessel is
   owned by the Texas Company, and is at Port Arthur, Texas.

Pending Cases

1. The Texas Company has submitted a request to export
   610,000 tons of petroleum products to Spain for the balance of
   the year 1940. This would make a grand total of 1,076,000 tons
   for the year 1940. A memorandum of a conference with representa-
   tives of the Texas Company held on July 17, 1940, is attached. This
   matter is under consideration.

2. The Texas Company has requested advice as to whether or
   not the SS MOTE JAVALON, under Spanish registry, will be permitted
   to carry 5,000 tons of asphalt to Spain. The vessel will be loaded
   at Port Neches, Texas, some time between August 10 and the early
   part of September. This matter is under consideration.

3. Suspicious circumstances have arisen in connection with
   the departure of the SINDA, a Norwegian vessel now at the port
   of Philadelphia. No departure permit has been requested, but a
   stop order has been placed against such a request when it is
   received.

4. The Lithuanian Steamship RENIY is now in Boston. The
   Lithuanian-American Export & Import Corporation, 197 Chambers
   Street, New York City, has requested that it be advised if a
   departure permit is asked for this vessel. The corporation
   desires to submit certain facts to the Treasury Department before
   such permit is granted. This matter is under consideration.

RG/op

(Initialled) H. C.
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 19, 1940

TO Secretary Morgenthau

FROM J. P. Chamberlain

Re: Red Cross Relief

At the meeting today with Mr. Norman Davis, in addition to Under Secretary Bell and myself representing the Treasury, there were present Mr. Davison of the Red Cross and Judge Moore and Mr. Brandt of the Department of State.

Mr. Davis agreed in general with your point of view that it is better at this time not to take any definite action since it is so uncertain as to what will happen in the Anglo-German war.

He has no organization in France to deal with relief on a large scale and does not expect to send other relief ships. Mr. Taylor is in Paris and finds that it would be necessary to arrange, with the German government in the occupied territory, to provide for the administration of relief and the final orders would come from Berlin. Mr. Davis, representing the American Red Cross, feels that he cannot enter into an agreement of this sort at this time with the German government. If it were desired to get money into the occupied region, the exchange would have to go to Berlin where France would be purchased. The control of the Army of Occupation is very close.

There is no organization in Belgium, Holland, Norway or Denmark. In Belgium and Holland any arrangement would have to be made with the Germans and they seem inclined to require that relief be administered through their organization.

Mr. Davis had an interview with the President recently. The President felt that this was not the time to begin the expenditure of the congressional appropriation. Sending in food or supplies would require the consent of the British to loosen their blockade, and an application to them to do so for ships carrying relief would create difficulties. The position of the Red Cross is not determinative with respect to the sending of money by individuals here — especially American citizens — to relatives abroad.
WASHINGTON, D.C.

19 JULY 1940

OR

FROM THE HONORABLE SECRETARY OF TREASURY,

REFERRING TO MY MESSAGE DELIVERED YOU EARLIER THIS MORNING, IS ANYTHING MORE DESIRED?

MR. KENNEDY

[Signature]

SECRET

CR 649

Plans are checked
The Secretary of the Navy
Washington

July 19, 1940

My dear Mr. Secretary:

I acknowledge your letter of July 18th containing quotations from the President's message of May 16th.

I am in thorough-going accord with the sentiments to which the President gives expression, and I am in sympathy with you in the emphasis you now put upon it. I think I understand what you mean.

Yours sincerely,

[Signature]

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.
Dr. Fels
Mr. Cochran

Will you kindly send the following cablegram:

"American Consul Cardileze (Morocco)."

With reference to your cablegram No. 55 received on July 17 the
Treasury Department provides the following answer:

"You are advised that the following transactions with respect to
property in which any interest, direct or indirect, is held by France,
or by any person domiciled in, or a subject, citizen or resident of
France, its territories, dependencies or possessions, on or since
June 17, 1940, except persons domiciled or residing in the United
States on such date, may be affected only pursuant to a licence: (a)
payments or transfers of credit involving one or more banking institu-
tions within the United States; (b) transactions in foreign exchange
by any person within the United States; (c) exports from the United
States or earmarking of gold or silver currency or bullion by any
person within the United States; (d) dealings in evidences of indebted-
ness or ownership by any person within the United States; (e) any trans-
action designed to evade the foregoing requirements. Application for
such licence may be made to the Federal Reserve Bank of New York by
the American banks referred to in your communication or by any party
to such transaction, whether or not in the United States."

[Signature]

July 19, 1940

HGM: dm: 7.19.40

Regraded Unclassified
TELEGRAM SENT

CK

GRAY

July 19, 1940
6 p.m.

AMERICAN CONSUL

CASABLANCA (MOROCCO)

With reference to your cablegram No. 55 received on July 17 the Treasury Department provides the following answer:

QUOTE. You are advised that the following transactions with respect to property in which any interest, direct or indirect, is held by France, or by any person domiciled in, or a subject, citizen or resident of France, its territories, dependencies and possessions, on or since June 17 1940, except persons domiciled or residing in the United States on such date, may be effected only pursuant to a license: (a) payments or transfers of credit involving one or more banking institutions within the United States (b) transactions in foreign exchange by any person within the United States; (c) exports from the United States or earmarking of gold or silver currency or bullion by any person within the United States; (d) dealings in evidences of
-2-#44, July 19, 6 p.m., to Casablanca.
of indebtedness or ownership by any person within the
United States; (e) any transaction designed to evade
the foregoing requirements. Application for such license
may be made to the Federal Reserve Bank of New York by
the American banks referred to in your communication or
by any party to such transaction, whether or not in the
United States. END QUOTE

WELLES
Acting
(FL)

EA:FL:INW
PARAPHRASE OF TELEGRAM no. 105 dated
July 19, 4 pm. FROM AMERICAN EMBASSY,
VICHY, FRANCE.

For J. P. Morgan and Company, Inc., New York:

The total balances of American and some other
non-French nationals who are non-residents of France
amount to $390,832.01. Please charge our account and
pay yourself for sundry clients of Morgan and Company
this amount. This is in accordance with authorization
which has just been received from the French Exchange
Control. We are requesting you to open individual accounts
and are sending you list by mail.
The Embassy refers to Department's telegram no. 44 of July 10 and to the Embassy's reply telegram no. 82 of July 16 4 p.m. As the Department will have observed from the Embassy's telegram no. 105 of today's date transmitting a message for J. P. Morgan and Company, the latter bank has been able to obtain the Bank of France's authorization to transfer from Paris to New York the dollar accounts of its non-resident clients. This information is strictly confidential.

Apparently similar authority has not as yet been requested by the other American banks.
SECRETARY OF STATE,

WASHINGTON.

2287, July 19.

FOR TREASURY FROM BUTTERWORTH.

The despatch of dollar securities to Canada, mentioned in my No. 1713 of June 19, 6 p.m., was made public last night by a statement made in Parliament by the Chancellor of the Exchequer who said:

"An order-in-Council has been made to empower the Treasury to give instructions as to the custody and disposition of securities held in this country. In order that American and other securities marketable outside the United Kingdom may continue to be realized in an orderly fashion, it is convenient for them to be held in North America, and accordingly the bulk of the securities in question is being held in Canada pending their realization. No action has been taken, or is at present contemplated, as regards other securities, i.e., those not marketable outside the United Kingdom, in regard to which similar considerations do not arise. Pending the arrival in Canada of the securities,
-2- #2287, July 19, from London.

Securities (i.e., securities covered by the Securities (restrictions and returns) Order, 1939) it was necessary to suspend their sales. Permits for sales abroad will now be resumed, but for the present they will be confined to securities deposited by their owners outside the United Kingdom. As regards others, a few weeks must elapse before it will be possible to arrange for their delivery."

KENNEDY
Secretary of State,
Washington

Ill, July 19, 9 a.m.

FOR THE TREASURY FROM MATTHEWS.

I lunched today at Chatel Guyon with Rueff and Chadenet. Plans for the resumption of full banking operations in Paris are still in the discussion stage. Governor Fournier delayed his departure from Paris and is now expected at Chatel Guyon tomorrow. (There are rumors of his early resignation). His relations with Finance Minister Bouthillier are not of the best. (The banks are engaged in preparing lists of personnel to be sent to Paris to obtain individual German authorizations to permit their return to occupied territory when the time comes. The list is expected to total some six thousand names.

I found Rueff as preoccupied as ever with respect to the future. He seemed to feel that the strong attacks against
against the present government by the German controlled
Paris edition of PARISSOIR were significant and boded ill.
Incidentally both he and Chadénard expressed warm approval
of our blocking of French accounts and showed an under-
standing of our objectives which is (?) elsewhere in
French financial circles.

The Bank of France is still without information
as to measures taken by the British with reference to
its accounts and those of other French banks in Great
Britain; Rurff said that while there "seemed to be no
formal blocking measure there was a de facto blocking".

I learned at Vichy that in return for the freedom
of movement of assets between Paris and unoccupied
territory requested by the French banks (my telegram
no. 83, July 16, 10 p.m.) the Government of the
United States intend to require that French exchange
control regulations while administered by French officials
be carried out subject to free "guidance and suggestion".

The American banks are still undecided as to their
policy if the French banks resume full operations in Paris.
The National City Bank which is the only one with no
assets in the occupied territory (?) (?) is particularly
reluctant to move back in the absence of a formal order
the French authorities.

(He has taken in mind the many lawsuits brought against
the bank in connection with its voluntary Panaman
Republic
-3- July 19, 9 a.m. from (PARIS) La Bourboulle Republic operations in Russia.

It is now planned to open the Paris stock exchange on July (?) limited to banks trading solely in French issues.

MURPHY

WWC
July 19, 1940
4:27 p.m.

H.M.Jr:     ..... tell you that when I came back there was a call waiting for me from Lothian.

Sumner Welles:  Yes.

H.M.Jr:     And he said he had a lot of notes and information on oil for Japan and they were so much worried about the quantity and when could he see me. I told him that he would hear from you and that we were planning to get together 6 o'clock Monday.

W:     Yeah.

H.M.Jr:     But I didn't -- I wanted to let you know under what circumstances I happened to talk to him.

W:     All right, Henry.

H.M.Jr:     He evidently has this oil thing very much on his mind and is very much concerned.

W:     Yes. All right.

H.M.Jr:     But I would like if you didn't mind that you would make the appointment just the same.

W:     I certainly will.

H.M.Jr:     Thank you, Sumner.

W:     All right. Thank you, Henry. Good-bye.

H.M.Jr:     Good-bye.
Secretary of State,  
Washington.

209, July 19, 6 p.m.

Numerous inquiries have been made of this office regarding the operation of the freezing of Latvian assets in the United States. Because no pouches have been received for many weeks this office has no copies of laws, executive orders, and regulations which have been applied to the other countries whose assets have been frozen. It would be helpful for the Legation to have the answers to the following questions, (one) does the order apply to credit balances held by American commercial firms, as distinct from American banks, in favor of Latvian businessmen and companies, (two) do personal bank accounts in the United States become unfrozen as soon as the depositor crosses the frontier into a country whose assets are not frozen, as, for example, after my departure from Latvia, (three) is it possible for unfrozen credits on behalf of Latvian banks to be created in the United States with the proceeds of such transactions as the purchase of the Legation's official drafts.

WILEY

LMS
GRAY
Shanghai via NR
Dated July 20, 1940
Rec'd 12:15 p.m.

Secretary of State,
Washington.

666, July 20, 2 p.m.

Reference Department's 292, July 2, 7 p.m.

The manager of the Shanghai branch of the Banque de l'Indo Chine states that his branch had approximately the United States dollars 5,500,000 in American banks in New York for its own as well as customers' account, of which 25% or about the United States dollars 1,300,000 was released June 27, leaving about the United States dollars 4,200,000 blocked of which about the United States dollars 1,000,000 has since been used to compensate old contracts with American banks leaving approximately the United States dollars 3,200,000 still blocked, held as follows (amounts approximate): Bankers Trust with the release of the requested amount and, say, an additional United States dollars 200,000 he can accommodate his own branch office's commitments and those of other branches in China and would greatly appreciate early favorable consideration.

BUTRICK
CORRECTED COPY
GRAY
Shanghai via N. E.
Dated July 29, 1940
Rec'd 12:15 pm

Secretary of State,
Washington.

555, July 29, 2 p.m.
Reference Department's 292, July 20, 7 p.m.

The manager of the Shanghai branch of the Banque de l'Indo Chine states that his branch had approximately the United States dollars 5,500,000 in American banks in New York for its own as well as customers account, of which 25% or about the United States dollars 1,300,000 was released June 27, leaving about the United States dollars 4,200,000 blocked of which about the United States dollars 1,000,000 has since been used to compensate old contracts with American banks leaving approximately the United States dollars 3,200,000 still blocked, held as follows (amounts approximate) in Bankers Trust United States $1,400,000, in Chase National Bank United States $750,000, in French-American Banking Corporation United States $600,000, in Manufacturers Trust United States $200,000, in Guaranty Trust Company United States $140,000, these approximate amounts now totaling roughly United States $5,000,000.

The Shanghai Manager of the Banque de l'Indochina on July 18 telegraphed the French Ambassador in Washington requesting the latter to try to effect the release of half of these balances in order to meet
meet the demands of Shanghai depositors in United States dollar accounts and to make payments against documents in New York to shippers of American expert goods in connection with credits opened for Shanghai customers under contracts closed prior to June 25 i.e. before French balances were frozen. The Shanghai manager of the Bank estimates that with the release of one half of the remaining balances or of an amount of approximately United States $1,500,000, plus an amount of United States $200,000 for other branches, he can take care of both the commitments of his own branch at Shanghai and of the branches of the Banque de L'Indochine discontinued in China. He would appreciate favorable consideration.

BUTRICK

TIV
Sumner Welles: Hello, Henry. How are you?

H.M. Jr: Oh, I'm fine. And you?

W: Sorry not to have seen you out in Chicago.

H.M. Jr: Well, I figured there were plenty of cooks out there.

W: (Laughs). You never were more correct in your life.

H.M. Jr: So I didn't see how I could add anything. Sumner, there's so much which has piled up here -- unfinished business between Treasury and State -- that I'd like to unload some of it on you.

W: By all means.

H.M. Jr: I don't know whether there's Cabinet today or not. I haven't heard. But if there isn't, could we get together around 2:30?

W: If there isn't, Henry, of course, decidedly I'll be over at 2:30. But if there is, I don't think I can because I have the latter part of the afternoon completely booked up until very late in the evening.

H.M. Jr: Well, if there's no Cabinet you come at 2:30.

W: If there's no Cabinet I'll be at your office at 2:30 with pleasure.

H.M. Jr: There're two things which you might ask your people about. I wrote Mr. Hull a letter two and a half weeks ago asking him about -- to advise me on sending American money by American citizens to Finland and I've never had an answer on that.

W: Sending American money by American citizens to Finland.
H.M.Jr: Yes. It's never been answered.
W: Could you explain.....
H.M.Jr: Well, the thought is this. I distinguish as between Finnish funds which are frozen here, you see?
W: Oh, I see.
H.M.Jr: Now the same thing has come up with American citizens who want to send money to relatives in France.
W: Yeah.
H.M.Jr: You see?
W: Exactly.
H.M.Jr: Which is a little bit different. Now, what we're doing -- I've got--Bell and Professor Chamberlain have gone over to the Red Cross today to ask them if they could send either food or clothing to any of the occupied territories and guarantee delivery. You see?
W: Yes.
H.M.Jr: I don't know whether they can do it. On the other hand, the President, the last time I talked to him about it, said he didn't want any food to go to the occupied territories.
W: That's my understanding.
H.M.Jr: But on the other hand, Congress has directed us to send food to occupied France.
W: To occupied France? I thought it was solely wanted for relief purposes in France.
H.M.Jr: Well, you're most likely right. But, I mean, at least the food has gone on this one boat.
W: That's right, but it's gone to Marseilles and that's not occupied France technically.
H.M. Jr: Well, I don't expect to clean it up but at least I want somebody to talk to me about it.

W: Sure. I'll take it up at once and find out about it.

H.M. Jr: That's No. 1 which is -- I don't know of anything more important or difficult. The other thing is -- you'll find that a week ago today at Cabinet I brought up the question. We're holding oil tankers, American flag, scheduled to sail to Spain.

W: Yes.

H.M. Jr: We haven't let them sail. Mr. Roosevelt told Mr. Hull to see that no oil went out of Colombia or Venezuela from American companies in foreign flagships to Spain until we got this thing straightened out.

W: Yes.

H.M. Jr: I don't know what, if anything, was done. you see?

W: Yes.

H.M. Jr: And I have a copy of a memorandum which I believe was given to you people as to what the English are willing to do.

W: I see.

H.M. Jr: And I think you asked for that, if not I'll have a copy of ....

W: Yes, I'll look up both things, Henry.

H.M. Jr: Those two things are what I call hot and frankly I just am left here all alone sort of dangling in the air on these two things and if we could make a start on them it would be most helpful to me.

W: Well, I'll get into them immediately and if there's no Cabinet meeting I'll be over and if not, I'll be ready to talk to you ....
H.M. Jr: If not, I'm going to bring up the oil thing at Cabinet. I won't bring up the other.
W: Yes.
H.M. Jr: But the oil thing I'll bring up.
W: All right. And with regard to the other matter, I could talk to you a minute or two after Cabinet meeting, if there is one.....
H.M. Jr: Good.
W: ..... to tell you what's going on here.
H.M. Jr: Thank you.
W: All right, Henry. Thanks.
Belgian Bank of Issues. The German press reports from Brussels the formal establishment on 15th July of the new Belgian Bank of Issues and gives the names of the nine founder institutions as follows: Banque de la Société Générale de Belgique, Banque de Bruxelles, Société Belgique Banque, Arbeidbank voor Belgie en Bijzondere, Société Générale de Belgique, Société pour Commerce et Industrie (Selima), Compagnie Financière et Industrielle, Compagnie Réunie d'Électricité et de Transports, Université Belge. The share capital of £150 million is fixed for the duration of five years (see Press Review No. 110).
July 20, 1940 - Farm

I just talked with the British Ambassador (10:40 Wash. Time) and took the liberty of suggesting that if he has not already done so that he consult his government on the subject which I discussed at his house on Thursday night so that he would be prepared to talk with Mr. Welles and me at my house on Monday at 6 o'clock. He said he had already sent a message off last night and hoped to get a reply Monday morning.
The Treasury Department

Treasury Department

SECRETARY OF THE TREASURY

FY 1940

Letter dated July 20, 1940

To: Secretary of the Treasury

From: Mr. O'Connor

Subject: Interior Office Communication

The latest intelligence indicates that the gold market is unstable and that the government is considering measures to stabilize it. The Treasury Department is preparing a report on this matter, which will be submitted to you in the near future.

The report will include an analysis of the current gold prices and the impact of recent events on the market. The department is also considering the possibility of implementing a gold reserve system to ensure the stability of the currency.

The report will be submitted to you in the next few days, and I will be available to discuss it in detail.

Sincerely,

Mr. O'Connor

The Treasury Department
(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 5:00 p.m., July 19, 1940. Mr. Pinsent had been asked earlier in the week for information on the firm involved, by our Foreign Funds Control group).

**Telegram of 18th July 1940 from London.**

London branch of Crédit Industriel is now operating in capacity of head office for all branches in non-enemy territory from whom assurances have been obtained that they are not operating under orders from France. Release of U.S. funds and securities to London office is therefore in conformity with our wishes and will not permit benefit to enemy-occupied territory. London office of Crédit Industriel is now operating subject to provisions of Trading with the Enemy Act and to foreign exchange control in exactly the same way as any British bank and can for all purposes be considered a British bank.
July 20, 1940

Dear Mr. Pinsent:

I am enclosing herewith memorandum of the information that was given you informally at the first conference between the Secretary and Sir Frederick Phillips. As you recall, the Secretary promised it to him in this form.

Sincerely yours,

(Signed) D. W. Bell

Under Secretary of the Treasury

Mr. G. H. S. Pinsent,
Financial Counselor,
British Embassy,
Washington, D. C.
July 15, 1940

In response to a request made by Mr. Frederick
Phillips of the Secretary of the Treasury at yesterday's
conference in the Secretary's office, the following infor-
mation is furnished on the estimated French investments
in the United States:

ESTIMATED FRENCH INVESTMENTS IN THE UNITED STATES
(In millions of dollars)

1. Gold in vault account (as of July 10, 1940) ........ $ 507

2. Short-term investments (as of July 3, 1940):
   Official balance ........................................... $ 222
   Private balance ............................................

3. Long-term investments (as of August 30, 1939):
   Direct investments ........................................
   Common and preferred stocks ..............................
   Bonds ................................................................
   Other ................................................................
   Total long-term investments ............................... $ 899

4. Gross total .................................................. $ 1,307

\[\text{Estimates of Bureau of Foreign and Domestic Commerce}\]
BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

July 20th, 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,

[Signature]

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.
1. Yesterday, enemy aircraft attacked south-bound convoy off Orfordness. Three anti-submarine trawlers machine gunned, one of which was set on fire, and one badly holed. No damage to convoy. Attacks also on trawlers in Thames estuary and "Sunrise" and "West Goodwin", light vessels. Two trawlers damaged with some casualties, and "East Goodwin" light ship (not manned) was sunk. H.M. Trawler "Eire" attacked off Portsmouth claims one enemy aircraft. Four Belgian trawlers attacked off Landa Sud, one sunk.

2. During the night of July 17th–July 18th, Royal Air Force successfully bombed 6 aerodromes in Northern France; large explosion followed by fires observed after attack on Gelsenkirchen. Yesterday morning, 56 Blenheims left with objectives of aerodromes and barges in Northwest France; observation of results difficult but barges successfully attacked near Ferne. In the evening 18 Blenheims bombed Boulogne, causing damage to quays and Harbour works. One aircraft missing; one shot down off Harwich. Crew saved. Last night 56 heavy bombers
bombers dispatched against aircraft factories in Northwest Germany, railway targets at Hanu
and Scow the Dortmund-Ems Canal, battleship
"Scheer" at Wilhelmshaven. All aircraft except
eone returned, results awaited. Propaganda
leaflets dropped in Northeast France. Six
Blitzkneus of Coastal Command successfully
attacked oil tanks at Ghent. Mine-laying opera-
tions carried out in Fosen area, all aircraft
returned safely.

8. Enemy aircraft active. Yesterday
some damage caused to aircraft on the ground and
defence at Montrose, 2 R.A.F. and one civilian
killed, 3 R.A.F. and civilians wounded. Also
extensive damage to dock shed at Leith dock;
boats also dropped without serious damage follow-
ing areas: Burnt Island, Kirkcaldy, Newport, and
Saint Athanas (South Wales). Enemy mine-laying
operated between Solway Firth and Liverpool,
also off Yorkshire coast. Zonit (meteorological)
flights carried out north of Paros between
England and Norway.

Enemy casualties yesterday: one bomber
shot down, two enemy aircraft claimed by anti-
aircraft Aberdeen, 2 more probable casualties by
our fighters. One Dornier shot down early this
morning Fosun coast. Our casualties 8 Spitfires,
2 pilots saved.

4. Shipping casualties:
(a) by raider: British "King John" (6000
tons) and "Suurinum" (6000 tons) sunk by armed/
armed merchant ship near West Indies July 18th.
British "City of Bagdad" (7500 tons) shelled
Indian Ocean.

(b) by U-boat, Greek "Indreia" (3000 tons)
 sunk July 18th, not in convoy.

5. LEVANT COAST. Three aircraft
S.A.A.F. attacked Haifa July 19th by dive-
bombing, four direct hits on camp buildings.

GIBRALTAR. Fifteen heavy bombs
dropped on catchment area July 19th, no details
received.

6. Present estimate of total strength
of Italian forces in East Africa:

Arab Troops - 67,000 of which 37,000
black-shirt militia.

Colonial Freunlers - 100,000.

Colonial Irregulars - 35,000.

Total, including services and mobile
cavalry and service, about 200,000.
DEPARTMENT OF STATE
WASHINGTON
July 20, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of telegram 1904, dated July 19, 1940, to the American Embassy at London, transmitting a message for the Ambassador from the Secretary of the Treasury.

Enclosure:
To London, no. 1904,
July 19, 1940.
TELEGRAM SENT

JT

PLAIN

July 19, 1940

AMBASSADY

LONDON (ENGLAND)

1904, nineteenth.

FOR THE AMBASSADOR FROM SECRETARY MORGENTHAU.

I wish you would express to Lord Beaverbrook my sincere appreciation for the splendid cooperation which he is giving us and I want to thank you personally for your admirable cooperation.

WELLES
Acting
(FL)

EA:FL:LWW
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE July 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:00 o'clock July 19 the Secretary had me present when he received Mr. James Weir, who has been in the United States a short time studying technical questions with respect to British purchases.

The Secretary asked Mr. Weir to give some information in regard to the British unemployment situation, particularly as regards the steel and shipbuilding industries. Mr. Weir explained that there was a shortage of skilled workmen. This resulted partly from the failure of the people higher up, especially politicians in the Government, to look into the situation carefully and develop a clear and definite policy for remedying existing faults. He emphasized the time that it takes to train skilled mechanics and stated that there is a certain slowing up in production as a result of lack of skilled men. It is difficult to overcome this because of necessity for transferring labor from one area to another, lack of housing facilities therefor, et cetera.

In answer to the Secretary's question, Mr. Weir did not think that the British shipyards were doing as badly as reported over here. There has been some lack of finished steel for shipbuilding. On the other hand, there has been an important turning out of "escort ships" which are replacing to a considerable degree the usual type of destroyers. Consequently published figures of destroyer production are not impressive, but the total number of escort ships is very considerable.

Mr. Weir is particularly familiar with research work in aviation and with autogiros. He thought that he could have given suggestions to the American-Russian inventor which would have avoided much unnecessary work. Mr. Weir is returning shortly to England. Secretary Morgenthau recommended that much good could be done in this country by the visit of outstanding British aviators and naval officers who would be in a position to let the American public know what Great Britain actually is accomplishing. The Secretary emphasized that there may be a defeatist sentiment in this country which is entirely unwarranted.

[Signature]
Mr. Leroy-Beaulieu called on me yesterday at 3:00 by appointment. He discussed two or three questions with me and we were then received by Under Secretary Bell. I translated to Mr. Bell a copy of a cablegram which Leroy-Beaulieu had sent under date of July 15 to the Minister of Finance of France, in answer to the latter's inquiry in regard to our freezing regulations. I reminded Leroy-Beaulieu that he had been given a complete set of our official documents on the control of foreign assets as they have been currently issued. I told him further that such copies were regularly sent to Matthews in France, for his information and that of his French contacts. Mr. Bell and I did not endeavor to have Mr. Leroy-Beaulieu alter his cablegram, already sent, but made it clear to him that we regarded this as purely his interpretation of our regulations and practice, and that we did not confirm that this was correct. As a matter of fact, we pointed out certain obvious errors in interpretation.

In his cablegram Mr. Leroy-Beaulieu had stated more positively than the facts in the case warrant that the Treasury has declared that the purpose of its control regulations is to keep certain assets out of the hands of the Germans. Furthermore he stressed unduly alleged anxiety on our part that any funds going to France would get into the hands of the Germans. Mr. Bell would not admit Mr. Leroy-Beaulieu's allegation that the Treasury had formally declared that its policy in imposing freezing control was to keep funds out of German hands. Mr. Bell preferred that the documents in our control system speak for themselves rather than that this Government be asked to give a precise explanation of its purposes and intentions, or be asked to approve a statement of a foreign representative interpreting our policies.

On the previous afternoon Mr. Leroy-Beaulieu had telephoned me at 3:45. He stated that his Ambassador was in New York and that they had heard of a statement made by Secretary Morgenthau at his press conference which concerned the disposal of French assets in this country. After talking with Mr. Schwars, I gave Mr. Leroy-Beaulieu the wording of the ticker reports of the Secretary's conference, reminding him that these were only press reports of the conference, and could not be taken as official. In one of them I pointed out an obvious distortion of the Secretary's statements, as explained to me by Mr. Schwars.
Secretary of State,
Washington

885 July 20, 9 p.m.

I was requested by Assistant Commissar Lozovski to call at the Commissariat for Foreign Affairs this evening. Upon my arrival he stated that he had been directed to lodge a strong protest against the withholding from the Soviet State Bank by American banks of gold acquired by it from Estonian, Latvian and Lithuanian banks. He then handed to me the following memorandum stating that an early reply is desired and commenting that the American action is illegal and serious. I stated that I would bring the memorandum of protest to the attention of my Government and advise him promptly of such reply as I might be instructed to make to it. With respect to his comment on the illegality of our note I stated that while there is room for differences of opinion regarding such matters I could not accept his employment of the term "illegal" as my Government does not engage in illegal activities:

"The Government of the U.S.S.R. directs the attention
of the Government of the United States to the actions of the Federal Reserve Bank, New York, a bank which has permitted an arbitrary suspension of the transfer of gold belonging to the Soviet state to the State Bank of the U.S.S.R.

The above mentioned gold was acquired by State Bank of the U.S.S.R. from the Lithuanian, Latvian and Estonian banks on the basis of sale purchase agreements and was subject to transfer to the deposit of the State Bank of the U.S.S.R. by virtue of telegraphic orders of July 13, 1940 of the Lithuanian, Latvian and Estonian banks orders which are unconditionally binding upon the Federal Reserve Bank. Nevertheless, instead of immediately fulfilling the above mentioned instructions of the banks of Lithuania, Latvia and Estonia the Federal Reserve Bank after a completely unjustified delay of three days informed the State Bank of the U.S.S.R. by a telegram of July 16, 1940 that it was soliciting the permission of the Federal Treasury of the United States for transfer of the gold to the State Bank of the U.S.S.R. Along with this the Federal Reserve Bank referred to Executive Order No. 8484 of July 15, 1940 which prohibits operations involving property in which Latvia, Lithuania or Estonia or citizens of these countries have an interest from being conducted.
conducted without permission.

No further communication concerning a change in the situation which has arisen of suspension of the transfer of the gold to the account of the State Bank of the U.S.S.R. have arrived from the Federal Reserve Bank up to the present time.

The Soviet Government considers the actions of the American institutions to be directed against the Soviet Union's realization of its legal property rights to the said gold as undermining the foundations of normal commercial relations and as contrary to the elementary principals of international law.

The Soviet Government in particular notes that:

One. The Federal Reserve Bank had no legal bases whatsoever for suspending the execution of the operations of transferring the gold to the State Bank of the U.S.S.R. operations with which the bank was already commissioned on July 13, 1940 by the banks of Lithuania, Latvia and Estonia the references of the Federal Reserve Bank to the "Executive Order No. 8484 of July 15, 1940" as a basis for non-fulfillment during the course of July 13th, 14th and 15th of the said instructions are absolutely unconvincing inasmuch as these instructions had already been received prior to the issue of the order.

Two. With regard to the contents of "Executive Order No 8484" contents cited in the communication of the Federal
Federal Reserve Bank, it is necessary to point out that neither this nor any other order can limit the rights of the U.S.S.R. to the receipt of the property which it has purchased or to the disposal of this property as property of a sovereign state which possesses immunity by virtue of its sovereignty.

On the basis of the foregoing the Soviet Government makes to the Government of the United States of America a determined protest against the violation by the aforementioned institutions of the United States of America of the interests of the Soviet Union and of the latter's legal right to the gold purchased from the banks of Lithuania, Latvia and Estonia for an appropriate equivalent.

The Soviet Government expects an immediate transfer of the gold which it has purchased from the Banks of Lithuania, Latvia and Estonia to the State Bank of the U.S.S.R. and charges the Government of the United States of America with all responsibility for the losses inflicted upon the U.S.S.R. by the actions of the American institution.

THURSTON

WWC
(Dictated over the telephone by Mr. Cameron's secretary 7/20/40)

From: State Bank of U.S.S.R., Moscow
To: Federal Reserve Bank of New York
Dated: July 19, 1940
Rec'd: July 20, 1940

"Your wire 16th July 1940. We consider Executive Order of 15th July 1940 No. 8484 mentioned by you as having no connection to gold acquired by State Bank U. S. S. R. and being its property. In consequence delay in execution our instructions we suffer losses for which hold responsible Federal Reserve Bank. We insist upon immediate execution our instructions. Awaiting information regarding execution.

(a) State Bank of the U. S. S. R."

(COPY)
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Consulate, Beopoldville, Belgian Congo.
DATE: July 20, 1940, noon.

The Belgian Congo's Governor General has cabled the Belgian Ambassador at Washington and requested assistance in obtaining a general license from U.S. authorities for the release of funds in the U.S. which belong exclusively to Belgian Congo persons and firms. Since these funds are indispensable for the commercial needs of the Belgian Congo, the Governor General has requested me to support his action.

MALLON

EA: MSG
Secretary of State,
Washington.

87, July 20, noon.

Minister for Foreign Affairs requests the Legation to telegraph the Department that funds amounting to approximately $450,000 held by the Chase National Bank of New York for the account of the Bank Franco Bulgare of Sofia have been blocked under the President's executive orders of April 10th et seq. on the ground that the latter is a bank with French participation. The Minister states, however, that the bank Franco Bulgare is a wholly Bulgarian institution and that the funds belong in part to Bulgarian exporters of tobacco to neutral countries and in part to the Bulgarian Government grain monopoly for corn sold to Hungary.

The Bulgarian Legation at Washington has been instructed to make application for the necessary license to release these funds at the earliest possible moment and the Minister adds that he will be grateful if the Department will assist the Bulgarian Legation to this end.

MILLARD
(Copy of a telegram from the British Foreign Office to the Embassy in Washington, as shown by Mr. Pinsent to Mr. Cochran at 4 p.m., July 22, 1940. Mr. Pinsent desires an answer as to the Treasury's attitude toward the transaction under reference.)

July 20, 1940

Following from Treasury for Pinsent.

Alfred Ahner Lindon naturalised British subject formerly resident of 75 bis Avenue Foch, Paris, has balances totalling 1,317,206 dollars with Bankers Trust Company, 16 Wall Street, Central Hanover Bank, 70 Broadway, Guarantee Trust Company and Chase National Bank, Pine Street, New York. He is now in United Kingdom and intends to proceed to Canada. He has offered and we have accepted sale of 1,000,000 dollars of the above to United Kingdom exchange control, and we should be glad to learn whether United States Treasury would be prepared to release his balance accordingly. Please reply early.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 20, 1940

TO Secretary Morgenthau
FROM Mr. Cairns

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury
None.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

The Belgian vessel, LAURENT MEUN, which arrived in New Orleans on July 17th in ballast from Port Arthur, Texas, picked up a cargo of gas-oil for Kobe, Japan. A departure permit was authorized on the afternoon of July 18th, but at the request of Admiral Stark, Chief of Naval Operations, the departure permit was revoked and the vessel was held pending more definite information from the Navy Department on their reasons for wishing us to hold the vessel. A departure permit was granted at 4:15 p.m., July 19, 1940, when it was learned that the Navy Department had a different vessel in mind, to wit, the EERA, a Swedish vessel bound for Spain, which departed several days ago.

Referring to paragraph 2 under "Pending Cases" of the July 19th report, a departure permit was authorized on July 19, 1940, for the Greek vessel, NEA HELIAS, for Lisbon, Portugal, after it was determined that her cargo contained no arms, ammunition, machine tools, or chemicals. Her tonnage was 16,990 gross and 10,015 net.

Pending Cases

There is no change in the status of the vessels described under paragraphs 2, 3, and 4 under "Pending Cases" in the July 17, 1940, report, nor are there any further developments on the normal peacetime consumption of petroleum products in Spain.

H. G.
July 19, 1940

Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury

None.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

1. Attorneys for the French corporation owning the French registry vessels AMHEL and PROVIDENCIA (Referred to in paragraph 1 of the July 18, 1940, report) advised that the vessels will be transferred to Panamanian registry before any request is made to move the vessels in American ports. Departure permits will be authorized in connection with these vessels when requested. Similar departure permits were granted to the French Vessel HELAIN D'ESTAMBUC under similar circumstances.

Pending Cases

1. Referring to paragraph 1 under "Pending Cases" in the July 17, 1940, report, Dr. White's office checked the normal peacetime consumption of petroleum products in Spain to ascertain whether the 1,076,000 tons which representatives of the Texas Company state that they wish to send to Spain during the year 1940 (466,000 tons having already been sent) is in excess of normal peacetime consumption. Dr. White's office concludes that the statistics furnished by the Texas Company representatives are high if the term "ton" refers to "metric tons" and high for 1933 and 1935 if the term "ton" refers to "short tons". He also concludes that 1,076,000 tons is high in relation to past U. S. exports. A copy of the memorandum from Dr. White's office is attached.

2. The Greek Vessel NEA HELIAS desires to clear for Lisbon with a general cargo. The Collector at New York recommends that the vessel be cleared. The NEA HELIAS is owned by Goulondros Brothers of Andros, Greece. No departure permit has been authorized pending receipt of information with regard to the tonnage of the vessel and the exact nature of her cargo.

There is no change in the status of the vessels described in paragraphs 2, 3, and 4 under "Pending Cases" in the July 17, 1940, report.

(Initialed) H.C. per ERB

CC: Miss Chauncey
Mr. Foley
Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Closed Cases

1. A departure permit was refused for the American Tanker
   ARMAN, carrying petroleum products to Spain. This vessel is
   owned by the Texas Company, and is at Port Arthur, Texas.

2. A departure permit was refused for the American Tanker
   NEVADA, carrying petroleum products to Spain. This vessel is
   owned by the Texas Company, and is at Port Arthur, Texas.

Pending Cases

1. The Texas Company has submitted a request to export
   610,000 tons of petroleum products to Spain for the balance of
   the year 1949. This would make a grand total of 1,976,000 tons
   for the year 1949. A memorandum of a conference with representa-
   tives of the Texas Company held on July 17, 1949, is attached.
   This matter is under consideration.

2. The Texas Company has requested advice as to whether or
   not the SS DENIS JAVEQUE, under Spanish registry, will be permitted
   to carry 5,000 tons of asphalt to Spain. The vessel will be loaded
   at Port Bechar, Texas, some time between August 10 and the early
   part of September. This matter is under consideration.

3. Suspicious circumstances have arisen in connection with
   the departure of the SINDA, a Norwegian vessel now at the port
   of Philadelphia. No departure permit has been requested, but a
   stop order has been placed against such a request when it is
   received.

4. The Lithuanian Steamship DENNY is now in Boston. The
   Lithuanian-American Export & Export Corporation, 157 Chambers
   Street, New York City, has requested that it be advised if a
   departure permit is asked for this vessel. The corporation
   desires to submit certain facts to the Treasury Department before
   such permit is granted. This matter is under consideration.

8/29

(Initialled) R. C.

CC: Miss Chauncey
   Mr. Foley
July 20, 1940

Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury

None.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

The Belgian vessel, LAURENT HENNE, which arrived in New Orleans on July 17th in ballast from Port Arthur, Texas, picked up a cargo of gas-oil for Kobe, Japan. A departure permit was authorized on the afternoon of July 18th, but at the request of Admiral Stark, Chief of Naval Operations, the departure permit was revoked and the vessel was held pending more definite information from the Navy Department on their reasons for wishing us to hold the vessel. A departure permit was granted at 4:15 p.m., July 19, 1940, when it was learned that the Navy Department had a different vessel in mind, to wit, the HENNA, a Swedish vessel bound for Spain, which departed several days ago.

Referring to paragraph 2 under "Pending Cases" in the July 19th report, a departure permit was authorized on July 19, 1940, for the Greek vessel, HENNA HELIAS, for Lisbon, Portugal, after it was determined that her cargo contained no arms, ammunition, machine tools, or chemicals. Her tonnage was 16,990 gross and 10,015 net.

Pending Cases

There is no change in the status of the vessels described under paragraphs 2, 3, and 4 under "Pending Cases" in the July 17th, 1940, report, nor are there any further developments on the normal peacetime consumption of petroleum products in Spain.

(Initialed) H. C. per KEB

Mr. Riley

Regraded Unclassified
July 19, 1940

Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Matters Requiring Action by the Secretary of the Treasury

None.

Matters Not Requiring Action by the Secretary of the Treasury

Closed Cases

1. Attorneys for the French corporation owning the French registry vessels AMHILL and PROVIDENCE (referred to in paragraph 1 of the July 18, 1940, report) advised that the vessels will be transferred to Panamanian registry before any request is made to move the vessels in American ports. Departure permits will be authorized in connection with these vessels when requested. Similar departure permits were granted to the French vessel HELAIN D'ESTAMBUIE under similar circumstances.

Pending Cases

1. Referring to paragraph 1 under "Pending Cases" in the July 17, 1940, report, Dr. White's office checked the normal peacetime consumption of petroleum products in Spain to ascertain whether the 1,076,000 tons which representatives of the Texas Company state that they wish to send to Spain during the year 1940 (466,000 tons having already been sent) is in excess of normal peacetime consumption. Dr. White's office concludes that the statistics furnished by the Texas Company representatives are high if the term "ton" refers to "metric tons" and high for 1933 and 1935 if the term "ton" refers to "short tons". He also concludes that 1,076,000 tons is high in relation to past U.S. imports. A copy of the memorandum from Dr. White's office is attached.

2. The Greek vessel NEA HELIAS desires to clear for Lisbon with a general cargo. The Collector at New York recommends that the vessel be cleared. The NEA HELIAS is owned by Soulaandros Brothers of Andros, Greece. No departure permit has been authorized pending receipt of information with regard to the tonnage of the vessel and the exact nature of her cargo.

There is no change in the status of the vessels described in paragraphs 2, 3, and 4 under "Pending Cases" in the July 17, 1940, report.

(Initialled) H.S.G.

O.O. Mine Chaouacy

Mr. Foley
MERCHANT SHIP MOVEMENTS

Closed Cases

1. A departure permit was refused for the American Tanker AKBA, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

2. A departure permit was refused for the American Tanker NEWALT, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

Pending Cases

1. The Texas Company has submitted a request to export 618,000 tons of petroleum products to Spain for the balance of the year 1940. This would make a grand total of 1,076,000 tons for the year 1940. A memorandum of a conference with representatives of the Texas Company held on July 17, 1940, is attached. This matter is under consideration.

2. The Texas Company has requested advice as to whether or not the SS NORTE JAVALON, under Spanish registry, will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Naches, Texas, some time between August 10 and the early part of September. This matter is under consideration.

3. Suspicious circumstances have arisen in connection with the departure of the SINDA, a Norwegian vessel now at the port of Philadelphia. No departure permit has been requested, but a stop order has been placed against such a request when it is received.

4. The Lithuanian Steamship DENT is now in Boston. The Lithuanian-American Export & Import Corporation, 157 Chambers Street, New York City, has requested that it be advised if a departure permit is asked for this vessel. The corporation desires to submit certain facts to the Treasury Department before such permit is granted. This matter is under consideration.

(Initiated) Mr. C.

CC: Miss Charnock

Mr. Foley
The office of the Assistant Secretary were suspended to receive transactions on
the foreign exchange market at its previous time. In new features regarding
the exchange market was extended today.

CONFIDENTIAL

Date: July 20, 1940

INFORMATION COMMUNICATION

TREASURY DEPARTMENT

FROM

Mr. Director

TO

Secretary Washington

Regraded Unclassified
The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on July 17, showed that such deposits totaled $37,902,000, a decrease of $71,000 since the last report as of July 10. Included in this total were $29,133,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and there were again no deposits listed for its head office and Japanese branches. The overdraft of the head office and Japanese branches on the books of Yokohama’s New York agency was $61,078,000, a reduction of $3,546,000 since July 10.

The Bombay gold price was slightly lower at the equivalent of $33.77.

Spot silver in Bombay worked out to the equivalent of 43.91¢, representing a small gain.

CONFIDENTIAL
In reply refer to Eu 893.51/7099

July 20, 1940

strictly confidential

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for the strictly confidential information of the Treasury Department a paraphrase of a telegram dated July 16, 1940 from Singapore concerning funds of the Chinese Government now in Hong Kong.

Enclosure:
Telegram, Singapore, July 16, 1940.
Department of State

BUREAU
DIVISION

ENCLOSURE
TO

Letter drafted 7/18

ADDRESS TO

Henry Morgenthau, Jr.
PARAPHRASE OF TELEGRAM

From: Singapore

Dated: July 16, 1 p.m.

Rec'd: 6:28 a.m.

I am informed in strictest confidence by the Acting Governor that the Straits Settlements has been asked to permit Chinese Government funds now in Hong Kong to enter Singapore for safekeeping. While the Hong Kong Government is favorable to such a move, the Acting Governor of Singapore is definitely opposed to such a move or to any other steps which would tend to provoke Japanese demands. The Acting Governor has accordingly urged the British Government that this request should be refused. If the request is declined here it is not improbable that the Philippine Government may be approached in the matter.

PATTON

Fu: Stewart: AB

Regraded Unclassified
No. 335

AMERICAN CONSULATE

Rangoon, Burma, July 20, 1940.

STRICTLY CONFIDENTIAL


The Honorable

The Secretary of State,

Washington,

Sir:

I have the honor to refer to this Consulate's report of July 20, 1940, entitled "Prohibition Upon Exportation by Land From Burma of Five Classes of Goods", in which there were set forth regulations of the Government of Burma prohibiting the exportation by land from Burma of the following classes of goods: (a) Motor Spirit, (b) Iron or Steel Railway track material, (c) Rolling Stock and component parts, (d) Motor vans, motor lorries, trailers, chassis, and parts thereof, (e) Arms, Ammunition, and parts thereof, and military explosives. Although designedly phrased to apply to all exports by land rather than specifically to shipments to China, these regulations are promulgated for the purpose of effecting an immediate suspension of the transit trade from Burma to China in the commodities listed and were made effective at midnight on July 18, 1940. Instructed from London to take immediate action, the Government of Burma was not in possession of complete information regarding a reported agreement between the British and Japanese Governments concerning the matter at the time the export prohibition was imposed. It appears, therefore, that these regulations may be subject to revision when complete details are received.

Stocks in Burma Held by the Southwest Transportation Company.

As a result of the imposition of these export restrictions rather large quantities of goods imported into Burma for delivery to the Chinese Government can not be re-exported to China. The most recent available statistics relating to such goods are as follows: The Southwest Transportation Company, an agency of the Chinese Government engaged in the transportation of supplies to China, now has on hand in Rangoon a total quantity of approximately 30,000 tons of supplies and 602 vehicles intended for delivery to the Chinese Government. Of this total, the 602 vehicles and the following stocks totaling 6,521 tons are on the prohibited list and may not be re-exported to China: 1,870 drums of gasoline, 732 tons of automobile parts, 4,668 tons of rails, 524 tons of railway accessories, 920 pieces of shotguns and pistols, 3 machine-guns, 19 rifles,
rifles, 24,000 rounds of pistol ammunition, 12 tons of shotgun shells, and 126 military vehicles, such as armored cars and gun carriages. Of the foregoing supplies stated to be on the prohibited list, 482 vehicles and 4,243 tons of supplies enumerated as follows are of American origin: 1,870 drums (317 tons) of gasoline, 3,314 tons of rails, 600 tons of automobile parts and accessories, and 12 tons of shotgun shells. The balance of approximately 23,479 tons of equipment not in the prohibited categories consists chiefly of machinery, gun metal, brass, zinc, and radio and telegraph equipment. It is the intention of the Southwest Transportation Company to ship these supplies to China as expeditiously as possible.

On July 18th the Southwest Transportation Company had on hand in Lashio 391 trucks and approximately 16,000 tons of supplies, including about 10,000 tons of American origin of which there were 13,000 drums of gasoline. When it appeared during the day that export restrictions were likely to be imposed, efforts were made to move as large quantities of these stocks as possible. As a result 387 of the trucks loaded with 3,635 drums of gasoline and an undetermined quantity of other supplies were moved across the border into China before midnight. Detailed information is not yet available concerning the character of the remaining stocks at Lashio or of shipments of supplies en route by rail from Rangoon to Lashio.

Stocks of Gasoline Intended for the Chinese Government Held in Rangoon by American Oil Companies.

At the time the export restrictions were imposed the Standard-Vacuum Oil Company and the Texas Oil Company had made delivery of most of the gasoline already imported by them into Rangoon for the Chinese Government under Export-Import Bank credit arrangements. On July 18th they had only 1,120 drums (200 tons) on hand. However, they reported that 20,000 drums (3,500 tons) were loaded on a steamer at Hong Kong for Rangoon but that the shipment was being held up pending clarification of the situation. It is understood that there are an additional 40,000 drums (7,000 tons) stored in Hong Kong for delivery at Rangoon. Undetermined quantities also are en route to Rangoon from the United States on the S.S. OSPREY and the S.S. EXPRESS.


Airplane materials (except machine-guns) have not been included in the list of goods which may not be exported from Burma to China. The Intercontinent Corporation, therefore, is continuing the shipment of supplies and airplane parts to the factory of the Central Aircraft Manufacturing Company, Federal, Incorporated, at Loiwing, Yunnan, China. Such supplies destined for the factory consist of 150 tons, valued at US$560,000, en route to Rangoon; 170 tons, valued at US$800,000, in Rangoon; 200 tons, valued at US$950,000, en route from Rangoon to Bhamo; and 150 tons, valued at US$250,000, in Bhamo. Included among these supplies are about 200 machine guns.
Although most of these supplies may be exported to China, it is understood that the Burmese customs authorities will not permit the trucks carrying them to proceed across the border. The trucks, therefore, will have to be unloaded at the border, which is about two miles from Loiwing. Central Aircraft heretofore has imported all of its gasoline from Burma. Deprived of supplies of aviation gasoline, the factory will be unable to test the planes it produces. Furthermore, the planes which it may manufacture will be of no military value if not equipped with machine-guns. There is some question, therefore, as to the advisability of continuing production at the factory.

Undetermined Customs Treatment of Future Importations of Goods Destined for Reexport to China.

Goods imported into Burma for reexportation to China have been subject to a transit duty of only one percent. The customs authorities have not yet decided whether such goods as may be imported in the future, including those not on the list which may not be re-exported to China, may be imported under this arrangement or whether they will be subject to the full customs duty.

Respectfully yours,

W. LEONARD PARKER
American Vice Consul

Distribution:
1. In quintuplicate to Department.
2. Copy to Embassy, London.
3. Copy to Embassy, Chungking.
4. Copy to Consulate, Yunnanfu.
Reference is made to my memorandum of July 18 in which I referred to Mr. Finsent's inquiry regarding the efforts of I. G. Farben to dispose of subsidiary concerns. Finsent told me yesterday that he understood that the Swiss "I. G. Chemie" had originally been a Swiss subsidiary of the German parent concern, but is now entirely German controlled.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Consul Brady who has been sending in very good reports for some months past on shipments via Hankow to China is now in Washington on a brief leave of absence. Mr. Livesey told me that he would be available for conferences with us if we may desire to see him. I told Livesey that we much appreciated the Consul's reports and that we would be glad to have him come to the Treasury. He will telephone me on Monday morning for an appointment. Does the Secretary desire to see Mr. Brady personally?
The Secretary informed me yesterday, with reference to my memoranda of July 17 and 19, respectively, that he does not receive regularly from the F.B.I. confidential reports upon German balances with New York banks.

In accordance with the Secretary's instructions, I have today asked the Federal Reserve Bank at New York, through Assistant Vice-President McKeon, to begin at once the compilation of information on German banking transactions, similar to the information which has been given us in recent months on Russian and Italian transactions. I also asked that the two latter reports be continued. Mr. McKeon volunteered that he had some information already available on German accounts, which he would get in shape to give me on Monday, along with some current data on Russian and Italian operations.

At the same time I asked Mr. McKeon to look into the reported transaction of $550,000 of Lazard Freres of France, through Lazard Freres of New York, with one "J. H. L." McKeon told me that he had good contacts in Lazard Freres New York with whom he will get in touch, after making another search of the applications at New York to see if any documents in the premises have been filed.
July 20, 1940

Under Secretary Bell

Mr. Fuchsen

Mr. Livanoff telephoned me at 12:15 this morning to the effect that the Brazilian Ambassador had been touch with the State Department, through Under Secretary Welles and Mr. B presley of the Latin American Division, in regard to an account of $21,229.21 with the Chase Bank of New York, stated to represent funds of Brazilian diplomatic missions in Denmark and Germany. These funds are reported to be blocked, but surely needed. In answer to my question as to why the account for Germany was blocked, Livanoff thought this might have been handled by a Danish or Belgian bank. A formal communication in the premises is expected by the State Department from the Brazilian Embassy. Livanoff merely wanted us to know that this was coming. I telephoned the above information to Mr. Fuchsen, who will be on the lookout for such a transaction in our applications.
Memo

From: Secretary Horner
To: [Blank]

Date: July 23, 1940

Office Communication
Treasury Department

SECRET

TRANSMITTED TO NEW YORK AND SUBSIDIARY BANKS

In accordance with the request of the New York Federal Reserve Bank of New York, the above-mentioned banks have been notified and have agreed to transmit this message to all branches.

The message is

[Message content]

The transaction is

[Transaction details]

Please refer to the accompanying document for further information.

Secretary Horner
MEMORANDUM

The war and blockade have upset the equilibrium in the international transactions of Argentina. As a result of war policies of the belligerent nations we have accumulated substantial unrealizable balances in blocked currencies; on the other hand the balance of payments in free currencies may show a deficit of more than 450 million pesos in the next twelve months. Our reserves of gold and foreign exchange held abroad amount to approximately 250 million pesos. Under the present rate of deficit accumulation they will be exhausted in the next five months.

The country must export in order to pay for necessary imports. Even if we adopt a policy of drastic curtailment in our imports it is not possible to reduce them beyond certain limits. Moreover, commitments arising from the importation of certain vital necessities must take precedence over and above any other commitments.

The Government is at this moment contemplating the adoption of certain measures in order to minimize the drain on its foreign exchange reserves. These measures will be taken solely with that purpose in view and are to be considered as of an emergency nature.

Imports of goods payable in free currencies, which in this case means chiefly imports from the United States, will be reduced drastically. Certain imports such as jewelry, furs, furniture, perfumes, toys, etc. will be prohibited altogether.

Imports like automobiles, farming machinery, building materials, electrical appliances, transportation equipment, to mention only the most important will be variously reduced to between 40 and 50 percent of the total imported last year.
in a position to begin purchases and shipments towards the end of September. The clearing or barter agreements with a view of improving our free currencies position have recently approached our Government with a view of the present situation. The exchange of goods still not permitted will be made through clearing or barter agreements, which naturally will prevent the Governments from any immediate changes in their present financial position. It seems very likely that if active warfare causes in Europe in the near future our trade with that continent will be carried on under conditions that will not permit a rapid correction of the present situation. The exchange of goods still not permitted will probably be made through depleting foreign exchange resources.

Iron and steel, industrial equipment, coal, etc., will continue to come in as heretofore.

The Government is studying the possibility of blocking all private and corporate financial transfers to the free currency countries. It is expected that this will result in a further economy of our rapidly decreasing foreign exchange resources.

As a second step to be taken at a somewhat later stage it is expected that the Government is studying the possibility of blocking all private and corporate financial transfers to the free currency countries. It is expected that this will result in a further economy of our rapidly decreasing foreign exchange resources.

The Government is studying the possibility of blocking all private and corporate financial transfers to the free currency countries. It is expected that this will result in a further economy of our rapidly decreasing foreign exchange resources.
It seems unnecessary to add that in our present situation any buyer of our products would be welcome. And it is also unnecessary to point out that there is no Government in the Argentine that could refuse to trade with Germany today without exposing itself to the most serious sanctions on the part of public opinion with the natural political consequences.

It would be unfair to our friends in the United States Government if we did not candidly express the feeling prevalent in our country as to the possible outcome of the Havana Conference. Our Government is willing to do its share in bringing about economic cooperation in a continental scale. But past experience have taught us the difficulties involved in such a program and public opinion in the Argentine is highly skeptical as to any tangible and immediate improvement of the present situation resulting from the meeting.

There is no doubt in our minds that the most constructive step that the United States Government could take to help us to meet the present emergency would be to make immediately substantial purchases of some of our surpluses such as linseed, wool, hides and meat. Any such move on the part of the United States would not only result in an immediate improvement in our position but would also be instrumental in bringing about the proper spirit of cooperation in any long term plans that might be developed in this continent.

Any emergency action on the part of the United States of the nature mentioned above should be followed up immediately by some practical and comprehensive trade agreement between the two countries resulting in an increase of our sales in the American market, as well as in greater purchases of American goods on our part.
It is to the expansion of our sales here that we must ultimately look to find the means to meet the payments for our imports as well as of all other obligations in this country.
MERIDIANA

de la

Republica Argentina

Washington, D. C.
July 19, 1940

Merle Cochran, Esq.,
Technical Ass't to the Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Cochran:

In accordance with our conversation of today I am forwarding to you a translation of a memorandum on gold shipments that the Central Bank has sent to me.

Following your suggestion I called the Reserve Bank and have forwarded a copy to them with the request that the Reserve Bank cable at its convenience directly to the Central Bank.

Thanking you for your information and courtesy,
I am

Faithfully yours,

(Signed) C. A. Irigoyen
Argentine Economic and Financial Counselor.

OAI-M.

Enclosed you will find a copy of the Memorandum I left with you this morning.

O.A.I.

(Copy)
MEMORANDUM

The Central Bank of the Argentine Republic is envisaging the possibility in the near future, be it for seasonal or other reasons, of having to ship to New York coined gold or gold bars now in its vaults.

In order to make shipments only when the need arises the Central Bank would like to know the opinion of the Federal Reserve Bank of New York on the following points:

(a) Would the Federal Reserve Bank of New York advance dollars against coined gold or gold bars on board ship or ready to be shipped to New York? These advances to be repaid when the gold arrived in New York. The Reserve Bank would be authorized to sell that gold for the Central Bank account.

(b) If an operation as outlined above were possible, the Central Bank would like to know details and amounts the Reserve Bank would be ready to take.

(c) Whether the Reserve Bank would be prepared at the request of the Central Bank, and for its account, to contract shipping space and insurance for these gold shipments?

(d) On what conditions the sales of such gold for our account would be made?
REQUIRED

(Submitted in compliance with Department's instruction of October 4, 1939, file No. 124.0664/146.)

PROHIBITION UPON EXPORTATION BY LAND FROM BURMA OF FIVE CLASSES OF GOODS

From Vice Consul W. LEONARD PARKER

Rangoon, Burma. Date of completion: July 20, 1940.

Date of mailing: July 20, 1940.
Reference is made to this Consulate's report, entitled "Transmission of Notification of the Government of Burma Relating to Export Restrictions and Regulations", completed on January 20, 1940, with which there was enclosed a copy of Notification No. 2, dated January 8, 1940, issued by the Department of Commerce and Industry of the Government of Burma. Reference is made also to this Consulate's report, entitled "Transmission of Copy of Notification Permitting the Exportation from Burma By Land of Imports, Except from India, Declared Upon Entry To Be for Re-Export By Land", completed on March 9, 1940, with which there was enclosed a copy of Notification No. 35 of March 8, 1940, whereby clause (f) was inserted in Notification No. 2.

The Department of Commerce and Industry of the Government of Burma has now issued Notification No. 114, dated July 18, 1940, further amending Notification No. 2 by adding the following to clause (f) thereof: "with the exception of the following:—(a) Motor Spirit, (b) Iron or Steel Railway track material, (c) Rolling Stock and component parts, (d) Motor vans, motor lorries, trailers, chassis, and parts thereof, (e) Arms, Ammunition, and parts thereof, and military explosives". The effect of this amendment is to prohibit the exportation from Burma by land of the aforementioned classes of goods. This prohibition, therefore, affects the exportation of such goods from Burma to China, Indo-China, and Siam. However, since there is practically no exportation of such commodities from Burma to Indo-China and Siam, it will affect primarily re-exports from Burma to China over the Burma-Yunnan Highway. This export prohibition became effective at midnight on July 18, 1940, and no period of grace was allowed for shipments en route which had not crossed the border into China at that time. The Government of Burma has given no indication as to the period of time during which these restrictions will remain effective.

Copies of Notification No. 114 and of Section 19 of the Sea Customs Act mentioned therein are submitted as enclosures to this report.

Sources of Information:
"The Burma Gazette" (Extraordinary) of July 19, 1940.
"The Sea Customs Act, 1878 (Act No. VIII of 1878), as modified up to the 1st August, 1918.

Enclosures:
Copies of Notification No. 114 and of Section 19 of the Sea Customs Act.

Distribution:
1. In quintuplicate to Department.
2. Copy to Embassy, Chungking.
3. Copy to Consulate, Yumamfu.

610.2
Enclosure to report dated July 20, 1940, from W. Leonard Parker, American Vice Consul at Rangoon, Burma, entitled "Prohibition Upon Exportation By Land From Burma of Five Classes of Goods".

Source: The Burma Gazette of July 19, 1940.

DEPARTMENT OF COMMERCE AND INDUSTRY (CONTROLLER OF SUPPLIES)

NOTIFICATION
Rangoon, the 18th July 1940.

No. 114.—Under section 19 of the Sea Customs Act, the Governor makes the following amendment in this Department Notification No. 2, dated the 8th January 1940, as subsequently amended, namely:

In clause (f), delete the fullstop after the word "land" and add the following:

"With the exception of the following:

(a) Motor Spirit,
(b) Iron or Steel Railway track material,
(c) Rolling Stock and component parts,
(d) Motor vans, motor lorries, trailers, chassis, and parts thereof,
(e) Arms, Ammunition, and parts thereof, and military explosives."

By order,

A. H. SEYMOUR
Joint Secretary to the Government of Burma, Defence Department and Department of Commerce and Industry.

Copy of Section 19 of the Sea Customs Act Mentioned Above.

19. The Governor General in Council may from time to time by Notification in the Gazette of India, prohibit or restrict the bringing or taking by sea or by land goods of any specified description into or out of British India* (or any specified part thereof, either generally or from or to any specified country, region, port or place beyond the limits of British India.*

*Substitute the word "Burma" for "British India". Burma, which was a province of India, is now a separate unit of the British Empire, effective July 1, 1937.
Stockholm
Dated July 20, 1940
Rec'd 10:15 p.m.

Secretary of State,
Washington.

748, Twentieth.

Private corporation known as Swedish Foreign Trade
Barter, Incorporated, formed with the collaboration of
thirteen trade associations to promote Swedish exports to
countries where financial conditions make barter necessary.
Swedish Government has for first time made grants of 4000
and 2000 crowns respectively for Swedish participation in
Konigsberg and Vienna fairs to endeavor to develop new
markets for Swedish exports. During recent weeks Finnish,
Danish and Norwegian bonds have appreciated considerably
on Stockholm exchange although quotations are still mainly
nominal with active bidding for bonds but few sellers.
New wage agreement signed in typographic and lithographic
trade involving 5000 workers effective until June 30, 1941.

INFORM TREASURY, COMMERCE.

STERLING
(CONFIDENTIAL)

PARAPHRASE

A telegram of July 20, 1940, from the American Consul at Rangoon reads substantially as follows:

On July 15 at midnight the prohibition of exports to China became effective.
DEPARTMENT OF STATE
WASHINGTON

July 20, 1940

In reply refer to
Bu 893.51/7099

STRICTLY CONFIDENTIAL

The Acting Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury and encloses
for the strictly confidential information of the Treasury
Department a paraphrase of a telegram dated July 16, 1940
from Singapore concerning funds of the Chinese Government
now in Hong Kong.

Enclosure:
Telegram, Singapore,
July 16, 1940.
PARAPHRASE OF TELEGRAM

From: Singapore
Dated: July 16, 1 p.m.
Rec'd: 6:15 a.m.

I am informed in strictest confidence by the Acting Governor that the Straits Settlements has been asked to permit Chinese Government funds now in Hong Kong to enter Singapore for safekeeping. While the Hong Kong Government is favorable to such a move, the Acting Governor of Singapore is definitely opposed to such a move or to any other steps which would tend to provoke Japanese demands. The Acting Governor has accordingly urged the British Government that this request should be refused. If the request is declined here it is not improbable that the Philippine Government may be approached in the matter.

PATCH

Ruf Stewart:AB
TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

DATE July 20, 1940

At 5:00 p.m. yesterday evening, Mr. Pinsent, Financial Counselor of the British Embassy, showed me a cablegram dated London July 17 which his Ambassador had received from Foreign Minister Halifax. The text was something along the following lines:

"Negotiations reported in progress for a German loan to Spain of 300,000,000 reichsmarks for purchase of rolling stock which the Germans claim can be completed in two years."

Mr. Pinsent had no information to supplement the above cablegram.
Strictly Confidential

After receiving yesterday the attached copy of a message from the Chase Bank at Tientsin to the Federal Reserve Bank of New York, I telephoned Mr. Cochran, a Foreign Officer in the Far Eastern Division of the Department of State. After consultation with his colleagues, he told me that the State Department was not aware of any special arrangement between the French and Japanese for the disposal of three million ounces of Tientsin silver, but they were aware that certain silver had been held in the French Concession at Tientsin. If this silver is of the same character as that offered some weeks ago by the British authorities for sale to the United States, the State Department hopes that the attitude of the Treasury will be the same. It will be recalled that we refused to buy the silver offered through the British.

I mentioned this matter to the Secretary of the Treasury by telephone to the farm this morning. He agreed that we should hesitate to take this silver. If I find on further inquiry that it is in the same category as the previous offering, it should be refused.

July 22, 1940

I talked this afternoon with Counselor Liu of the Chinese Embassy in Washington giving him orally the substance of the attached cablegram of July 19 from the Chase Bank at Tientsin. Mr. Liu was not aware that there had been any arrangement for disposal of 3,000,000 ounces of silver held in the French concession at Tientsin. He assumed that the silver mentioned in the cablegram was concession silver. In answer to my inquiry, he stated definitely that his people would appreciate it if the United States Government did not facilitate any arrangement for the disposal and purchase of the silver in question. Mr. Liu said that the proceeds of the sale would go to strengthen Japan. He expressed a willingness to cable his Government for any details in regard to the silver which we might desire. I told him that this was not necessary at present, since the Treasury was ready to indicate that it is not interested in purchasing Tientsin silver. He thanked me very much for indicating this position, and for letting his Embassy know of the contemplated arrangement.

At 3 o'clock this afternoon I gave Mr. Knake, Vice President of the Federal Reserve Bank of New York, a confidential summary by telephone of my conversations in regard to the proposition set out in the Chase Bank cable. I asked him to let the Chase Bank in New York, from whom the message had been received, know that the Treasury Department is not interested in purchasing Tientsin silver. I explained to Mr. Knake that it might be difficult for us to refuse to buy the silver in question if it were shipped to this country and then submitted to us as inventory silver by brokers, but added that we did not want any suggestion made of such a possibility. He understood our position and promised to transmit the simple answer which I phrased for him.
CABLE

From: Chase Bank, Tientsin, China
To: Chase Bank, New York
Telephoned To: Federal Reserve Bank of New York
by Chase Bank, New York.
Date: July 19, 1940

"Banque de l'Indochine Tientsin Banque Franco Chinoise Pour
l'Commerce et l'Industrie Tientsin expects to jointly handle
shipments sale abroad of Tientsin silver to be released under
French Japa agreement amounts involved about 3,000,000 ounces.
They suggest silver to be shipped San Francisco consignee Chase
National Bank for our account. Can you arrange for sale
telegraph best terms. Are there any restrictions against sale
of this silver in the United States."

Received by phone from Mr. McKeon's Secretary - July 19/40 - km
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Kaunas, Lithuania.
DATE: July 21, 1940, 9 a.m.
NO.: 164.

STRICTLY CONFIDENTIAL.

In answer to his urgent request made last evening at 10:30 p.m., I called on the provisional Foreign Minister and the formal protest against the freezing of credits was handed me. After she declined an interpreter and translated the letter, Miss Avetien Aite.

very quietly added:-

Please disregard all of our protests. Our actions are not independent any more. We appreciate more that we dare to say, what Washington is doing. I cannot say any more because people are listening.

(A full translation of the letter appears later.)

My conclusions were that she had expressed the exact sentiments of all those who count for the good of Lithuania and also for the other two Baltic nations. Although Lithuanians would prefer having their investments held safe until the return of better times, apparently the Bolsheviks are a trifle perplexed and very annoyed. It is their earnest desire to make the whole matter of the transfer appear spontaneous on the part of the people of Lithuania. Their instructions to the Seimas conference today may possibly be affected by the freezing decree. In an informal call, the head of the Protocol Division of Lithuania stated Foreign Office "advisers" were unable to understand our inability to
to accept the invitation to go to the Seimas meeting today. The head of the Protocol Division himself expressed great appreciation of the U.S. Government's understanding and treatment of the whole procedure and he added that continuance of the three small nations as protectorates is being considered by the powers that be, as the best means for solving outstanding difficulties. Control and direction by Russia is almost complete now. Following is the text of the note presented:

The Lithuanian Government was greatly surprised when it learned that on July 15th, 1940 the Government of the United States of America issued an order No. 8484 by which all operations pertaining to the property of the Lithuanian State and citizens are prohibited without a permit.

On the basis of this order the Federal Reserve Bank of New York has up to this time not acted upon the request of the Lithuanian Bank of July 13th, 1940, to transfer to the account of the State Bank of the Soviet Union the gold which the Lithuanian Bank purchased from that Bank.

In depositing its capital with an American Bank the Lithuanian Government showed confidence in the credit institutions of the United States of America. The Executive Order of the Government of July 15th, 1940 greatly injures Lithuania's rights and interests and likewise causes
causes great losses to the Lithuanian Bank.

The Lithuanian Government is forced to express its categorical protest against this illegal and baseless order of the Government of the United States of America which limits its rights to property which property of a sovereign state immunity.

All responsibility for losses which may accrue to Lithuanian interests in connection with Executive Order No. 8484 of July 15th, 1940 will fall upon the Government of the United States of America.

The Lithuanian Government express, however, a strong conviction that the United States Government will annul the order of July 15th and assure that the gold which the Lithuanian Bank sold for an appropriate equivalent to the State Bank of the Soviet Union will be transferred to the latter.

NOREM

EA: MSG
causes great losses to the Lithuanian Bank.

The Lithuanian Government is forced to express its categorical protest against this illegal and baseless order of the Government of the United States of America which limits its rights to property which as property of a sovereign state enjoys immunity.

All responsibility for losses which may accrue to Lithuanian interests in connection with Executive Order No. 8494 of July 15th, 1940 will fall upon the Government of the United States of America.

The Lithuanian Government express, however, a strong conviction that the United States Government will annul the order of July 15th and assure that the gold which the Lithuanian Bank sold for an appropriate equivalent to the State Bank of the Soviet Union will be transferred to the latter.

NOREM
BRITISH EMBASSY,  
WASHINGTON, D.C.  

Personal and Secret

July 21st, 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,

[Signature]

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.
During morning of July 19th an action took place off the island of Xante (off west coast of Greece) in which H.M.A.S. "Sydney" (6,800 tons with 8 6" guns) with five destroyers in company engaged and sank an Italian cruiser "Bartolomeo Colleoni" (5,000 tons with eight 5" guns). Another Italian cruiser escaped, through superior speed. H.M. destroyer "Havoc" having picked up 250 Italian survivors was attacked by aircraft while returning to base; she continued without assistance although one boiler room flooded.

Anti-submarine vessel "Beryl" cooperating with aircraft carried out promising attack against enemy submarine outside Grand Harbour at Malta on July 19th.

2. During the night of July 16th-19th following targets were successfully attacked. Air depot at Aachenburg, oil refinery at Hanover, rail junction at Hann, air park Miwpols and Paderborn, air frame factory at Bremen, large factory at Aachenburg, ammunition factory at Aachen, aerodrome at Nachrooms and dock area of Aachen. Of sixteen Aachenina despatched yesterday all returned.
results not yet available. Ninety aircraft despatched last night against industrial and railway targets northwest Germany also targets at Emden and Admiral Scheer at Wilhelmshaven; three aircraft missing; reports still awaited. Mine laying operations carried out great belt Frederikshaven and off Northwest German coast.

3. Enemy aircraft during night of July 18th-19th damaged one hangar at Norwich aerodrome. These aircraft reported to have carried circular markings. Yesterday afternoon two attacks made on Dover where destroyer "Songo" patrolling slightly damaged by near misses and Belgian destroyer "Griffin" damaged in Dover harbour. Enemy aircraft numerous and were engaged by three and a half squadrons of our fighters. A major engagement took place: enemy was driven from point and prevented from locating our convoy. At New Romney enemy aeroplanes dived down to one hundred feet and machine-gunned some soldiers; this machine reported as either Spitfire or Hurricane with no markings. Some bombs dropped at Milton Aerodrome (Pembrokeshire), and at Glasgow where two persons killed, two injured. Last night considerable enemy activity. Mine-laying reported at Plymouth and suspected in Thames Estuary, East Coast, Firths of Forth and Clyde. Bombs dropped near Hanston Aerodrome near Kilmarrock and at Seacombe, Hellesp.
Hafnar, Largo, Peterhead, no damage reported.

At Stirling two houses destroyed, 28 civilians wounded. Yesterday's reckoning:
three enemy fighters, four bombers (one A.A.)
one seaplane destroyed (confirmed) eight fighters, two float planes, one bomber
(unconfirmed). Our losses six Defiants, three Hurricanes.

4. Shipping losses reported yesterday
by U-boat July 19th Norwegian ship (name and
tonnage unknown) sunk in Northwestern
approaches. By air; Estonian "Leela" (500
tons) sunk western approaches, Finnish "Miiri"
(3,500 tons) sunk near Malta.

5. Egypt. Blenheims attacked
aerodrome at al Qubbil.

Aden. Two attacks on Macassa
aerodrome, hits observed on camp buildings.

Enemy air activity.

Egypt. Mersa Matruh heavily bombed
daylight of July 19th and following night.
Results not known, one of the enemy's machines
brought down.

Egypt Colony. Two attacks on Mersa
July 17th, one aircraft on the ground badly
damaged.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Tallinn, Estonia.
DATE: July 21, 1940, 10 a.m.
NO.: 96.

At the request of Mr. Andresen, the Minister for Foreign Affairs, I called at the Estonian Foreign Office last midnight. He told me (orally) that the Estonian Government was much embarrassed by the decree of the President of the U.S. on July 15 freezing gold deposits in the United States owned by Estonia (these gold funds were purchased from the Central Bank of Estonia by the Soviet's Gos Bank) and forbidding transactions except by appropriate license in which the Republic of Estonia and its nationals were concerned. Andresen said then that the Estonian Government had decided to make an absolute protest against the executive order (indicated as no. 8485, July 15 last), and I was asked to convey this protest to my government as soon as possible. He added that the whole responsibility for losses incurred thereby to the interests of Estonia is placed upon the U.S. Government by the Estonian Government, and that the Estonian Government is sure that the Government of the United States would take immediate steps to cancel or modify the order so that transfer of the gold to the Gos-Bank would be ensured and Estonia's interests in that regard are admitted.

The
The Foreign Minister, after conveying the above to me orally, gave me a note written in the Estonian language. A translation of it confirms the above and also states that in making the categorical protests against an arrangement which is unlawful, it points out that the rights and assets of the sovereign state of Estonia are restricted by this arrangement. It further states that the Estonian Government placed its assets in U.S. banks in full confidence in American credit institutions; Estonia considers that Estonian rights and interests are grossly violated and a great loss is caused to the Estonian Central Bank by execution of the aforementioned order of July 15.

LEONARD
Secretary of State,
Washington,

213, July 21, 6 p.m.

Following note verbale received today under yesterday's date.

"The Latvian Government are informed that by the executive order No. 8484 issued by the Government of the United States of America on July 15, 1940 transactions involving property in which Latvia or Latvian citizens are interested have been prohibited except under license.

The Latvian Government feel obliged to express their formal protest against this unjustified action infringing the immunity of a sovereign state's property. In depositing their funds with American banks the Latvian Government were firmly convinced of the trustworthiness of American credit institutions. The executive order No. 8484 of July 15, 1940 seriously encroaches on Latvian rights and puts the Bank of Latvia to heavy losses.

Pursuant to the above executive order the Federal Reserve Bank of New York have not yet effected the order of the Bank of Latvia of July 13, 1940 as to the transfer to the U.S.S.R. State Bank of gold purchased from the Bank of Latvia.

The
-2- #213, July 21, 6 p.m., from Riga.

The Latvian Government make the Government of the United States of America responsible for any losses which should arise to Latvian interests in consequence of the executive order No. 8484 issued on July 15, 1940.

The Latvian Government firmly believe that the Government of the United States of America will agree to remove the difficulties created and give license to the transfer to the U.S.S.R. State Bank of gold purchased by them from the Bank of Latvia in exchange for a (?) equivalent. Riga, July 20, 1940

WILEY

EMB