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THE WHITE HOUSE
WASHINGTON

July 26, 1940.

My dear Mr. Secretary:

The President on July twenty-fifth signed an Executive Order which amends the existing Order imposing certain "freezing" control, as recommended in your letter of July twenty-fifth.

Very sincerely yours,

STEPHEN EARLY
Secretary to the President

The Honorable,
The Secretary of the Treasury,
Washington, D. C.
Mr. Zoltowski, Financial Counselor of Poland with offices in New York, called on me this morning at 10:30. He reviewed in some detail the question of the transfer of Polish gold and dollars from the account of the Bank of France into the account of the Bank of Poland with the Federal Reserve Bank of New York. The Treasury had approved this transaction yesterday evening.

Mr. Zoltowski mentioned to me the subject of Polish gold. He stated that approximately $56,000,000 of Polish gold had been held in France. This was not actually in the Bank of France, but was, he understood, in a "safekeeping" place of the Societe Generale at Nevers, France. When the situation became critical in France, it is understood that the Bank of Poland officials, who were making their headquarters in Paris, despatched one of their number, Mr. Steve Michalski, to try to get the gold to a safe place. Not a word has been heard from Michalski since he started on this mission. It is rumored that the gold was placed on board a French vessel at the port of Lorient.

The Polish officials do not know the present whereabouts of the gold. They have traced down the rumor that it might be in Martinique, and have found this baseless. The other rumor which they have not Yet been able to confirm is that the gold may have gone to some East African port.

Naturally the Polish are much concerned over this gold, which represented all of their gold stock, except a comparatively small amount in Romania, and furthermore would be the source of subsistence for the Polish officials who have fled from Poland and are endeavoring to maintain a Polish Government, Central Bank and diplomatic offices abroad.
FOR THE HONORABLE SECRETARY OF TREASURY,

JUST HAD CONFERENCE WITH LORD BEAVERBROOK, HE IS SENDING MAGNETIC MINE DETONATOR AS CARRIED ON PLANES WITHIN FEW DAYS.

MR. KENNEDY

CR 868/ 1915
Pages 4 through 50 dated July 25, 1940, and placed in Book 288
July 26, 1940
11:14 a.m.

H.M.Jr: Hello.
Operator: Mr. Gaston.
H.M.Jr: Herbert.
Herbert E. Gaston: Yes.
H.M.Jr: That letter I asked you to do in regard to these -- letting Customs do this work.
G: Yes.
H.M.Jr: I've got to have that before 2 o'clock.
G: Yes.
H.M.Jr: It's important, particularly since what's happened and the State Department is trying to get the President to revoke it now.
G: Are they?
H.M.Jr: Because it's too difficult to administer, so please -- I don't know what you're doing with it, but I've got to have that letter before 2.
G: Yes, all right. Well, I'm at this meeting in Hoover's office. We'll be through here in about a minute.
H.M.Jr: What's that?
G: We'll be through here very shortly. I'm at this meeting in Mr. Hoover's office. I'll probably be back at the office by 11:30, I'm sure.
H.M.Jr: Well, I've got to have that letter, and Oscar Cox has found an old Statute where Customs used to administer that, so please let me have that before Cabinet. Can I count on it?
G: Oh, yes. Oh, yes, indeed. Yeah. I'll have it for you.
GROUP MEETING

Present:
Mr. Bell
Mr. Gaston
Mr. Sullivan
Mr. Foley
Mr. Thompson
Mr. Schwarz
Mr. Cochran
Mr. Young
Mr. Haas
Mrs. Klotz

H.M.Jr: Herbert?

Gaston: We haven't yet heard from the State Department whether the proclamation on petroleum and scrap iron - they were in a huddle yesterday afternoon trying to make up their minds whether to recognize it or not. We are waiting for word from them, when it becomes effective.

H.M.Jr: Well, I was thinking this, Herbert. You write a letter along these lines from me to the President, something along this line.

"Dear Mr. President: I understand that there is a tremendous backing up of applications for export licenses." Have you got some figures, Phil?

Young: Yes, sir. I can give some on British, as to the delay caused.

H.M.Jr: All right.

"In the case of the British, the facts are as follows," supplied by one Philip Young.
"I would like to offer the services of the various collectors of Customs to receive these applications and have them clear through us here in Washington. Colonel Maxwell could move over to the Treasury and inasmuch as Customs is under Mr. Gaston, if you wish to do so, you can have Herbert Gaston supervise Mr. Maxwell under your direction. I can at least guarantee you that we will give the exporters 24 hour service instead of 24 day service.

"I appreciate that I am asking for an additional headache, but we are willing to take it on if you so desire."

Gaston: Of course, this is the situation. The Army and Navy experts have got to brood over these things for several days to decide whether they want this particular thing or not.

H.M.Jr: That is all right.

Young: Do you want to include anything at all on the out and out embargo and its effect on Canada?

H.M.Jr: Well, you and Herbert Gaston go into a huddle and fix me up a good letter. I will sign it and send it over to the White House as I step into the plane.

Bell: You are going in an Army plane, aren't you?

H.M.Jr: No sir. No, seriously, I think for the sake of the President we ought to offer him this thing and if he doesn't want to do it, my feelings won't be hurt, and I want to put in that we realize we are asking for a headache. Customs with all of their offices could give this service and these fellows could get their applications and the thing would be put in.

Gaston: Providing we made the decisions here as to what certain thing ought to be held or not, but the difficulty there is, our deciding what is strategic material and what they
want to hold - I think the logical thing to do if the Army and Navy make up their minds exactly what they want to hold and in what quantities - then it would be a very simple thing to run through a manifest and see whether there is any of that on it and if there isn't, clear it.

H.M.Jr: Fix up a letter, Herbert, see, on the basis that you would be willing to take the responsibility.

Gaston: Yes.

H.M.Jr: Only on the basis that you would be willing to take the responsibility.

(Lieutenant McKay handed note to Secretary.)

H.M.Jr: Why should I talk to Assistant Secretary Grady of the State Department? Why should I go slumming?

Gaston: It is probably on this business.

H.M.Jr: What else?

Gaston: There may something come out in the papers about the Tatuta Maru. I gave a general order around noon yesterday that they weren't to issue any more licenses to ships carrying petroleum products and scrap iron, not to revoke any outstanding. I modified that last night to allow one cargo to go to Ecuador and one to go to Great Britain, which were going last night, but under that order they held the Tatuta Maru, the Japanese liner in Honolulu, and I just - it was just brought to my attention this morning, and I told them to let her go. She had loaded on the Pacific Coast of the United States several days ago and was cleared from there. She has some oil and scrap iron aboard and since, of course, she already loaded in the United States, I said to let her travel, but she was held for 24 hours.

H.M.Jr: Did you tell the boys downstairs that they no hear, no see and no speak?
Gaston: That is right.

H.M. Jr: Do they understand that?

Gaston: They understand that. I am going to bring you in a letter which I hope you will sign congratulating a man named Hawkins who has been some 40 years in the service of the Customs in New York. He is being retired.

H.M. Jr: Lovely.

Gaston: We also took the liberty of drafting a letter for the President's signature. The Hawkins family is quite numerous on Long Island, an old family, and perhaps the President would like to sign a letter.

H.M. Jr: How many votes is he good for?

Gaston: That is something we haven't given much thought.

H.M. Jr: All right. I am leaving this stuff. Good work. What else?

Gaston: That is all.

H.M. Jr: Ed?

Sullivan: I went over yesterday afternoon right after the meeting to talk with Mr. Knudsen and Stettinius and Henderson and Mr. Knudsen said that none of his people were talking about a separation and that the President said they were together and that was the end of it, and then Mr. Henderson said, "Well, you came here just in time because I have a resolution in my pocket and Mr. Stettinius and I have an appointment with Mr. Doughton and Mr. Cooper right now, this afternoon, asking them to separate these bills and to rush the amortization right through."

H.M. Jr: Henderson and who?

Sullivan: Stettinius, and I said, "Well, I have given you the message the President gave me to give you,"
and he said, "Oh, this is the end of it now," but Knudsen never knew they were going up.

Now, Henderson had already seen Senator Harrison and I am wondering if I shouldn't see Senator Harrison and also Mr. Doughton and Mr. Cooper and tell them about this message from the President.

H.M. Jr: Definitely. What is the matter with Henderson?

Sullivan: Well, they are all hopped up over separating those. There is a memorandum of a conference over there and also over at the other place. You asked me to draw that up.

H.M. Jr: Oh, but not with Knudsen.

Sullivan: I just put that on the end of it because it is part and parcel of the whole affair.

Mr. Hanes is preparing to appear before the House Ways and Means Committee and the Senate Finance Committee on the case of a fellow named Phillip Clark, who was a stockholder in the Central Republic Trust Company in Chicago. That was the case he tried very hard to settle when he was here as Under Secretary, and I talked it over with Mr. Foley and we think that we should prevent that appearance if we can and if we can't, at least give the information to some friendly members of the Committee so they will be ready to take care of the situation.

H.M. Jr: How can you prevent it?

Sullivan: Well, unless he is an attorney representing Phillip Clark, I don't know what right he has to come in there and talk about a special settlement in an individual tax case.

H.M. Jr: Isn't that his privilege? Can't anybody do it?

Sullivan: I don't know.

Gaston: Under the law, can't he appear as attorney?

Sullivan: I don't know.
Foley: Well, I don't think he would be appearing as attorney. He would probably be appearing as a citizen before a committee of Congress asking for an opportunity to present information within his knowledge that may be helpful to the committee in consideration of matters affecting the Treasury. But I should think that if Doughton and Cooper and McCormick knew why he wanted to come there and the political opportunity he might take of his appearance there to sound off on a lot of things that he didn't like in connection with the operation of the Bureau when he was Under Secretary of the Treasury, they might shut him off.

Sullivan: This is not at all germane to the excess profits tax bill.

H.M.Jr: I totally disagree with you. I think it would be a great mistake to try to stop him. I would give the facts that you mentioned to Doughton and Cooper and McCormick so that they could ask him what, if anything, he did while he was Under Secretary on this matter, but I certainly wouldn't make any effort to stop his appearance. Don't you agree?

Gaston: Yes.

H.M.Jr: I think it would be a great mistake.

Gaston: The only thing I thought about it, I wondered whether this prohibition against participation in tax cases covered an Under Secretary of the Treasury who - or an Assistant Secretary of the Treasury who is in charge of tax matters? Could he appear as an attorney?

Foley: Why, he is not an attorney anyway, and I don't think he could.

Bell: That is a prosecution of the claim against the Treasury.

H.M.Jr: Doesn't he need a license?
Foley: To appear before a committee of Congress? No, sir. For practice here in the Bureau he would need a license.

H.M.Jr: But I thought all lobbyists had to have a license.

Foley: I don't think that is really lobbying.

H.M.Jr: I think it would be a great mistake to do anything to keep Hanes or anybody else from appearing. It would be perfectly all right to tell them the facts as we see them.

Foley: Well, I thought it would take on a semblance of politics instead of --

H.M.Jr: You can't prevent it, and I think it would be a great mistake to try to prevent it.

Gaston: I think if it were legal the committee ought to prevent his appearing, but if it is merely an impropriety, I think it is better from our standpoint to let him go ahead and commit the impropriety.

H.M.Jr: I don't want to have my staff try to stop anybody from appearing.

Sullivan: The Advisory Commission were asked to furnish a list of corporations who would probably be affected by the special amortization. Mr. Stamm asked for that and he sent me a copy. I didn't know but what you would like to see a list of those corporations that they think --

H.M.Jr: It is difficult enough for me to conduct my private affairs without looking at that.

Sullivan: It is pretty interesting.

H.M.Jr: All right.

Cochran: Nothing, sir.

H.M.Jr: One thing that you (Cochran) sent me,
incidentally - nothing is coming up to Malone. I am concentrating on a thesis entitled "Night in Bombay".

Cochran: That is pretty good.

H.M.Jr: Is it?

Cochran: It is all right for hot weather reading.

H.M.Jr: It has taken me a month to go two chapters. One thing that I had here - I will do this now. When I come back you are going to have to cut down on the stuff you send me by about 75%.

Cochran: I cut down yesterday just a little.

H.M.Jr: Well, cut a little more. You sent me one thing here though, which I think is very important, and that is the amount of money being spent by the German Embassy and the various Consuls. It is really not quite complete, is it?

Cochran: Well, that is just the first part of this investigation we are starting.

H.M.Jr: Well now, I would like to have - I think it is terribly important and I would like to have the same on the Russian and the same on the Japanese, just done this way.

Cochran: All right.

H.M.Jr: You see here, for instance, so far in 1940 they have spent about a million dollars at the German Embassy.

(Telephone conversation with Jerome Frank follows:)

Regarded Unclassified
July 26, 1940
9:49 a.m.

H.M. Jr: Hello.
Operator: Mr. Frank.
H.M. Jr: Hello, Jerome.
Jerome
Frank: Yes.
H.M. Jr: How are you? Henry talking.
F: Yes, Henry.
H.M. Jr: Jerome, I don't know whether it's been
brought to your personal attention or
whether it just went through your organi-
zation, but I wrote you a little note about
a fellow by the name of Buckley.

F: Oh, yes. Now, I just asked Mr. Sheridan to
get in touch with you. Phil Young called
me about it and Sheridan then took it up
with him and I understand that the situation
is this. We're very short of money and if
you want to take him over on your payroll
so that we can substitute a man for Buckley,
fine. If not, then you put us in this
position, that although you reimburse us,
we can't appoint anybody in his place. That's
our problem and the job is an indispensable
job so that that's what -- just a minute,
Mr. Sheridan's with me. (Talks aside). In
other words, Mr. Sheridan was just saying,
he's explained to Phil Young that if we're
going to leave -- Buckley's going to leave
us, then we've got to find a substitute.
We can't under our Statute appoint a sub-
stitute if Buckley isn't off our payroll.

H.M. Jr: Well, let me tell you in the first place
what I want him for. I want him as Assistant
to help Phil help the English.

F: Sure and we're glad to do it but, can't you
do it by taking him on your staff.
Yes, we can do that provided -- because I don't know how long this will continue and I want to be fair to Buckley the way you do -- that if this thing, say, would be over in three to six months he can feel that he has a job at S.E.C. when he goes back.

Well, now, there our problem is this. If we hire a substitute, then that job is closed. We can't fire that fellow and our budget has been cut recently and I don't know -- I can give him the assurance that if there is a job open and we've got the money for it in that particular kind of job, we'll be delighted to have him because we think he's an A-1 man. But we'd be doing an injustice to the fellow we hired, in the first place we couldn't get a man on a temporary basis to take his place. If we hire a fellow we can't fire him. Now, I'll give Buckley the assurance that if there's a job open in that division and we have the money, we will take him on, but I can't assure him that that situation will exist. I mean, it's just that -- there's our problem. You are taking a very good man out of a strategic position and we've got to fill his vacancy.

Well, here's the point. I'm 90% sure we can take care of that payroll stuff. This thing that we're doing for the English is one of the most important things we're doing here in the Treasury and ......

How long will you need him, do you think?

Well, how long will England keep fighting?

Uh-huh. You might need him for six months.

I hope so.

Well, let me see what I can do. It is a hard nut for us to crack.

Well, Jerome, if you could do it, you'll be making your contribution toward help --
winning and we can do the payroll. If you'll tell this Sheridan on the payroll thing that I'll have Norman Thompson call her up -- my Administrative Assistant -- and we'll work it out. Huh?

F: You see, it isn't the reimbursement for his salary while he's gone, it's a question of having a fellow do his work while he's gone. That's our problem. How can we get a fellow and put him in there temporarily without firing him when Buckley wants to come back -- that's the problem.

H.M.Jr: Well, would you give it a little thought because I wouldn't call you unless it was important for us.

F: O. K. I'll go right after it.

H.M.Jr: It's a key post and Phil's doing a swell job and I don't want him to break down physically.

F: O. K.

H.M.Jr: See?

F: O. K.

H.M.Jr: Thank you.
Young: Many thanks.
Thompson: There are many ways we could do it.
H.M.Jr: How far have I gotten?
Cochran: You were just asked me to get more information from the Russians and Japanese.
H.M.Jr: Well, I think it is very important for me to know how much money Germany, Italy, Japan and Russia are spending through diplomatic channels each month, that is, Embassy and Consulates. I want that monthly from now on. Germany, Russia, Italy, and Japan. It is terribly important because after all if it gets to a point where it is too big we are just going to have to do something about it.
Cochran: That certainly ought to help in getting that legislation we were talking about some time ago.
H.M.Jr: Anything else?
Cochran: That is all.
H.M.Jr: Incidentally, if you want to take some time off while I am away, it is entirely up to you.
Cochran: All right, sir.
Schwarz: I have nothing.
H.M.Jr: Phil?
Young: I would like to see you about five minutes before you get out of town if it is possible.
H.M.Jr: I spoke to - I had Mr. Knudsen pick me up this morning and we drove down together and I told him I was leaving town tonight, was everything all right. He said it was. He said, "I'm not so crazy about this thing, but I am going to keep my mouth shut and we
worked until midnight last night and by Monday or Tuesday we will be ready." He said, "I think I will have a lot of idle plant capacity around here," so I said, "Well, how do you know we will?" I said, "The Germans had eleven Panzer mobile units; the French had two. The French thought they had enough when they had two." I said, "How do you know whether we will or won't?" But he said, "We will be ready Monday or Tuesday." Now I said, "As to Packard, what do you want?" He said, "I want you to tell Purvis," which I have, that he, Knudsen, will do everything possible to go through with the original basis but if he can't do it, then he wants Purvis to say yes and put up the ten million or whatever it is, you see. I called Purvis and Purvis said okay, he would do it.

Young: Right.

H.M.Jr: So that is the way it is. Purvis said he would be down next week and he would take you with him wherever he went so that you know what he is doing.

Young: Right.

H.M.Jr: Tell Mac and I will give you the time. George?

Haas: I have nothing.

H.M.Jr: I see that Mr. Foley is all over the headlines this morning on amortization. It is very good. Read it. Syracuse boy makes good. Are you going with me this afternoon?

Foley: Gladly.

H.M.Jr: What does your sister say?

Foley: Okay.

H.M.Jr: Is she going to drive your car?

Foley: She thinks she will go over to the Eastern shore.
H.M.Jr: Couldn't sell her?
Foley: No.
H.M.Jr: Is she sore?
Foley: No, she's not sore. She is just as well pleased. She said if I go up there, then she doesn't have to go.
H.M.Jr: Mac and I looked for Selkirk, isn't that what you called it?
Foley: Yes. It is four miles from Pulaski. You see, Pulaski is about 35 miles south from Watertown on the road to Syracuse.
H.M.Jr: On the lake?
Foley: On the lake.
H.M.Jr: Have you found out how many miles it is?
Foley: It is farther than we thought. It is about 150 from Malone.
H.M.Jr: They can do that in 3½ hours. You do that Saturday morning?
Foley: Mac says he thinks a fellow can meet us at the airport and we can go down tonight. I told him whatever was most convenient.
H.M.Jr: It would be more comfortable driving. I spoke to him when I came in.
Foley: I know, he called me right afterward.
H.M.Jr: That is service.
Foley: Yes, sir.
H.M.Jr: Dan?
Bell: I still haven't any answer on the relief payments.
H.M. Jr: Oh. If you will give me a little memorandum to take to Cabinet about using this Norway thing, a little thing about how many checks are waiting, you see, and something about the Red Cross, put it on one page, I will take it and I will bring it up at Cabinet. How is that?

Bell: That is all right. That is what I was hoping you would say.

He asked me about those letters that McAdoo wrote to the banks. I told him they were presented over three or four reports. They were quite predominate. I would like to show them to you some day.

H.M. Jr: Okay. I'm not going to take anything with me. Tell Mac I will see you.

Now, where is this thing promoting this fellow Peble? I want that and I want to give it to him myself. Fix it up, will you please? I want to hand it to him this morning. I still say the way to get things done is to send them to the President direct at Hyde Park. From now on I'm going to hold everything until he goes to Hyde Park and then put it in a pouch. All right? Anybody who wants to see me, tell McKay and I will be ready in a little while.
Secretary of State,
Washington.

3203, July 26, 6 p.m. (SECTION ONE)
My 3183, July 25, midnight.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S INFORMATION.

In his address last night Funk departed from the text released to the correspondents. The VOELKISCHER BEOBACHTER this morning carries a summary of his actual remarks which contains an interesting statement that no general customs or currency union in Europe is envisaged and that Germany's task is to simplify trade payments and to organize a generally valid monetary and payments system which will permit the relaxation of present forcible economic restrictions and regulations. From his actual remarks and from the editorial comment it is clear that what is envisaged is a multilateral clearing system with Berlin as the center.

There follows a resume translation of those sections of the VOELKISCHER BEOBACHTERS report of the speech which differ from the text communicated in my telegram under reference.

The
The economic methods to be employed in building up Europe are the same as have been employed by National Socialist Germany in the past. Briefly sketched they are:

(One) Currency manipulation is rejected as a means of bringing about economic order. Work and the regulation of trade is the basis for the security of the currency.

(Two) Germany will be led by natural conditions and will never attempt to master them by means of "constructions". Therefore the idea of a general customs and currency union is rejected. Regions which are so different in their economic structure and their way of life are not adapted to such a union which can only be advantageous if based on closely similar economic conditions.

(Three) Insofar as German trade was carried out on the basis of the clearing system it has been unusually successful in spite of the differences in economic structure between Germany and the countries which traded with it on this basis, for example, the southeastern European countries. The clearing system has thus illustrated that it is a suitable instrument also to overcome the difficulties which may develop from the differences in the economic structure of the European countries in the joint economic development of Europe. There are no other
other methods left since the clearing methods formerly used in world trade based exclusively on gold and free foreign exchange have broken down. The first problem is to organize efficiently Inter-European exchanges of goods and services and to increase such exchanges. If this is accomplished the currency problem is merely one of the right money technique.

KIRK

NPL
Secretary of State,
Washington

3203, July 26. (SECTION TWO),

The exchange of goods and services is to be carried out on the basis of clearing agreements according to the principle "fixed prices and fixed quantities". Trade will thus come under Government control since these delivery contracts are concluded between governments. The old liberalistic so-called free play of forces which at least after the world war brought no country in Europe real advantages is of the past. It functioned only in the prewar era when the exchange of goods was relatively slight measured in terms of modern productive power.

The quantities of goods to be moved in today's world must be adjusted to each other and the production program of each country must be freed of the hazards of the business cycle. Internal economic planning must go hand in hand with planning in the field of foreign trade. A highly developed system of clearing agreements
agreements providing for the sale of fixed quantities of goods at fixed prices represents such planning. In this connection it is only natural that since the German market is actually the center of the European market and German production the nucleus of European production the exchange of goods with Germany should be the mainstay of the entire inter-European trade. This means however that the individual European countries in so far as they are dependent on trade with Germany must take into consideration the requirements of the German market and of the markets controlled by the German economic organisation. Foresighted planning accomplishes results which the free play of forces can accomplish only after numerous mistakes great fluctuations a long time and considerable losses.

Such an adjustment of the individual European economies and increase in inter-European trade creates the basis also for a simplification of the payments system. It is a mistaken viewpoint to reject the clearing system because the former international freedom of payments by means of the gold standard was more convenient. The first automobile models also seemed awkward but have nevertheless reached their present state.
MP-3- #3203, July 26 from Berlin

state of perfection.

The problem is to simplify payments for goods greatly and to create a generally valid money and payments system which will make it possible to relax present economic regimentation and restrictions.

KIRK

RR
RDS

PLAIN
BERLIN
Dated July 26, 1940
Rec'd 9:52 p.m.

Secretary of State,
Washington.

3203, July 26, 5 p.m. (SECTION THREE)

The cornerstone of such a money and payments system is the reichsmark. Victory will strengthen the reichsmark currency and also make it possible to free it of the fetters of unsettled foreign debts and the numerous variously valued categories of special marks. The area in which its validity is accepted will increase. It is no longer the currency of a politically conquered and economically oppressed Germany but the currency of a victorious National Socialist world power which has shown its capability in the economic field as well by means of its victory.

The validity of the reichsmark which is certainly based on a better foundation than the internal value of the English pound even before the war will cause the fear of individual trading partners that their claims in Berlin will not be paid to vanish. Why should a country not leave reichsmarks in Berlin if formerly no one thought anything of sending liquid funds to Paris, London, or New York? Furthermore obligations which the country in question
question owes a third country can be paid by its balance in Berlin. In Berlin the balances arising in trade between the individual countries can be adjusted. Since this trade is based on clearing agreements and is thus regulated it is impossible first that balances in favor of any country arise which are too large in proportion to its trade and secondly that credits and debts of individual countries as against each other and with Germany should continue to remain unadjusted.

Whereas under the clearing system it may sometimes be necessary for exporters of certain countries to wait a considerable time for payment due to the fact that their country has a clearing debit this problem can be solved by advances made by the central bank of the country in question to the clearing agency so that payment may be made to the exporter.

(END OF MESSAGE)

KIRK

NPL
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 25th.

Two convoys attacked yesterday off East Kentish coast. Both............. by our fighters. East-bound convoy attacked between 08.00 and 09.00 hours, one Dornier shot down. South-bound convoy attacked by large force of enemy bombers with fighter escort at 12.30 hours. Eight fighters, two bombers brought down; two of our Spitfires missing. No damage to either convoy, but during the second attack two trawlers sunk, two damaged.

2. Our nightly bombing 23rd to 24th generally successful; number of direct hits reported on aircraft works Gotha, Kassel, Wenzendorf; barracks north of Gotha also attacked. Satisfactory results also obtained on railway targets Oldenburg, Osnabruck, Soest, and Hamm, oil refinery Hamburg, railway bridge Rheine.

Ten Blenheims despatched yesterday unable to complete task owing to unfavourable weather.

Last night 14 Whitleys sent to attack "Europa" and "Bremen" at Hamburg, and 13 Hampdens to aircraft factories Wenzendorf and Wismar; all aircraft returned, reports awaited.
3. Early yesterday, enemy aircraft dropped 4 HE and 8 I bombs Paisley, negligible damage; afternoon, some bombs dropped Welton-on-Thames, slight damage to gas works, production unaffected, four minor casualties. 5 HE bombs also dropped at Vickers Weybridge, no casualties or damage. One Junker 88 brought down in Bristol Channel near Lynton.

There was no enemy air activity last night.

Air transport activity still maintained from northern Germany to aerodromes in north Denmark and south Norway.

4. Summary of air casualties, July 24th.

**Enemy:** 8 fighters (ME 109) 4 bombers (includes 1 Chance-Vought American) confirmed.
12 fighters 5 bombers unconfirmed.

**Our own:** 4 fighter aircraft.

Night of the 24th - 25th. No casualties.

**Total:** Enemy 12. Our own 4.

5. Shipping casualties. French "Meknes" (6000 tons), going to Marseilles to repatriate French personnel, believed torpedoed by U-boats off Portland Bill last night. About 1000 survivors rescued.

On July 21st, British "Ellaroy" (700 tons) sunk by U-boat gunfire West of Cape Finisterre.

6. /
6. **Egypt.** Transport of one of our armoured brigades bombed on the 22nd July; 200 incendiary bombs dropped, 30 per cent dead, no casualties or damage.

**Malta.** Early yesterday two small bombing formations caused slight damage to R.A.F. quarters at Kalafrani.

**Palestine.** "Shell" installation Haifa successfully bombed yesterday by 8 Italian aircraft, about 35 persons killed.

**Eritrea.** Five Wellesleys attacked Massawa fuel installations on July 23rd, 7 direct hits observed, and 21 further hits registered on railways.

Yesterday, 3 Elenheims bombed Massawa aerodrome and scored direct hit on one hangar.
JUL 28 1940

By dear Mr. Wilson:

I have your letter of July 22, 1940 in which you withdraw the condition contained in the last paragraph of your letter of June 13 relating to the payment of royalties on spare parts upon the understanding "that the royalty to be fixed on a 'per engine' basis will include an additional amount per engine based on the estimated normal proportionate requirements of spare parts in relation to complete engines."

It would not be inconsistent with my conception of the offer of United Aircraft Corporation contained in your letter of June 4, 1940 and the proposed license agreement for consideration to be given by the Government in the determination of the amount of royalty per engine to the normal requirements for spare parts. However, as you know, the whole problem is now under the jurisdiction of the Advisory Commission of the Council of National Defense and for this reason I am forwarding your letter, together with a copy of my reply, to the Secretary of the Commission for such consideration and action as it may care to take.

Sincerely yours,

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

Mr. J. L. Wilson
President
United Aircraft Corporation
East Hartford, Connecticut
Dear Mr. McReynolds;

I have received a letter dated July 22, 1940 from the United Aircraft Corporation in which the United Aircraft Corporation withdraws certain conditions made in its letter of June 13, 1940 which modified its previous letter of June 4, 1940. These letters relate to the proposed form of agreement pursuant to which the United Aircraft Corporation had offered to grant to corporations designated by the Government non-exclusive licenses to manufacture for and to sell to the Government any aviation engine of any type or model manufactured by the United Aircraft Corporation, and also granting to the Government a non-exclusive right to manufacture and use, and, under certain conditions, to sell any such engine.

On June 19, 1940 I sent you the original letter of June 13 from the United Aircraft Corporation, and on June 7 I sent you the original letter of June 4 from that corporation. In accordance with my understanding as expressed in that letter, I am now sending you the original letter of July 22, 1940 from R. E. Wilson, the President of United Aircraft Corporation, together with a copy of my reply to him.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

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

GKT:
7-25-40

Enc.

By Messenger
ULTRAMARINE COUHALOR

July 22, 1940

To: The Honorable Henry Morgenthau, Jr.,
Secretary, United States Treasury,
Washington, D.C.

From: The President

I am sorry indeed that an absence of several weeks has prevented me from replying promptly to your letter of June 19, in which you took exception to certain language contained in my letter of June 13.

As you are aware, the revised draft of the pro-forma license agreement, which was enclosed in my letter of June 13, was modeled, at your express request, upon the form of license agreement submitted by the Wright Aeronautical Corporation, with very minor variations, and differed materially as to its essential clauses from those originally proposed by us. Similarly, my covering letter of June 4 conformed substantially with the corresponding covering letter of the Wright Aeronautical Corporation. In that letter, the understanding was expressed that any agreement which might be entered into with any licensee would contain "such other and further provisions as may be mutually agreed upon." Since we were limited in the preparation of the pro-forma agreement to the form proposed by the Wright Aeronautical Corporation, which, as you point out, contains no reference to spare parts, it seemed to me that we would be lacking in entire candor should I fail at this time to note that we considered a provision for royalties on spare parts to be one of the "further provisions" which we would expect to see incorporated in a definitive license agreement, thus conforming with our unvarying practice in the past.

In spite of our satisfactory experience with provisions for payment of royalties on spare parts in our foreign license agreements, we recognize that in the situation that would exist under the license agreements now proposed, the determination of costs and sales prices might be so difficult as to make it impracticable to compute royalties on spares as a percentage of costs or of sales prices.

We are therefore willing to withdraw the specific requirement in the last paragraph of my letter of June 13, if, for that requirement, there may be substituted an understanding that the royalty to be fixed on a "per engine" basis will include an additional amount per engine based on the estimated normal proportionate requirements of spare parts in relation to complete engines. Our
To: The Honorable Henry Morgenthau, Jr.  

records of military sales during the past ten years show that the dollar shipments of spare parts amount on the average to almost exactly one-third of the value of total military shipments of engines plus spare parts.

Yours very truly,

(signed) E. E. Wilson

E. E. Wilson, President
July 26, 1940
9:05 a.m.

H.M.Jr: Hello.
Operator: Mr. Purvis. Go ahead.
H.M.Jr: Hello.
Arthur Purvis: Good morning.
H.M.Jr: How are you?
P: Very well, thank you. And you?
H.M.Jr: Well, this is the hottest night we've had yet.
P: What is that?
H.M.Jr: We've had the hottest night yet.
P: Have you really?
H.M.Jr: Oh, it's terrific.
P: Oh, ours was a little better last night.
H.M.Jr: Good. Well, maybe we'll get it next. Arthur, I had Bill Knudsen pick me up and ride down with me, because I'm going away tonight for a week. Hello?
P: You're going, what?
H.M.Jr: I'm going away tonight for a week.
P: Oh, you are?
H.M.Jr: I'm going up to the Adirondacks for a week and I wanted to ask him if there was anything special, and he said, well, just this -- he said, on the Packard thing he's going to do everything possible to go through with the original agreement, but, if he finds that he can't do it and it gets down to a question of not being able to do it unless he has to call on you, he wants
you to trust him that he's going to put up
the best fight he can. But if it gets to
a show-down that there's going to be no
Rolls Royce engines and he needs additional
contribution, he'd like to feel that you
would come through.

P: Oh, yes. I'm sure we would. I mean, the
only thing, as I said to Young, that I was
very worried about was breaking through
with a precedent which might interfere with
that very valuable thing you secured for us.

H.M.Jr: Well, I don't think that that necessarily
follows. I got for Knudsen an Attorney
General's opinion backing us up.

P: I see.

H.M.Jr: And we got that two days ago, so there's
no legal question about it.

P: Oh!

H.M.Jr: So I went so far as to use this language
and I told Knudsen to jam that opinion
down Jesse Jones' throat.

P: Yes, exactly.

H.M.Jr: And he said he would try to. Now Jones has
no legal ground to stand on because both the
Treasury -- the Treasury is backed up by the
formal opinion from the Attorney General.

P: I see.

H.M.Jr: So it's purely a matter now of -- well,
the will to do it and I even, very confi-
dentially, went so far as to speak to the
President yesterday and he called up
Mr. Jones on the matter.

P: Oh, good.

H.M.Jr: So I haven't left a stone unturned. But
if Knudsen -- and I have great confidence
in him .......
If he gets into a tight jam it's up to us to support him on this particular transaction on the assumption that you will still do your best to keep it for us on other things.

You've got it exactly.

I shall, of course, do that, you see.

And I told him that I would call you up and talk to you and that he'll only call on you as a last resort, that I have not left a stone unturned.

Oh, I know you won't have done.

And with the Attorney General's opinion, it seems to me that he's pretty well armed to get what we want. I mean, it just gets it down to a question of Jesse Jones ....

I know. That's the point, of course, personalities are so strong in all these pictures, aren't they?

Yes, but we've gotten rid of a couple of them the last day or so.

I saw that and I think jolly good riddance too.

This new man, Patterson, is a peach.

Is he?

I don't know him but he's a 100% -- he's all right.

Well, that's great.

And you saw all that stuff about embargoes and all.

I did, and I saw your fine, determined hand, I thought.

Those were all drawn up in the Treasury.
P: (Laughs). I guessed that. I think it's simply splendid. Really, it was most encouraging.

H.M.Jr: The first the -- I shouldn't say this -- but the first the State Department knew about it was when they saw it in the newspaper.

P: (Laughs).

H.M.Jr: And they're just fit to be tied.

P: I sort of guessed there might be something like that.

H.M.Jr: So I think it's a good time for me to leave town before my luck changes.

P: Yes, quite. If -- there's one possible organization, personal question that I might want to speak with you about. Could I bother you on the telephone if I did?

H.M.Jr: Up at Malone?

P: Yes.

H.M.Jr: I have no telephone.

P: Oh, well, you're very sensible. Well, let it go at that.

H.M.Jr: There isn't any but they can get -- I have a man stationed there who can bring a message in if necessary.

P: Well, no, it's not as bad as that. As a matter of fact -- when are you going?

H.M.Jr: Tonight. Lieutenant McKay will be at Malone at a hotel on the end of the telephone, and in case of necessity he can bring a message in.

P: And that is at Malone, is it?

H.M.Jr: Yes.
P: Is this in place of ..... 
H.M.Jr: No. 
P: No, that's all right. 
H.M.Jr: No. We're still counting on the last two weeks in August. This is just a ..... 
P: Good. This is just a teaser. 
H.M.Jr: Well, this is to get me ready for Canada. 
P: Correct. Fine. (Laughs). Yes, you'll have to go up in good condition. They'll probably want to entertain you too much. Well, that's splendid. Now, if I wanted very much, I would send in a message and if you could be very cold and blunt in reply to it, it might be just the thing that I want your personal guidance on very unofficially. 
H.M.Jr: Well, both Mrs. Klotz and Philip Young will be here next week. 
P: Oh, good. Now, I shall go down I think anyway and sort of keep our contacts going with the Defense Advisory people and so on. 
H.M.Jr: And you keep Philip Young posted as to what you're doing, will you? 
P: I'll take him everywhere. 
H.M.Jr: Fine. 
P: Excellent. 
H.M.Jr: All right. I thought we had a good press today on everything. 
P: I thought it was excellent. 
H.M.Jr: Yeah. 
P: Excellent. Thank you very much again. 
H.M.Jr: Good-bye. 
P: Good-bye.
Mr. Wynne of Mr. Purvis' New York office phoned me late this afternoon with this statement which was being given out in New York because the reporters up there were clamoring for a further follow-up out of the Commission offices.

MR. SCHWARZ
The statement made over the radio last night by Lord Beaverbrook to the effect that a plan is being prepared whereby the United States airplane industry would so increase production that it would be able to supply Great Britain with an additional three thousand planes per month was confirmed today by Arthur B. Purvis, director general of the British Purchasing Commission, and Maurice Wilson, Lord Beaverbrook's representative in connection with aircraft production in North America.

This latest development follows discussions which have taken place in the last two days in the office of Secretary of the Treasury Henry Morgenthau, Jr., in an effort to synchronize orders and types so as to obtain the best results out of existing manufacturing facilities and out of those in course of creation.
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 20, 1940.

Yours sincerely,

[Signature]

W.R. Sturtevant, III,
Lieutenant, U.S. Navy,
Aide to Admiral Stark.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.
Dear Mr. Morgenthau:

Thank you very much for the following reports which you sent me on July 25, 1940:

Part I - Airplanes
Deliveries of and New Orders for Airplanes, May 1 - July 20, 1940; Unfilled Orders and Estimated Deliveries on July 20, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane Engines, May 1 - July 20, 1940; Unfilled Orders and Estimated Deliveries on July 20, 1940.

Faithfully yours,

[Signature]

Chief of Staff.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.
July 26, 1940.

Dear Mr. Morgenthau:

Thank you very much for the following reports which you sent me on July 25, 1940:

Part I - Airplanes
Deliveries of and New Orders for Airplanes, May 1 – July 20, 1940; Unfilled Orders and Estimated Deliveries on July 20, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane Engines, May 1 – July 20, 1940; Unfilled Orders and Estimated Deliveries on July 20, 1940.

Faithfully yours,

(Sgd) G. C. MARSHALL
Chief of Staff.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.
TO     Secretary Morgenthau
FROM Mr. Gaston

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

None.

Pending Cases

The German yacht TE RAPUNGA applied for permission to depart from Honolulu, Hawaii, for the high seas. This case was held for further consideration.

The matters described in paragraphs 1, 3, and 4 under "Pending Cases" in the July 17, 1940, report, attached, are still under consideration.

The following cases are under consideration: The American vessel WEST CASSITA from Seattle to Portland, with a cargo of scrap Steel and Iron; the Norwegian SS EUTH I from Norfolk to England, with a cargo of scrap steel; the British vessel MT. HULIMA from Corpus Christi to the United Kingdom, with a cargo of oil; the Japanese vessel TAKUTA MARU from Honolulu to Japan, with a cargo of lubricating oil.
July 17, 1940

Secretary Morgenthau

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Closed Cases

1. A departure permit was refused for the American Tanker ARYAN, 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 MONTE 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 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 DENNY 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.

(Initialed) H. C.

CC: Miss Chauncey
    Mr. Foley
July 26, 1940

Secretary Morgenthau

Mr. Cantor (Initialled) HEG

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

None.

Pending Cases

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The following cases are under consideration: The American vessel WES CHRISTEN from Seattle to Portland, with a cargo of scrap steel and iron; the Norwegian SS KVIN X from Norfolk to England, with a cargo of scrap steel; the British vessel HR. BRUMA from Cyprus Christi to the United Kingdom, with a cargo of oil; the Japanese vessel HUTA MAHO from Honolulu to Japan, with a cargo of lubricating oil.

Oct: Mr. Gaines
Miss Chamber
Secretary Derby
Mr. Fiddler
Mr. Foley

Regraded Unclassified
ADMINISTRATION OF SECTION 6 OF THE ACT ENTITLED
"AN ACT TO EXPEDITE THE STRENGTHENING OF THE
NATIONAL DEFENSE" APPROVED JULY 2, 1940

TO THE PRESIDENT OF THE UNITED STATES OF AMERICA A PROCLAMATION

WHEREAS section 6 of the act of Congress entitled "AN ACT
To expedite the strengthening of the national defense," approved
July 2, 1940, provides in part as follows:

"Whenever the President determines that it
is necessary in the interest of national defense
to prohibit or curtail the exportation or any
military equipment or munitions, or component
parts thereof, or machinery, tools, or material
or supplies necessary for the manufacture,
servicing or operation thereof, he may by procla-
mation prohibit or curtail such exportation, except
under such rules and regulations as he shall
prescribe. Any such proclamation shall describe
the articles or materials included in the prohibition
or curtailment contained therein. In case of the
violation of any provision of any proclamation,
or of any rule or regulation, issued thereunder,
with violator or violators, upon conviction, shall
be punished by a fine of not more than $10,000, or
by imprisonment for not more than 5 years, or
both such fine and imprisonment. The authority
created in this Act shall terminate June 20, 1942,
unless the Congress shall otherwise provide."

AND WHEREAS by my proclamation No. 2415 of July 2,
1940, entitled "ADMINISTRATION OF SECTION 6 OF THE ACT
ENTITLED AN ACT TO EXPEDITE THE STRENGTHENING OF THE
NATIONAL DEFENSE" APPROVED JULY 2, 1940, I procla-
mited that upon the recommendation of the Administrator of
Export Control I had determined that it was necessary
in the interest of the national defense that certain
listed articles and materials should not be exported
from the United States except when authorized in each
case by a license as provided for in the said proclama-
tion.

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT,
President of the United States of America, acting
under and by virtue of the authority vested in me
by the said act of Congress, do hereby proclaim that
upon the recommendation of the aforesaid Administrator
of Export Control I have determined that it is necessary
in the interest of the national defense that on
August 1, 1940, the additional materials
hereafter listed shall not be exported from
the United States except when authorized in each case by
a license as provided for in the aforesaid proclama-
tion:

1. Petroleum products
2. Tetraethyl lead
3. Iron and steel scrap

IN WITNESS WHEREOF, I have hereunto set my
hand and caused the seal of the United States of
America to be affixed.

DONE at the City of Washington this 26th day of July,
in the year of our Lord nineteen hundred and forty, and of the
Independence of the United States of America the one hundred and
sixty-fifth.

By the President:

FRANKLIN D. ROOSEVELT
Acting Secretary of State.
REGULATIONS GOVERNING THE EXPORTATION OF ARTICLES AND MATERIALS DESIGNATED IN THE PRESIDENT'S PROCLAMATION OF JULY 2, 1940, ISSUED PURSUANT TO THE PROVISIONS OF SECTION 6 OF THE ACT OF CONGRESS APPROVED JULY 2, 1940

Pursuant to the authority vested in me by the provisions of section 6 of the Act of Congress approved July 2, 1940, entitled "An Act to expedite the strengthening of the national defense", I hereby prescribe the following additional regulations governing the exportation of:

1. Petroleum products
2. Tetraethyl lead
3. Iron and steel scrap

1. As used in my proclamation of July 26, 1940, issued pursuant to the provisions of section 6 of the Act of Congress approved July 2, 1940, and in these regulations, the following terms shall be construed as defined herein:

A. Petroleum Products. - (a) Aviation Motor Fuel, i.e., high octane gasolines, hydrocarbon mixtures (including crude oils) boiling between 75° and 350° F., which with the addition of tetraethyl lead up to a total content of 3 c.c. per gallon will exceed 87 octane number by the A.S.T.M. Knock Test Method; or any material from which by commercial distillation there can be separated more than 3% of such gasoline, hydrocarbon or hydrocarbon mixture. (b) Aviation Lubricating Oil, i.e., any lubricating oil of 95 or more seconds Saybolt Universal Viscosity at 210° F. with a viscosity index of 85 or more.

B. Tetraethyl Lead. - Pure tetraethyl lead, ethyl fluid, or any mixture containing more than 3 c.c. of tetraethyl lead per gallon.

C. Iron and Steel Scrap. - Number 1 heavy melting scrap.

2. Regulations nos. 2 to 12, inclusive, of the regulations issued on July 2, 1940, pursuant to the Act of July 2, 1940, are applicable to the exportation of aviation motor fuel, tetraethyl lead, and aviation lubricating oil.

THE WHITE HOUSE

July 26, 1940.

Regraded Unclassified
MEMORANDUM FOR THE PRESIDENT

I am attaching, for your approval, an Order which will authorize Joseph P. Chamberlain, one of my assistants, to supervise the administration of the Foreign Property Control Act. At the present time this work is being handled by Under Secretary Daniel W. Bell. However, the magnitude and details of the job are such that it leaves him little time to perform the many other duties relating to the finances and fiscal matters which devolve upon him.

As you know, Mr. Chamberlain, who has recently joined the Treasury Staff, is an eminent and distinguished authority on international law and a professor of law at Columbia University. I consider him thoroughly qualified to take over this work and recommend your approval of the attached Order.

[Signature]
TREASURY DEPARTMENT ORDER NO. 37

By virtue of and pursuant to the authority vested in me by the Act of May 10, 1934 (48 Stat. 799), by Section 161 of the Revised Statutes and otherwise, I hereby designate Joseph F. Chamberlain, Assistant to the Secretary, and delegate to him all authority, duties and functions which I am authorized or required to exercise or perform under Section 5(b) of the Act of October 6, 1927 (40 Stat. 411, 415), as amended, and any proclamations, orders, regulations or rulings that have been or may be issued thereunder.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

APPROVED:

F. D. Roosevelt

THE WHITE HOUSE
July 26, 1940

OSG:BB:14h 7-25-40
July 26, 1940

My dear Mr. President:

When you outlined to me yesterday your proposed trip for the weekend, which I think is a swell idea, I gathered that you wanted me to make suggestions to you for another trip along the same lines.

It seems to me that you would find it very interesting to make a trip into Pennsylvania and New Jersey. You could, along national defense lines, inspect a number of projects. The New York Ship Building Company at Camden, New Jersey, has on its ways several ships for the Navy, including one battleship, seven light cruisers, one destroyer tender, three sea plane tenders, and one repair ship. The Sun Ship Building and Dry Dock Company at Chester, Pennsylvania, is building several ships for the Maritime Commission, including eight C-2 cargo vessels, four combination C-3 cargo-passenger vessels, and five national defense tankers. At Kearny, New Jersey, the Federal Ship Building Company has under construction two cruisers and sixteen destroyers for the Navy, and five C-1, eight C-2, and two C-3 cargo ships for the Maritime Commission.

I think you would find it intensely interesting to visit the Wright Aeronautical Corporation at Paterson, New Jersey, which in the last two years has quadrupled its airplane engine capacity. I suggest also a possible visit to Pioneer Instrument Division, Bendix Aviation Corporation, Bendix, New Jersey, which is working at full capacity in making parts for airplanes.

On the social side, I suggest that you might visit some of the projects of the United States Housing Authority in Philadelphia. Two of the projects under the current United States Housing Authority program are nearing completion and there is a completed and occupied project which was built by the PWA. The Carl Mackley project built for and occupied by housing workers and financed as a limited-dividend project of the PWA is also in Philadelphia.
Elizabeth and Newark, New Jersey, have United States Housing Authority projects which are completed and occupied. In Long Branch and North Bergen, New Jersey, there are newly completed projects which are scheduled for occupancy soon. If you wish to show interest in the technical progress which is being made in construction of houses which sell for $2,500 and under I suggest that you also visit the experimental house under construction by the Pierce Foundation in Lebanon, New Jersey.

I am sure that you would find of considerable interest a number of training projects of the National Youth Administration, both in Pennsylvania and New Jersey. For example, in North Malden and Bendix, New Jersey, there are resident projects where vocational training is being given in aviation, radio, electricity, and sheet metal work. A large work center has been established in Paterson, New Jersey, with several shops in which vocational training is given in a number of fields.

If you wish more details they can readily be supplied.

Hoping that this is along the lines you have in mind, I remain,

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger
July 26, 1940

My dear Mr. President:

When you outlined to me yesterday your proposed trip for the weekend, which I think is a swell idea, I gathered that you wanted me to make suggestions to you for another trip along the same lines.

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Elizabeth and Newark, New Jersey, have United States Housing Authority projects which are completed and occupied. In Long Branch and North Bergen, New Jersey, there are newly completed projects which are scheduled for occupancy soon. If you wish to show interest in the technical progress which is being made in construction of houses which sell for $2,500 and under I suggest that you also visit the experimental house under construction by the Pierce Foundation in Lebanon, New Jersey.

I am sure that you would find of considerable interest a number of training projects of the National Youth Administration, both in Pennsylvania and New Jersey. For example, in North Maldon and Passaic, New Jersey, there are resident projects where vocational training is being given in aviation, radio, electricity, and sheet metal work. A large work center has been established in Paterson, New Jersey, with several shops in which vocational training is given in a number of fields.

If you wish more details they can readily be supplied.

Hoping that this is along the lines you have in mind, I remain,

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,
The White House.
July 26, 1940

My dear Mr. President:

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It seems to me that you would find it very interesting to make a trip into Pennsylvania and New Jersey. You could, along national defense lines, inspect a number of projects. The New York Ship Building Company at Camden, New Jersey, has on its ways several ships for the Navy, including one battleship, seven light cruisers, one destroyer tender, three sea plane tenders, and one repair ship. The Sun Ship Building and Dry Dock Company at Chester, Pennsylvania, is building several ships for the Maritime Commission, including eight C-2 cargo vessels, four combination C-3 cargo-passenger vessels, and five national defense tankers. At Kearny, New Jersey, the Federal Ship Building Company has under construction two cruisers and sixteen destroyers for the Navy, and five C-1, eight C-2, and two C-3 cargo ships for the Maritime Commission.

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On the social side, I suggest that you might visit some of the projects of the United States Housing Authority in Philadelphia. Two of the projects under the current United States Housing Authority program are nearing completion and there is a completed and occupied project which was built by the FHA. The Carl Mackley project built for and occupied by bauxite workers and financed as a limited-dividend project of the FHA is also in Philadelphia.
- 2 -

Elizabeth and Newark, New Jersey, have United States Housing Authority projects which are completed and occupied. In Long Branch and North Bergen, New Jersey, there are newly completed projects which are scheduled for occupancy soon. If you wish to show interest in the technical progress which is being made in construction of houses which sell for $2,500 and under I suggest that you also visit the experimental house under construction by the Pierce Foundation in Lebanon, New Jersey.

I am sure that you would find of considerable interest a number of training projects of the National Youth Administration, both in Pennsylvania and New Jersey. For example, in North Yeadon and Beldin, New Jersey, there are resident projects where vocational training is being given in aviation, radio, electricity, and sheet metal work. A large work center has been established in Paterson, New Jersey, with several shops in which vocational training is given in a number of fields.

If you wish more details they can readily be supplied.

Hoping that this is along the lines you have in mind, I remain,

Yours sincerely,

(signing) H. Morgenthau, Jr.

The President,

The White House.

00131142 7/26/40

By Messenger
My dear Mr. President:

When you outlined to me yesterday your proposed trip for the weekend, and which I think is a swell idea, I gathered that you wanted me to make suggestions to you for another trip along the same lines.

It seems to me that you would find it very interesting to make a trip into Pennsylvania and New Jersey. You could, along national defense lines, inspect the following: ____________________ Shipyards at Camden, New Jersey, where they have on the ways __________________ ships for the Maritime Commission. You could also inspect the New York Shipbuilding Company at __________________, where they have on their ways __________________.

I think you would find it intensely interesting to visit the Curtiss Wright Engine Company at Patterson, New Jersey, which in the last two years has quadrupled its capacity. I also suggest a possible visit to Bendix ____________, Bendix, New Jersey, which is working at full capacity on making parts for airplanes.
On the social side, I suggest that you visit the project of the United States Housing Authority in Philadelphia and see if they have any in New Jersey. I also suggest that if you show great interest in houses of $2500 or under that you visit the ten houses which are under construction by the Foundation.

I am sure that you would find a number of the training projects of the National Youth Administration, both in Pennsylvania and New Jersey, of considerable interest.

Hoping that this is along the lines you have in mind,

I remain,

Yours sincerely,
Mr. Folio
Mr. Cochran

Will you kindly send the following cabling:

"American Embassy,

France.

For Matthews from the Treasury Department.

Third paragraph of Department's 126, July 22, 7:00 p.m., should read following the colon Quote (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 etc. Unquote. "

HMD: 1ap-7/26/40
MEMORANDUM

July 25, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan
SUBJECT: Conference with the President

Present: Secretary Morgenthau
Under Secretary Bell
General Counsel Foley
Mr. Sullivan

Secretary Morgenthau presented to the President the Bell memorandum showing present and prospective deficits. The President was agreeably surprised that these figures were not higher.

He took exception to that part of the memorandum which referred to increasing the debt limit and suggested that the Secretary present to the House Ways and Means Committee the problem of the earmarked funds and the imminent problem created by the present debt limit with the statement that the sooner these two matters are corrected the better it will be for sound and flexible financing.

The Secretary then gave the President the other memoranda dealing with proposed rates for the excess profits tax. At first the President seemed disturbed and thought that they were departing from the "double-barreled treatment". He was reassured that this was merely a method of computing the tax on the "double-barreled base". There was a discussion as to the attitude of those members of Congress who have been consulted, after which the President said that although he was disappointed in the fact that such rates would only return one-half a billion rather than a billion dollars a year, we had better go ahead with these rates.

The desire of the Advisory Commission to separate the amortization provisions from the excess profits bill was then referred to and the fact that they were still talking of separating these two measures after the legislation was introduced. The President then instructed Mr. Sullivan to notify Mr. Knudsen, Mr. Stettinius and Mr. Henderson that the President had already made a formal statement, that he was on
record, that he had assured the American public there would be no amortization and no repeal of the Vinson-Trammell Act until there was an excess profits tax. He stated that it was not sufficient for him that there was a promise of future enactment of the excess profits taxes, — that he had seen many glittering assurances that failed to materialize. He instructed Mr. Sullivan to notify these members of the Advisory Commission that any effort to separate either the amortization or the repeal of the Vinson-Trammell Act from the excess profits tax bill would be to invite his veto because he would not sign either an amortization bill or a repeal of the Vinson-Trammell Act until the excess profits tax act was on his desk awaiting his signature.

At 3:50 Mr. Sullivan called Mr. Knudsen and asked him to meet with Mr. Stettinius, Mr. Henderson and Mr. Sullivan. Mr. Knudsen set the time for the appointment at 4:15. At that time Mr. Sullivan delivered the message and Mr. Knudsen was somewhat taken back, stating that he had understood in the conference with the President that there was to be no separation and he didn't think anyone in his organization was talking for separation. Mr. Henderson said he had just completed a resolution which he and Mr. Stettinius were to present this same afternoon to Congressman Doughton and Cooper. This resolution called for the separation of amortization and excess profits tax with the view of rushing through amortization. In view of the message from the President, Mr. Henderson said that all efforts to separate the two provisions would cease. He also stated that he would give these instructions to Messrs. Bixlers, Adams and Eaton and to all others who had been working on this matter.

JLS
MEMORANDUM FOR THE PRESIDENT,

July 26, 1940.

At 3:30 p.m., July 26th, after our conference with you, Mr. Sullivan called on Mr. Henderson and asked him for a joint meeting with Mr. Stettinius and Mr. Henderson. Mr. Henderson made an appointment at 4:15, at which time Mr. Sullivan met with them.

Mr. Sullivan delivered the message which you had asked him to give, and Mr. Henderson was somewhat taken aback.

He stated that he had understood at a conference with you that there was to be no separation, and he did not think anyone in his organization was talking for separation.

Mr. Henderson said he had just completed a resolution which he and Mr. Stettinius were to present this same afternoon to Congressman Houghton and Cooper. This resolution called for the separation of amortization and excess profits tax with the view of rushing through amortization. In view of the message from you, Mr. Henderson said that all efforts to separate the two provisions would cease. He also stated that he would give these instructions to Messrs. Biggers, Adams and Eaton, and to all others who had been working on this matter.

(Signed) H. Morgenthau, Jr.

STRICTLY CONFIDENTIAL

GHP/Obs

By Messenger / 15
MEMORANDUM FOR THE PRESIDENT.

July 26, 1940.

At 3:45 p.m., July 26th, after our conference with you, Mr. Sullivan called on Mr. Krudsen and asked him for a joint meeting with Mr. Stettinius and Mr. Henderson. Mr. Krudsen made an appointment at 4:15, at which time Mr. Sullivan met with them.

Mr. Sullivan delivered the message which you had asked him to give, and Mr. Krudsen was somewhat taken aback.

He stated that he had understood at a conference with you that there was to be no separation, and he did not think anyone in his organization was talking for separation.

Mr. Henderson said he had just completed a resolution which he and Mr. Stettinius were to present this same afternoon to Congressmen Boughton and Cooper. This resolution called for the separation of amortization and excess profits tax with the view of rushing through amortization. In view of the message from you, Mr. Henderson said that all efforts to separate the two provisions would cease. He also stated that he would give these instructions to Messrs. Biggs, Adams and Eaten, and to all others who had been working on this matter.

STRICTLY CONFIDENTIAL

By Messenger

Regraded Unclassified
MEMORANDUM FOR THE PRESIDENT.

July 26, 1940.

At 8:30 p.m., July 25th, after our conference with you, Mr. Sullivan called on Mr. Emison and asked him for a joint meeting with Mr. Stettinius and Mr. Henderson. Mr. Emison made an appointment at 4:15, at which time Mr. Sullivan met with them.

Mr. Sullivan delivered the message which you had asked him to give, and Mr. Emison was somewhat taken aback.

He stated that he had understood at a conference with you that there was to be no separation, and he did not think anyone in his organization was talking for separation.

Mr. Henderson said he had just completed a resolution which he and Mr. Stettinius were to present this same afternoon to Congressmen Broughton and Cooper. This resolution called for the separation of amortization and excess profits tax with the view of pushing through amortization. In view of the message from you, Mr. Henderson said that all efforts to separate the two provisions would cease. He also stated that he would give these instructions to Biggerstaff, Adams and Eaton, and to all others who had been working on this matter.
The export control system under the administration of Colonel R. L. Maxwell has affected British orders in four distinct ways: (1) by placing a definite export embargo on certain basic materials; (2) by restricting shipment of such items as machine tools; (3) by delaying the issuance of export licenses for goods currently nearing completion or already in transit, or stored on docks and in warehouses awaiting shipment; and (4) by making it impossible for the British to sign contracts with metal working machinery manufacturers until an export license has been granted.

Export Embargo of Certain Basic Materials.—Canadian production of dry batteries will cease today (July 26th) in the plants of the Canadian subsidiary of General Dry Batteries, Inc. and some 200 men will be thrown out of employment. Thus, a war industry essential to Canada will be stopped due to the inability to secure crushed manganese ore from the United States.

Manganese ore is imported by the General Dry Batteries, Inc. from Africa and Cuba for crushing in the United States, because no crushing machines are available in Canada. As manganese is one of the basic materials for which all export licenses have been refused, this crushed ore cannot be exported from the United States even to the Canadian subsidiary of the American firm.

Restriction of Certain Items.—Under the export control system, certain machine tools cannot be exported until passed upon by the Advisory Commission, the War Department, and the Navy Department with a view to ascertaining if such tools could be used in this country. If any use can be made of them in the United States, no export license is issued.

The British Purchasing Commission reports that 1000 freight cars are stalled in New York loaded with machine tools and other similar material for which export license is required. Of these, over 550 cars are loaded with 20,000 tons of machine tools vital to the war industry of Great Britain. 150 tons of aluminum are delayed - a situation so serious that London has cabled instructions to consider buying or renting planes to get the aluminum across the Atlantic in time to maintain the British airplane production program.

Delay in Issuance of Export Licenses.—The Canadian Car and Foundry Company, Montreal, Canada, has reported to the British
Purchasing Commission that material urgently needed for the production of Hurricane planes for the British Government in Canada has been delayed to a point where the Canadian rate of production has to be considerably slowed up. Specific examples cited by Canadian Car and Foundry Company are: structural steel from Bohn Aluminum & Brass Company, and from Michigan Seamless Tube Company; Cellulose acetate from duPont and castings from Hills McCanna Company.

On July 5th, the British Purchasing Commission applied to the State Department for an export license covering two Fairchild XRA camera operating units. On July 15th, the State Department notified the British that the application was receiving consideration. By July 25th, no further report had been received from the State Department.

In another instance, a license application was filed by the British with the State Department on July 14th, and on July 24th word was received by the British that further information would have to be furnished before action could be taken. The British Purchasing Commission has made the statement as a matter of record that with the exception of a few isolated cases there is an average wait of from 10 to 12 days for licenses — a delay which necessitates storage charges, delayed deliveries, and, in many cases, the departure of ships without the cargo originally booked for them. As a consequence, the British Purchasing Commission has had to pay out a considerable sum of money every day for storage on material already loaded in freight cars. In fact the situation has become so serious that certain railroads have informed manufacturers freight cars would not be released for loading with goods to be exported until export licenses had been received.

Inability to Sign Contracts for Metal Working Machinery.— On July 3rd, the Advisory Commission notified the metal working machinery manufacturers as follows:

"New orders for machinery ** to be exported should not be accepted until application for license to export has been made on Form provided, and license has been granted."

The British Purchasing Commission had a contract with Baldwin Locomotive Company, all the terms of which had been agreed to and which was ready for signature. This contract was sent to Baldwin on July 3rd, and Baldwin replied that it could not accept the contract until the British had secured an export license. Thus, despite the fact this machinery was essential to British war industry,
production could not be started. The British were placed in a position where they had to apply for a license for material which did not belong to them, and, if any terms of the contract were altered by mutual agreement during the production period, a new export license would have to be issued.
MEMORANDUM IMMEDIATE

Report on Delays in Export License Situation

There is no wish nor intention through the medium of this memorandum to reflect in any way on the work and cooperation that have been afforded to the British Purchasing Commission by the staff of the State Department. It is desired, however, to bring to the attention of the proper authorities the situation that has arisen, due to the long delay that occurs between the actual receipt of the export license application by the State Department and the time that it is received back by the designated receiver, duly endorsed.

The following telegrams and notes will show the extent to which license applications today are being delayed:

"ALL APPLICATIONS FOR LICENSES SUBMITTED THROUGH YOU HAVE NOT BEEN RECEIVED FROM THE STATE DEPARTMENT STOP ON THIRTEENTH JULY WE APPLIED THROUGH YOU FOR SEVEN SHIPMENTS OUR REFERENCE 71340 STOP ON EIGHTEENTH JULY FURTHER APPLICATION THROUGH YOU WAS MADE FOR TWO SHIPMENTS ON OUR REFERENCE 71840A BRIDGE MACHINERY CO. NEW YORK JULY 24"

"HAVE NOT YET RECEIVED ANY LICENSES ON APPLICATIONS SUBMITTED THROUGH YOU STOP HAVE NOT YET RECEIVED THE TWENTYSIX NUMBERS FROM 10054 TO 10075 GRANTED YESTERDAY STOP WE ARE AWAITING LICENSE ON APPLICATIONS DATED AS EARLY AS JULY TWELVE VAN OPPEN & CO. NEW YORK JULY 24"

"NO EXPORT LICENSES GRANTED WHICH WERE SUBMITTED THROUGH YOU CLEVELAND HOBBLING MACHINE CO. JULY 24"

Note: Licenses were submitted for the Cleveland Hobbing Machine Company on July 17 and 18.

"HAVE NOT RECEIVED ANY EXPORT LICENSES FROM THE STATE DEPARTMENT EITHER THOSE FILED DIRECT OR THROUGH YOU LODGE & SHIPLEY JULY 24"

"WE HAVE NOT RECEIVED ANY EXPORT LICENSES JONES & LAMSON MACHINERY CO. JULY 24"

Note: Applications for Jones & Lamson were filed on July 15.

"HAVE RECEIVED APPROVED ALL APPLICATIONS FILED PREVIOUS TO THE ELEVENTH AND SOME FOR THE ELEVENTH NOTHING SINCE BRITISH PURCHASING COMMISSION NEW YORK OFFICE JULY 24"

On July 22 Mr. W. E. Redman, of the Service Division of the British Purchasing Commission in New York, sent a letter to the Washington office, extracts from which are here quoted:
Further to our letter of August 1st, regarding export licenses, we regret to advise you that the position has not improved in the slightest degree and, with the exception of a few isolated cases where you were able to get our applications approved in a day or two, we are still obliged to wait 10 or 12 days for licenses. As you know, this period of time is far too long and necessitates storage charges, delay of deliveries and, in many cases, the ships are obliged to sail without the cargoes originally booked for them.

"We receive many telephone calls and letters from suppliers who are anxious to deliver their material, but we are unable to take delivery because of the lack of licenses.... This also affects the suppliers, as they are forced to use valuable space in their plants which, of course, upsets the normal workings of the factories."

Still another unfortunate aspect of this whole question was mentioned to you in our letters dated July 15 and 17, when we gave you extracts of letters received from the Baldwin Locomotive Company. Needless to say, this company will not sign a contract nor commence production until we produce an export license. They quote as their authority for this action the Advisory Commission to the Council of National Defense. We might point out that the contract in question was sent them for signature on July 5 and you can appreciate how rulings of this nature, coupled with the delay in getting licenses returned, upsets and delays production."

From the Canadian side of the border we have had repeated statements of production being thrown out of gear in various Dominion factories with government contracts for essential war materials, owing to the inability of the companies concerned to obtain machine tools and other equipment for which orders had been placed in the United States, and which equipment is now being held up at the border on account of the lack of an export license. We quote from one of many letters received, giving an instance of this. On July 16 R. D. Wood Co., Philadelphia, wrote to us concerning their Canadian Car and Foundry Co., Ltd., Order TM-5148 for a 400-ton draw bench. They stated in the context of the letter:

"However, due to the fact production is deferred in the purchase of supply pending receipt of the balance of the equipment, it is probable you may wish to take some action to expedite issuance of the license."

At the present time the British Purchasing Commission is paying out a considerable sum of money every day for demurrage on material that is loaded in freight cars at the docks in New York and other ports, awaiting the export licenses. So serious has become the holdup of freight cars loaded with material for shipment to Great Britain and her dominions that more than one of the railroads have informed manufacturers that they will not release freight cars to them for loading with goods to be exported until an export license for the material has been received.
The delay in action on export license applications commences with the moment that such an application arrives at the State Department until the time that it is received back by the applicant. A very clear example is the case of one application which was filed with the State Department on July 14 and which was received back by the British Purchasing Commission in New York on July 24, with the request that further information regarding the material contained in this application be given before action could be taken on it by the State Department.

This delay also follows the license after it has been granted. As an example of this, an export license was received by the British Purchasing Commission in New York by the late afternoon mail on July 23. It had been approved by the State Department and stamped on July 18. It took another five days before this license reached our New York office.

It is of vital necessity not only to the British Empire in her attempt at carrying on hostilities successfully, but also to the United States in her rearmament program, that something be done immediately to expedite the passage of export license applications through the State Department. If this delay continues, and is accentuated as it has been during the past week, it is liable to throw all production out of gear throughout the British Empire, as well as in the United States.

At a moment when the people of the British Empire, and the British Isles in particular, are facing the major crisis in their existence, it is hoped the United States will do everything in her power to speed the delivery of vital materials to the Empire's factories and to overcome the delays which are now being encountered in the matter of export license applications. One machine in an Empire factory line today is worth 50 machines which may be delivered 4 months hence!

July 24, 1940
APPENDIX "A" TO MEMORANDUM ON DELAYS IN ISSUANCE OF
EXPORT LICENSES

GENERAL DRY BATTERY I.S., INC., Cleveland, Ohio:

This Company has a Canadian subsidiary branch known
as the General Dry Battery Company, Limited, in To-
ronto, Ontario. The parent Company imports manganese
ore from Africa and Cuba. Owing to the fact that
there are no crushing machines available in Canada,
the ore for the Canadian subsidiary plant is imported
first into the United States, there crushed and after-
wards sent to the Canadian subsidiary.

An application has been made to export a certain amount
of this crushed ore to Canada. On July 17th, the
Company's brokers, E. J. LAVINO & Co. of Philadelphia,
received a letter from the State Department, rejecting
this export license application.

As a consequence, Canadian production of dry batteries
will cease in this Company's plants at the close of
business, tomorrow, July 26th, and some 150 to 200 men
will be thrown out of employment. An essential War
industry to Canada will be closed, through the inability
of the Company to obtain the crushed ore from the United
States.

WASHINGTON - July 25/40
On July 3rd, the British Purchasing Commission in New York sent a large contract to the Baldwin Locomotive Company for signature, all the terms of the contract having been agreed upon previously. Shortly thereafter, the British Purchasing Commission received a communication from the Baldwin Locomotive Company, which in part, read "The Advisory Commission to the Council of National Defence of the United States Government has issued a general notice to metal-working machinery manufacturers, under date of July 3rd 1940, containing the following express recommendations, with respect to new orders for machinery:—

'No. 2 - New orders for machinery in the above categories to be exported should not be accepted until application for license to export has been made on Form provided, and license has been granted."

In the light of the above-quoted recommendation, we feel that it is desirable to withhold acceptance of this contract until you have secured the export license."

The contract for machinery, which is essential to British War industry, has not yet been signed, owing to this condition.

The British Purchasing Commission desires to know if:

1) It is in order for them to apply for a license, when the material does not belong to them;
2) It is possible by agreement that the machinery may be radically altered during its manufacture, because such alteration would render the export license useless.
3) Delays caused through the application for export license where contracts are concerned can be obviated.
APPENDIX "C" TO MEMORANDUM ON DELAYS IN ISSUANCE OF
EXPORT LICENSES

FAIRCHILD AVIATION COMPANY, Jamaica, L.I., N.Y.:

On July 5th, the British Purchasing Commission sent to the State Department application to export two Fairchild K8A Camera Operating Units, complete.

On July 17th, by the afternoon mail, the New York office of the British Purchasing Commission received a letter from the State Department dated the 15th instant, telling them that their application was receiving consideration, and that it had to be determined whether any military secrets would be contravened in the export of these cameras, and whether the War Department would agree to permit such an export.

Up to the present time, July 25th, no further report has been received on this export license application.

WASHINGTON - July 25/40
APPENDIX "D" TO MEMORANDUM ON DELAYS IN ISSUANCE OF
EXPORT LICENSES

BRITISH PURCHASING COMMISSION, New York, N.Y.:

The British Purchasing Commission in New York makes the following report:

At the present time, they have close upon 1,000 freight cars in New York loaded with machine tools and other material for which an export license is necessary, under the President's Proclamation of July 2nd. Of these, over 550 are loaded with machine tools vital to the War industries of Great Britain.

Machine tools alone total nearly 20,000 tons, and are all urgently required.

There is a special case of ten cars of aluminum, bearing approximately 150 tons of this metal. So serious is the situation in the delay of granting export licenses for this material, that cable advices from Great Britain have considered the feasibility of buying or renting planes to get this metal across the Atlantic.

The delay in obtaining licenses for this metal is causing the greatest anxiety in Great Britain, as it may curtail the entire programme of aeroplane production.

The New York office reports a continuous stream of enquiries from manufacturers in the United States as well as Canada, appealing for help in regard to export licenses.

WASHINGTON - July 25/40
APPENDIX "E" TO MEMORANDUM ON DELAYS IN ISSUANCE OF EXPORT LICENSES

CANADIAN CAR & FOUNDRY CO., Montreal, Canada

We are advised by the above concern that several export license applications, covering orders placed with various American manufacturers, are being held up by the State Department.

They cite the following cases in particular:

BOHN ALUMINUM & BRASS CO.,
Detroit, Mich. Structural Steel

MICHIGAN SEAMLESS TUBE CO.,
South Lyons, Mich.

DuPONT DeNEMOURS CO.,
Arlington, N.J. Cellulose Acetate

HILLS McCANNA CO.,
Chicago, Ill. Castings.

Although the Can. Car & Foundry Co. representative was unable to give us actual dates, he stated that all these applications had been filed some time ago, and added that all this material was urgently needed in connection with the production of Hawker Hurricane Planes for the British Government.

They have received a request from the British Air Ministry to increase the production of these planes, but are unable to comply, because of the lack of the above-mentioned materials. It is also feared that unless this merchandise is received shortly, their present rate of production will be considerably slowed up.

WASHINGTON - July 25/40
July 26, 1940

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

Dear Mr. Secretary,

The attached chart presents the whole picture on the present steel scrap situation which I hope will be helpful to you.

With best wishes,

Sincerely yours,

E. R. Statinius Jr.

Attachment
STEEL SCRAP

COMPOSITION OF OPEN HEARTH STEEL
(ACTIMATE)

- Purchased Scrap
- Pig Iron
- Home Scrap

DOMESTIC SCRAP CONSUMPTION
MILLIONS OF LONG TONS

SCRAP STOCKS
APPROX. 8,800,000 L.T.'S AT JUNE 30, 1940

- At Scrap Yards 36%
- At Consumers' Plants (Home Scrap) 25%
- At Consumers' Plants (Purchased Scrap) 39%

SCRAP PRICE
AND STEEL OPERATING RATE

$20

SCRAP EXPORTS
MILLIONS OF LONG TONS

- 1940 by Ports
  - Atlantic 49%
  - Gulf 25
  - Pacific 15
  - Lake 10

SCRAP EXPORTS BY DESTINATIONS
PER CENT OF TOTAL

- Japan
- Canada
- Italy
- U.K.

* 6 months basis

Regraded Unclassified
July 26, 1940

Under Secretary Bell

Mr. Cochran

Mr. Georges Piette, who has taken Mr. Hoek-Jansen’s position on the French Purchasing Commission, called on me yesterday afternoon, in company with Mr. Leray-Desaulx. Mr. Piette left with me the attached copy of a letter which he had addressed to the Federal Reserve Bank of New York. In talking with Mr. McKie by telephone, the letter confirmed that he had received the original letter and would send a copy thereof to Mr. Fehle.

[Signature]
FRENCH PURCHASING COMMISSION

15 Broad Street
New York, N. Y.
Whitehall 4-7900

July 24, 1940.

Federal Reserve Bank of New York,
33 Liberty Street,
New York City.

Attention Mr. Knoke

Dear Sirs:

Confirming my telephone conversation of this morning with Mr. Knoke, this is to advise you that all payments which are made to the French Government by the British Government acting through the British Purchasing Commission, pursuant to the agreements dated June 16, 1940 under which certain contracts of the French Government were transferred to the British Government, fall into one or the other of the following categories:

1. Most of the payments are made by the British Purchasing Commission to the credit of the French Government in the Bank of Canada in United States dollars; and

2. All other payments are made to the French Government in free United States dollars in New York City. In the case of all such payments received henceforth, the sums received by the French Government will be deposited with the National City Bank of New York in the account of the French Government in that bank; such account has been "frozen" since June 17, 1940.

I trust that the foregoing will give you the desired information so that the necessary payments can be promptly released. I much appreciate your courtesy in this matter.

Very truly yours,

Directeur General des Achats

COPY
July 26, 1940

Dr. Feis
Mr. Cochran

Will you kindly send the following cablegram:

"American Legation Stockholm.

Reference your 7/30 July 23 noon. Treasury Department does not find your question entirely clear. If you mean to ask whether the recent Executive Order freezing the property of certain foreign countries and nationals thereof applies to gold held under earmark the answer to your question is yes. Moreover, under the terms of the Gold Reserve Act of 1934 gold may only be held under earmark in this country and earmarked gold may only be transferred pursuant to the Provisional Gold Regulations and licenses issued thereunder. If your question is whether the figures published by Treasury with respect to short term foreign liabilities held by banks and bankers in the United States include earmarked gold the answer to your question is no."

[Signature]
PARAPHRASE OF TELEGRAM RECEIVED

FROM: Vichy, France

DATE: July 26, 1940, Rec'd 9:17 a.m., 27th

NO.: 184

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Yesterday afternoon I saw Governor Fournier briefly and Ruff at Clermont Ferrand. The negotiations with the German authorities did not seem to have disheartened them too much; however, they intimated that because of an apparent lack of effective liaison between the German officials and those in Weisbaden, the negotiations with the French are being delayed.

Progress has been made on all but the first of the four questions which I outlined in my telegram of July 16, no. 83 from the Embassy. There is a rapid return of bank personnel to Paris. In the next three days, three further trains of a thousand each of French bank employees will head back to Paris. Also, the Germans have so far not censored the daily common mail pouch service enjoyed by the banks between Paris and unoccupied territory.

Up to the present, however, the words "valeurs economiques" of Article XVII of the Armistice Agreement have not been interpreted.

As I have reported, the question of the free movement of securities between occupied territory and that which
is unoccupied depends upon agreement between the French and Germans as to exchange control at the French frontiers. Last night Rueff was to leave for Paris for the purpose of discussing the problem. On his return next week he hopes he will have more definite news. He told me that he and the Governor will alternate at Paris from now on, when one is at Paris the other will be at Chattel Guyon, pending final return to the capital. He now believes — perhaps with over optimism — that this will take place within two weeks.

Branches of the Bank of France, Rueff said, are now open for operations everywhere in the occupied territory with the exception of Alsace and Calais and the channel areas. For political reasons, the German authorities will not allow them to reopen in Alsace. Likewise, German military motives keep them closed in Calais and the channel area. The discount rate of the Bank of France is still 2 percent. For the past few weeks the Bank has not issued any statement because it is unable to ascertain just what its position is as to note circulation, and so on. However, the Bank plans to resume publication soon.

I got the impression that Rueff is still perturbed at the generally hostile attitude on the political side displayed to the present French Government by Germany.

END MESSAGE.

MURPHY.

EA: LWV
British Embassy,
Washington, D. C.

26th July 1940.

Dear Merle,

I enclose two messages received from London about cases under the Freezing Order — one about the Lazard transaction, and one about the Suez Canal Company points to which I referred the other day.

If you or the Committee would wish me at any time to come down and discuss these I should be very glad to do so.

Yours sincerely,

(Signed) Jerry Pinsent

Mr. H. Merle Cochran,
United States Treasury,
Washington, D. C.
With reference to the application for
a license for the transfer of $550,000 to the
Bank of the Manhattan Company for the account
of Lazard Frères, France, the British Government
telegraphed from London on July 26th as follows:—

"The motive for the application
seems obscure but it may be designed
to facilitate subsequent transfer of
funds. Please ask United States
Treasury to refuse the application.
British Directors who have been con-
sulted in confidence agree unanimously."
Telegram from British Government in London, dated 20th July 1939

1. The Suez Canal Company have about $16 million in New York which are blocked because they are in the name of Morgan's of Paris. We should like to be sure that there is no danger of any part of this holding being released without reference to us.

2. On the other hand, if these monies were required for necessary canal expenditure, we should like to know whether the United States Government would be willing to release them on our application.

3. Morgan, Grenfell & Company of London hold on behalf of the Suez Canal Company certain other securities in New York. We should like to be sure that these also will not be released without reference to us. The Company's agent in London is communicating with Messrs. J.P. Morgan in London as to these securities.

(Note. Paragraph 3 of the message is as received from London, but it seems possible that the names of Morgan, Grenfell & Company and Messrs. J.P. Morgan have been interchanged.)
The Treasury is currently holding approximately one thousand applications for licenses which would permit the transfer to countries covered by the Executive Order of funds belonging to persons residing in this country to be used for the support of relatives and friends in such areas. Many of the cases involve instances in which support funds have been regularly transmitted to such persons in the past. In the great majority of cases the amounts which it is desired to send are less than $100 per month.

The problem involved is one which is not unique to the problem being faced by the Red Cross and other relief agencies with respect to sending food and supplies to such areas. It is felt that a broad policy question is presented by these cases all representative instances in which funds are being granted licenses for the retribution of reasonable amounts to American citizens in such areas for support purposes.
TREASURY DEPARTMENT
WASHINGTON

July 26, 1940

To: Secretary Morgenthau
From: Under Secretary Bell

The Treasury is currently holding approximately one thousand applications for licenses which would permit the transfer to countries covered by the Executive Order of funds belonging to persons residing in this country to be used for the support of relatives and friends in such areas. Many of the cases involve instances in which support funds have been regularly transmitted to such persons in the past. In the great majority of cases the amounts which it is desired to send are less than $100 per month.

These cases all represent instances in which funds are being sent to persons who are not American citizens, since we are currently granting licenses for the remittance of reasonable amounts to American citizens in such areas for support purposes.

It is felt that a broad policy question is presented by these applications. The problem involved is somewhat similar to the problem being faced by the Red Cross and other relief agencies with respect to sending food and supplies to such areas.

Cabinet: said sit tight and do nothing
Mr. Joseph P. Chamberlain,
Office of the Secretary.

Sir:

Under the provisions of Section 513 of the Revenue Act of 1934, you are hereby appointed an Assistant to the Secretary of the Treasury, with compensation at the rate of ten thousand dollars per annum, payable from the appropriation, "Salaries and Expenses, Foreign Exchange Control, 1940-41", the appointment to be effective today.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.
MEMORANDUM FOR THE PRESIDENT

I am attaching, for your approval, an Order which will authorize Joseph P. Chamberlain, one of my assistants, to supervise the administration of the Foreign Property Control Act. At the present time this work is being handled by Under Secretary Daniel W. Bell. However, the magnitude and details of the job are such that it leaves him little time to perform the many other duties relating to the finance and fiscal matters which devolve upon him.

As you know, Mr. Chamberlain, who has recently joined the Treasury Staff, is an eminent and distinguished authority on international law and a professor of law at Columbia University. I consider him thoroughly qualified to take over this work and recommend your approval of the attached Order.

Sincerely,

[Signature]

LDB:abb
7/26/40
Treasury Department Order No. 31

By virtue of and pursuant to the authority vested in me by the Act of May 10, 1934 (48 Stat. 799), by Section 161 of the Revised Statutes and otherwise, I hereby designate Joseph F. Chamberlain, Assistant to the Secretary, and delegate to him all authority, duties and functions which I am authorized or required to exercise or perform under Section 5(b) of the Act of October 6, 1927 (40 Stat. 411, 419), as amended, and any proclamations, orders, regulations or rulings that have been or may be issued thereunder.

(signed) H. Morgenthau, Jr.

Secretary of the Treasury

APPROVED:

(Signed) Franklin D. Roosevelt

The White House

July 6, 1940

Regarded Unclassified
July 26, 1940

CABINET

Tell Fairley about the trouble in getting the tax bill out, and Fairley will help.
Under Secretary Bell

Mr. Cochran

July 26, 1940

In accordance with the decision reached at our group meeting on July 25, I telephoned the State Department yesterday afternoon, using as the basis of my conversation the attached memorandum from Mr. Bernstein. I spoke with Mr. Thompson, in the absence of Mr. Clark on a fortnight's holiday. Mr. Thompson, in turn, consulted with Mr. James Dunn, Adviser to the Secretary of State on International Political Affairs, and told me that the State Department favored our approving the three types of applications for the Belgian Congo described in Mr. Bernstein's brief. Mr. Thompson stated that the Belgian situation was complicated from the State Department's standpoint but knowing that the Minister of Colonies is in London, the State Department took the above decision.
July 25, 1940

Under Secretary Bell

Mr. Cochran

Mr. Vargas, Secretary of the Colombian Embassy in Washington, spoke with me this morning by telephone. He had received a cablegram from his Government at Bogotá, inquiring what the status of the branch in Colombia of the Banque Francais et Italienne pour l'Amérique du Sud would be, considering that the thirty-day arrangement under our licensing system was now expiring. After conferring with Mr. Pohle, I told Mr. Vargas that instructions were being given by the Treasury Department to the Federal Reserve Bank at New York for the continuance of the license granted the above bank for another thirty days.
July 26, 1940

Under Secretary Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

On the evening of July 24 Messrs. Whitney and Alexander of J. P. Morgan and Company, Inc., New York, called on me while in Washington. They were anxious to have any information in regard to the return of French and American banks to the occupied area in France, particularly Paris. They had received some communications from their representatives in unoccupied France, but did not have a clear picture of the situation. I summarized to them the nonconfidential parts of the only messages we have had recently from Matthew on this subject.

Upon receiving this afternoon a copy of message No. 105 from the American Embassy at Vichy for J. P. Morgan and Company, I telephoned Mr. Alexander and gave him the text thereof. The State Department is charged with communicating these messages, and confirmed to me that this had been sent, but Mr. Alexander said that it had not yet been received by his firm. The Morgan people said they had not consulted the Federal Reserve Bank on the question of the functioning of their bank in Paris, but would be glad to join in any meeting which the Federal might arrange.

[Signature]

B.M.S.
July 26, 1940

Under Secretary Roll

Mr. Cochran

When talking with me by telephone yesterday evening Mr. Meeks of the Federal Reserve Bank at New York asked whether we had given any thought to the idea of blocking dollar balances in this country that may originate with residents of the Channel Islands. It will be recalled that this group, consisting principally of the Jersey and Guernsey Islands, were occupied some days ago by the Germans. These islands have a special status in the British Empire but owe allegiance to the British Crown. During recent years there has been some tendency for tax evaders to place their funds on deposit in these islands. Mr. Meeks is not suggesting that we apply our regulations, but just wondered if the problem had occurred to us. He is not even aware that we have any dollar deposits from the Islands.

[Signature]
Under Secretary Bell

Mr. Sanders

July 26, 1940

In accordance with the decision reached at our group meeting yesterday evening, I telephoned Mr. Alonzo Leger at the Statler Hotel at 8:30 last night. I read to him the text of the telegram which we had approved for mailing to the Federal Reserve Bank at New York. I also told him that Mr. Hinkle would talk directly by telephone with Mr. Louis C. Berenson of the Chase Safe Deposit Company, 39 Rockefeller Plaza, New York, to inform Mr. Berenson as to the arrangements which could be made for Mr. Leger. Mr. Leger was deeply appreciative of the courtesy which we had extended him.
Under Secretary Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

There is attached a copy of telegram No. 115 from Vichy for Mr. Shepard of the National City Bank, New York. I talked by telephone with Mr. Shepard this afternoon, and confirmed that he had received the message directly from the Department of State. He is still waiting word from us, either directly or through the Federal Reserve Bank at New York, as to whether and how his bank in Paris may be supplied with dollars.
GRAY

(PARIS)

Vicky

Dated July 20, 1940

Rec'd 6:45 p.m.

Secretary of State,

Washington.

115, July 20, 2 p.m.

FOLLOWING FOR H. G. SHEPHERD, NATIONAL CITY BANK,

NEW YORK FROM FRANCE.

Refer your cable regarding return Paris. As we are
in unique position of having none of our own or clients' assets in occupied zone consider it unsafe return until we have definite assurance assets are as safe there as under present conditions. We were ordered by French authorities to leave Paris and would return upon receipt similar order. Sending Hunt and others to Paris immediately to form contacts only. As we can now transfer funds freely to clients in Paris from Le Ray consider it important at present to open cash service Paris until we have satisfactory assurances. French and American authorities fully informed our position and approve.

MURPHY

enc

COPY
GROUP MEETING  

July 26, 1940  
4:15 p.m.

Present:  
Mr. Bell  
Mr. Gaston  
Mr. Sullivan  
Mr. Thompson  
Mr. Young  
Mr. Haas  
Mr. Schwarz  
Mr. Cochran  
Mr. Foley  
Mrs Klotz  
Miss Chauncey

H.M.Jr:  I will just tell you what happened. What happened was this, on this oil thing. We get everything except crude oil, that is what it amounts to. I can't go into explanations with you. Everything is out except crude oil. I mean, everything is licensed. We get everything. We had aviation gasoline, scrap iron - number one, I think, is the one - and lubricating oil and tetra something or other.

Gaston:  Tetraethyl lead. In other words, they are going to revise the order, redraft it.

H.M.Jr:  It was redrafted. We get everything except crude, and we never would have gotten that if we hadn't forced the situation. So the - it is all right. We got seventy-five percent of it.

Gaston:  I don't agree.

H.M.Jr:  Well, you try and get it, Herbert.

Gaston:  I know.

H.M.Jr:  After five years, did anybody get scrap iron or gasoline? I can't tell you what happened but that is that.
I gave him (President Roosevelt) - make a note - the complaint of the English against the licenses. Mr. Welles was very much upset about it and said he would go right after it. They are also going to put a Naval officer, I believe, over oil tankers flying the American flag.

Hope you all have a good time.
TO: DEPARTMENT (2)

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

American Consulate General
Tientsin, China, July 26, 1940.

SUBJECT: Tientsin Silver Question

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to enclose a copy of my despatch to
the Embassy no. 1126 dated July 26, 1940, entitled "Tientsin
Silver Question".

Respectfully yours,

Samuel J. Fletcher
American Consul

Enclosure:

1. Despatch to Embassy,
   Peiping, no. 1126,
   July 26, 1940.

800
RMF:k

Original and four copies to the Department.

A true copy of
the signed origi-
nal.
TO: DEPARTMENT (2)

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN CONSULATE GENERAL
Tientsin, China, July 26, 1940.

SUBJECT: Tientsin Silver Question

The Honorable
Nelson Trusler Johnson,
American Ambassador,
Peiping.

Sir:

I have the honor to refer to this Consulate General's despatch no. 1089, June 21, 1940, regarding removal of restrictions at the Tientsin barriers, and previous correspondence relating to the Tientsin silver question, and to enclose herewith accounts appearing this morning in the PEKING AND TIEN TSIN TIMES (British-owned) and the NORTH CHINA STAR (American-owned) regarding the sealing of the silver bullion remaining in the vaults under the British Consulate General following removal of a quantity (reported as about 1,500,000 Chinese silver dollars) equivalent to £100,000 in value set aside for relief purposes in accordance with the Anglo-Japanese Agreement signed at Tokyo June 19, 1940. The amount set aside for relief purposes was checked first by representatives of the Bank of Communications, who counted it and passed it on to the representatives ("shroffs") of the Yokohama Specie Bank and of the Chartered Bank of India, Australia & China.
& China, then it was transferred to the Chartered Bank here.
It is to be shipped to Bombay for melting and assaying.

The balance of the silver remaining in the vault under
the British Consulate General was placed under the seals of
the British and Japanese Consul General on July 25th.

Respectfully yours,

Samuel J. Fletcher
American Consul

Enclosures:

1. PEKING AND TIENTSIN TIMES,
   Vol. XIV, No. 10837,
   July 26, 1940, Tientsin,
   page 6 "Last Phase of
   Disposal of Silver Issue".
2. NORTH CHINA STAR, Vol. XXII,
   No. 348, July 26, 1940,
   Tientsin, page 1 "Silver
   Set Aside for Relief; Stocks
   in Consulate Sealed".

Soo
End:

Original to Embassy, Peiping.
Five copies to the Department under cover
of unnumbered despatch dated July 26, 1940.
Copy to Embassy, Chungking.
Copy to Embassy, Tokyo.

A true copy of
the signed origi-

nal.
Enclosure no. 1 to despatch no. 1126 dated July 26, 1940 from the American
Consulate General at Tientsin on the
subject of "Tientsin Silver Question";
SOURCE: PEKING AND TIENTSIN TIMES,
Volume XXI, No. 10237, July 26, 1940,
Tientsin, page 6.

COPY

LAST PHASE OF DISPOSAL OF SILVER ISSUE

Vaults Containing the Bullion Sealed

Ceremony Beneath the British Consulate

The amount of silver which the Anglo-Japanese agree-
ment specified should be used for relief purposes has
been set aside and one of the two vaults beneath the
British Consulate was sealed yesterday in the presence
of the Japanese and British Consul General. The second
vault will be sealed today.

There was a bevy of Japanese correspondants and
photographers watching the ceremony. Flash-lights lit
up the dull interior of the basement as cameras clicked.

Prior to the ceremony the Black Maria, with Acting
Chief Inspector Harvey in charge, drove out of the rear
yard of the British Consulate, conveying the final load
of silver to the Chartered Bank. The Black Maria has
been engaged in this work for over a week now and the
total amount of silver dollars moved is believed to be
about $1,500,000. These dollars will be shipped to
Bombay where they will be melted, assayed (assayed),
and the equivalent of $100,000 will be set aside. Should
there be any surplus, this will be returned.

The key-holes of the vault were sealed over the
paper which was attached by sealing wax bearing the seals
of the British and Japanese Consulates.

The outer barred door was then closed, and with
strings passing from the door of the vault, the following
notice (in English and Japanese) was securely attached:
"Closed in the presence of the Japanese and British
Consul General in Tientsin and sealed with their seals
this 25th day of July 1940.

It is interesting to observe that the vault which
was closed and sealed was the one in which the flood
caused the bags containing the silver to rot. The result
was that when an attempt to open the vault was made, it
was discovered that the silver had dropped out of the bags
and lay against the door of the vault, which opened inwards.
Considerable ingenuity had to be used in getting the door
to open, and when Mr. Oswald White (H.B.M. Consul General)
walked in he had to pass over a veritable carpet of silver
of considerable thickness.

This
This necessitated each dollar being counted instead of being transported in the bags containing $1,000 each. Representatives of the Bank of Communications handled the silver first, counting it and then passing it on to the shroffs of the Yokohama Specie Bank and the Chartered Bank, who recounted the tinkling dollars and then sent them on in wooden boxes to the Chartered Bank. The entire procedure was performed in the presence of several observers, and was completed to the entire satisfaction of all concerned.
SILVER SET ASIDE FOR RELIEF:
STOCKS IN CONSULATE SEALED.

The amount of silver which the Anglo-Japanese agreement specified should be used for relief purposes has been set aside and the vaults were sealed yesterday in the presence of the Japanese and British Consulate-General, says the British Consulate General.

Remaining Stocks Sealed

DOMELI

Tientsin—July 25.—The setting aside of £100,000 worth of silver—out of the silver holdings in the British Concession in Tientsin—to be used as a fund for relief purposes in North China in accordance with the Anglo-Japanese Agreement was finished here today.

The remaining silver stocks held in the premises of the British Consulate General here were sealed. The formalities of sealing the silver in a vault in the basement of the British Consulate General took place late this afternoon in the presence of British Consul General C. White and Japanese Consul General Y. Noto.

The £100,000 of silver set aside will be sent to Bombay by sea for sale there. A large amount of the foreign exchange obtained from the sale will be employed to purchase wheat flour from abroad.

Ten to twenty coolies were engaged in counting and packing the silver coins for about ten days, each receiving a daily wage of $3.60.
TELEGRAM RECEIVED

FROM Stockholm

Dated July 28, 1940

Reo’d. 9:35 a.m., 27th

Secretary of State,

Washington.

767, Twenty-sixth.

Following received from Oslo by courier: 791, twenty-fourth. Administrative Council reports that from July 17, 1940 no bank or individual other than Norges Bank may purchase sell or transfer foreign securities credits or exchange without the consent of the said bank. No foreign securities exchange or credits may be exported and Norwegian securities may be imported only by special permission. No foreigners may be granted credits no guarantees may be made in behalf of foreigners and no disposition of foreign credits in Norway may be made without consent of Norges Bank. Usual credits and guarantees in connection with sale of goods to foreign countries may be granted without first having applied for special permission.

The Government Norwegian municipalities persons resident in or whose usual place of residence is in Norway and companies corporations foundations and other institutions of any kind domiciled in Norway are classified as nonforeigners. All foreign exchange in Norway held by nonforeigner must be presented for sale to Norges Bank before July 31; that received after July 31 must be turned in within week after receipt.

Travelers leaving Norway may take with them without special permission foreign valuta not exceeding equivalent of 99 Norwegian kroner and usual quantity of precious metal in the form of personal articles.

Willful violation is punishable by fine up to 100,000 kroner and/or six months imprisonment and in certain cases loss of trading permit. Inadvertent violations subject to fine confiscation is permitted.

STERLING
Secretary of State,
Washington.
699, twenty-sixth.

FROM COMMERICAL ATTACHE.

Weekly Financial. Shanghai open market foreign exchange rates very steady past week due working time policy adopted by speculators and merchants. Interbank spot selling this morning around six one eighth cent and three twenty nine thirty seconds pence with high during week of six seven thirty seconds and three twenty nine thirty seconds and a low of six one sixteenth and three twenty seven thirty seconds, July delivery same as cash, August delivery one sixteenth cent and one thirty second penny lower. Other quotations this morning: gold bars around yuan five three hundred saving high during week of five three five naught and low of five two naught five, Bank Japan notes yen one for Chinese yuan one point two four, military scrip yen one for Chinese yuan one point two four, Wei Wah cash discount rate four point six percent, Central Bank of China's gold unit rate yuan two point seven naught seven
-2- No. 699, July 26, from Shanghai

seven or United States dollars naught point six three naught six two five, Shanghai customs gold unit for duty payment purposes equivalent to Hua Hsing yuan two point nine one eight or Chinese yuan four point six one naught as Hua Hsing Bank's currency premium of fifty eight per cent over Chinese yuan,

(END SECTION ONE)

BUTRICK

NPL
SECRETARY OF STATE,
Washington.

699, twenty-sixth (SECTION TWO).

Tientsin exchange rates five eleven sixteenths cents and three nineteen thirty seconds per cent, Tientsin Shanghai remittance change seven per cent, Shanghai Tientsin remittance Shanghai to pay Chinese yuan one naught one naught Tientsin to receive FRB yuan one thousand, Tientsin FRB yuan nine four point seven five for Chinese yuan one hundred. Yesterday's closing quotations: Chinese domestic bonds average five four point two seven, Shanghai general stocks averaged two three naught point four eight, Shanghai rubber shares average two four seven point four one. Japanese press states in order to relieve small change shortage in Central China Japanese military authorities to issue twenty-five sen military scrip. Present lowest military scrip denomination is yen one. Press reports Australia authorities now permitting China buyers to pay in free sterling instead of in United States dollars at official sterling rate which basis been required since March seventh this year and which has curtailed Australia sales.
No. 699, July 26 (SEC TWO) from Shanghai

sales to China adversely affecting wheat and wool. However, letters of credit covering such free sterling remittances must be registered with Bank of England to be impounded. Beneficial effects already apparent.

Press states French Indo-China authorities now requiring foreign buyers to pay in United States currency only.

INFORM COMMERCE. (END OF MESSAGE)

BUTTRICK

NPL
Secretary of State,
Washington.

Twenty-sixth.
ATTACHE COMMERCE.

#5, July twenty-third.

Japanese business circles reportedly pleased over appointment various ministers new Konoye Cabinet who will be charged with drafting and executing new economic and financial policies, namely Ministers Commerce and Industry, Finance, Communications, and Agriculture and Forestry. Appointment Isao Kawada as Finance Minister has reportedly dispelled cautiousness which prevailed financial circles as although drastic monetary reforms generally anticipated it believed that new minister has had such practical experience that new measures will be introduced with minimum friction. Shipping circles have welcomed appointment Shozo Murata as Communications Minister as his position of President of Osama Shosen Kaisha qualifies him for task reconciling differences between shipowner and official transportation agencies. Commerce and Industry Minister Ichigo
-2- No. – July 26, from Tokyo

Ichizo Kobayashi reportedly familiar with difficulty experienced by business and industry in operating under economic control regulations and it generally anticipated that he will endeavor eliminate unnecessary bureaucratic administration as far as possible. Japanese press has, however, voiced opinion that Commercio Minister may introduce new economic measures along lines of German and Italian economy since he has just returned from extensive visit those countries. Agricultural and Forestry Minister Tadatou Ishiguro experience as head of Central Bank for Cooperative Societies makes him regarded as foremost Japanese authority on farm administration. Sentiment of business circles towards new cabinet reflected in stock market operations of past week. When news announced of resignation of Yonai Cabinet on sixteenth, prices sagged due fear new cabinet would introduce radical measures to regulate nation’s economy, but when obvious that new Premier was choosing ministers with care prices firmed and market closed steady although average quotations selected group industrial shares last week reached lowest level since thir week August last year. Formal approval reportedly given three point financial scheme for current fiscal year on July eighteenth. Scheme which provides for raising minimum amount one two four naught naught million yen for financing.
financing plans Japan and yen bloc includes following: capital control plan covering public bonds capital; a Manchurian and China trade program which stresses supply of materials to Japan; and transit mobilization plan which provides for strengthening and improving shipping railway and aviation transport facilities. Contrary to expectations, money market has shown remarkable firmness during recent weeks with overnight call rates remaining at uniform seven rin level. Factors responsible for further tightness in money rates include slow circulation of huge sums paid for cocoons rural districts, heavy demand for funds from private enterprises for expansion, anticipated heavy flotations new government bonds issues, small amount excess Government payments July. Due fear overnight call rates may advance seven point five rin level towards end July finance authorities reportedly studying measures designed relieve financial stringency. Figures released by Savings Bankers Association show sharp increase savings deposits June namely one two naught seven six seven thousand yen. During quarter ending June thirtieth, deposits in savings bank increased three two five one four one thousand of which two naught nine four eight seven thousand or six four per cent invested in new national bond issues.
Survey covering all banks except Bank Japan indicates brisk activity enjoyed by banking institutions during June. Total deposits increased one three five three million over previous month and six one three eight million over consamper to two seven four nine one million. Loans increased by four two nine million over previous month and three six one one million over consamper to one seven naught six four million. Total bill clearings throughout Japan first half current year amounted two five seven one one thousand bills valued yen six three eight three nine million, increase five point three percent volume three nine point naught per cent value compared consamper. June clearings amounted four three seven thousand bills valued one one naught four seven thousand, increase seven point two percent volume over previous month but decline point eight percent in value. Note issue Bank Japan July twenty-sixth amounted three one six nine million, decline six seven million during past week. Bank Japan loans same date totalled six two seven million, decline eight two million past week. Yen sterling rates fluctuated between one two and five eighth and one three and one eight during past week. Yen dollars rates remained unchanged with no further rumors regarding raising value yen. Living costs for laboring and salaried classes advanced by point eight and one point one percent respectively during June according figures released Cabinet Bureau Statistics. June index
RDS -5- No. - July 26, from Tokyo.

index laboring class one four five point five which represents two two point three percent gain over consamper. Index salaried class one four two point eight, increase two one point one percent consamper. Rise in living costs during June primarily result upward trend clothing prices and house furnishings prices. Yokohama raw silk market continued depressed throughout past week with quotations maintained at one three five naught level only as result of government buying at that price. Due to continued weakness silk market and unfavorable prospects during coming months, future prices have slumped to level at which government forced to buy, however, in order check further price decline Ministry Commerce and Industry has announced that transactions below one three four nine yen level would be prohibited. Director Cocoon Silk Bureau Agricultural Forestry Ministry denied rumors reportedly circulating New York that Japanese authorities have prohibited any future contracts with American raw silk importers. To ensure adequate fertilizer supply government reportedly intends distributing one seven two eight five thousand yen in subsidies to manufacturers during August December. Funds which originate from second reserve fund appropriated for purpose increasing foodstuffs production through adequate fertilizer supply. In order obtain further degree
degree self-sufficiency precision instruments, bulk of which formerly imported, government reportedly intends compel manufacturers produce such instruments under authority Articles Eight and Twenty-five National General Mobilization Law. Firms ordered produce precision instruments will be indemnified by government. Reports of unofficial Japan Philippines trade conference which held in Tokyo past week state delegates decided production costs Japan must be reduced before any increase in Japanese exports to Philippines can be expected and that quality of goods would have to be improved. Because of rapid changes in international situation, Japanese Finance Ministry reportedly intends revising foreign trade promotion plans monthly to meet situation. Foreign trade outlook considered distinctly unfavorable since no optimism warranted for increased exports to foreign currency markets during next few months. Japanese press report dates July eighteenth claims local exporters dismayed at reports German sources in Mexico have suggested Mexican importers delay placing order with Japanese firms due probability early termination European hostilities. Foreign trade second ten days July read thousand exports one one eight six four five, imports nine five five six three. Increasing in exports over previous ten day period which totalled seven three eight nine attributed to expansion trade with yen
RDS -7- No. - July 26, from Tokyo.

yen block. Industrial share prices July twentieth average eight five point seven three index eight seven point eight six, week's average eight five naught five index eight seven one seven. END. Signed Smith"

INFORM COMMERCE.

GREW

NPL
Mr. Pinesent, Financial Counselor of the British Embassy, called on me this noon by appointment. He took up with me one routine matter for the Control Group.

Mr. Pinesent placed on my desk a clipping from the Washington Star of yesterday, consisting of the column by Alsop and Kintner setting forth the alleged views of Ambassador Bullitt in regard to the desirability of the release to France of funds which we are holding frozen here. Mr. Pinesent was quite upset over this story. He said that his people knew that Mr. Bullitt had much influence with the President, and he feared that there might be some campaign by Bullitt in favor of cordiality toward the Pétain Government which could lead to any number of embarrassments for the British Government. He referred not only to the Kintner-Alsop story but also to Bullitt's conversations with the press in defense of Pétain. I told Pinesent that the Treasury had heard absolutely nothing as to any views that Mr. Bullitt may have on our policy of controlling foreign assets of invaded countries.

While Mr. Zoltowski, Financial Counselor of the Polish Embassy, (whose visit is reported in a separate memorandum) was with me this morning, he also referred to Bullitt's stand on Pétain, which had astonished Zoltowski considerably. He said that he could not figure out the reason for such statements in present circumstances. While on this subject, Zoltowski volunteered that every word in the German White Book dealing with documents alleged to have been found in Poland was correct.
July 26, 1940
12:15 p.m.

RE SHIP MOVEMENTS

Present:  Mr. Foley
          Mr. Bell
          Mr. Cairns

H.M.Jr: You know, we are so terribly dumb in this country, if something doesn't happen to us it is just because the good Lord looks over us, and what we ought to have is a Naval Officer on every tanker that goes to Japan or Vladivostok or somebody report what happens.

Bell: I still think we ought to have all our Marines under the Coast Guard and whenever anybody wants a vessel to sail out of a U.S. port to get one from the Coast Guard and when they come back they go to a U.S. camp and stay there. It would be available during the war. It would save us money and keep us out of trouble and we would have a trained force at all times.

H.M.Jr: Well, this fellow is on his job.

Cairns: Compton says he is a good man.

H.M.Jr: See that he gets a commendation for doing this, also a raise. I want to give this fellow a raise.

Cairns: Fine. I will see to it.

H.M.Jr: These fellows don't realize how dumb they are.
I'm going to recommend to the President that every ship that sails now flying an American flag, wherever she goes, have a man on board. Who is this from?

Foley: I was talking to Grady this morning and I reported the meeting to you.

H.M.Jr: I told him he was letting the President down.

Cairns: If he lets any crude go, he might as well let it all go.

Foley: Of course, it can be refined.

Cairns: Of course. That is what Germany is getting from Russia.

H.M.Jr: Stimson wanted to know --

Foley: Why don't you call Bob?

H.M.Jr: What good would that do? He just takes a legal viewpoint. I have never seen him stand up.

Foley: How about Knox?

H.M.Jr: Knox is on the Hill.

(Telephone conversation with Harold Ickes follows:)
July 26, 1940
12:16 p.m.

H.M.Jr: Hello.
Operator: Secretary Ickes.
H.M.Jr: Hello.
Secretary Ickes: Hello, Henry.
H.M.Jr: How are you?
I: All right.
H.M.Jr: I'm going to need a lot of help in Cabinet.
I: All right.
H.M.Jr: The State Department has gone to the President on this proclamation on oil and oil products and they're trying to get him to change it.
I: Oh, hell!
H.M.Jr: Now, they've written a new order, which hasn't got to him yet, and I'm trying my best to get them to wait until Cabinet.
I: Yeah.
H.M.Jr: But if you had that stuff that we were talking about from the standpoint of conservation and would have that available, it would help like hell.
I: What stuff do you mean? Do you mean the figures?
H.M.Jr: Well, whatever position that you can take as to conserving it and keeping it within -- because what they're trying to say is -- in the first place they won't tell the President they haven't got the machinery to handle it and therefore they're trying to get him to make this just high-test aviation gasoline, forgetting that if they send over crude oil, they can refine that.
I: Why certainly.

H.M.Jr: And the fellow who is at the bottom of the whole thing is this bastard Joe Green.

I: He's the fellow that I've been urging the President for three or four years to get rid of.

H.M.Jr: I know, and it's coming up and I just — Stimson is going to go the limit on it and I knew I could count on you if you had a little warning.

I: Yeah.

H.M.Jr: Thank you.

I: You could have anyhow.

H.M.Jr: I know.

I: All right.

H.M.Jr: Thank you.
Bell: That is building your fences.
H.M. Jr: Well, this is terrible.
July 26, 1940
11:50 a.m.

H.M.Jr: Hello.
Operator: Secretary Stimson.
H.M.Jr: Hello.
Secretary Stimson: Hello.
H.M.Jr: How are you? This is Henry.
S: I saw some very interesting news in the papers this morning and I wasn't quite sure how far it went.
H.M.Jr: Well, I need some help because, confidentially, those Orders were drawn up in the Treasury and sent up to Hyde Park and the State Department only learned about them when they saw about it in the paper and ever since then they've been trying to sabotage it. Hello?
S: Yes, I'm on.
H.M.Jr: Now both Sumner Welles and Grady, Assistant Secretary over there have got another Order drawn up watering this thing down ..... S: Stopping it?
H.M.Jr: ..... well, modifying it. Hello?
S: Yes, I'm on.
H.M.Jr: And they quote Army and Navy officials as saying that all that they want is aviation gas and that this other thing that we've suggested is impossible. Now, I've just come back from the White House where I've asked them please not to do anything until Cabinet. You see?
S: Yes.
Because I know that Welles is pressing the President very hard and I wondered if you couldn't find out -- they quote the Munitions Board -- Army and Navy Munitions Board as saying that this isn't what they want, you see?

You don't mean -- you mean the Stettinius Board?

No, I mean the Board composed of Army and Navy officials. Your men and Knox's men. I wondered if you couldn't send for them and find out just what they have recommended.

Yes, I can try -- I can do that.

What?

Yes. This will come up in Cabinet, will it?

Well, that's what I've asked for, because what the President did was swell. Now if he's going to begin it ....

Well, what I wanted to know, did it actually stop it, or is another step necessary?

No, it means a licensing of all petroleum and petroleum products and scrap steel and iron.

Well, now just let me get the name of that Board.

It's known as the Army and Navy Munitions Board.

Army and Navy Munitions Board.

Yeah -- Joint Board, I think it's called and they're the ones who pass on strategic materials.

On strategic what?

Materials. See? And Grady says, well, now what he has suggested through Welles and the President is what the Army and Navy Joint Munitions Board wants, and what they want isn't what you and I want.
S: Who is Grady?
H.M. Jr: Grady is Assistant Secretary of State in charge of trade treaties.
S: Well, he's a new man.
H.M. Jr: Yes.
S: He's taken Sayre's place.
H.M. Jr: That's right.
S: Well, I don't know him at all.
H.M. Jr: No. But I'm going to try -- I hope the President will wait until Cabinet because -- oh, it would be a tragedy if he follows the State Department
S: Oh, yes. The difference is -- you cover scrap iron, don't you?
H.M. Jr: We cover scrap iron and scrap steel and ....
S: Do they want to knock that out?
H.M. Jr: Well, they want only a certain kind of scrap iron and what we want is, before anybody can send -- the way the Order was written -- before anybody can send any scrap iron or scrap steel, he's got to get a license.
S: Yes.
H.M. Jr: Now they want to change that and make it that they only can get -- have to ask for a license for a certain kind of scrap steel.
S: Does Sumner Welles attend Cabinet meetings?
H.M. Jr: Yes.
S: Yes, in the absence of Hull.
H.M. Jr: Yes he does.
S: Well, I'll try to get at that Board at once. I'll see where they are.
H.M. Jr: Thank you so much.

S: I don't know whether I can. Unfortunately, the Chief of Staff is up with the Appropriations Committee.

H.M. Jr: Well, anyway.

S: All right.

H.M. Jr: How do you feel today with a new Assistant Secretary?

S: Well, I haven't got him yet. I'm waiting for the Senate again you know.

H.M. Jr: Well, the other fellow's gone West though.

S: Yes. He's gone West.

H.M. Jr: (Laughs). All right.

S: All right, thank you.
July 26, 1940
11:24 a.m.

H.M. Jr.: Hello.
Operator: Mr. Grady.
H.M. Jr.: Hello.
Henry Grady: Hello, sir. How are you?
H.M. Jr.: Fine. I hear you've been trying to get me.
G: Well, Mr. Bell just talked to me, Mr. Secretary, and I also talked to Mr. Cairns and I think they have the message that I wanted to give you.
H.M. Jr.: Well, supposing you give it to me direct.
G: Yes. It's this proclamation that came over with reference to the petroleum and the scrap -- came in last evening for Mr. Welles to countersign and he referred it to some of us and we found the thing setup in a manner that you just couldn't administer.
H.M. Jr.: Why not?
G: Because the matter has to be more carefully defined -- the question of scrap of all kinds has to be more definitely defined.
H.M. Jr.: Well, that's all right, but why can't ......
G: Well, the thing has been redrafted and is going over and, I think, will meet with your approval.
H.M. Jr.: Going over where?
G: Going over to the White House.
H.M. Jr: Well, does that mean that these articles that were mentioned in every paper in the world today -- that the President isn't going to have to license those?
G: It means that the recommendation on the petroleum thing is the recommendation that went through all the Departments and was approved by everybody, including the Munitions Board and the Army and Navy, that on the petroleum it should be the high octane gasoline and the motor oil used in airplanes ... .

H.M.Jr: And nothing else?

G: Not nothing else.

H.M.Jr: Well, that's terrible.

G: And tetraethyl, this solvent that makes the high octane and on the scrap that it be defined as the heavy, melting No. 1 iron and steel scrap.

H.M.Jr: Well, you're just going to let the President down.

G: The proclamation remains the same. It says petroleum products, tetraethyl, and it says iron and steel products. Then in the other thing it defines them. I don't think it would let him down and it's drawn with the idea of protecting him on the publicity that went out.

H.M.Jr: He doesn't need protection; he's got a good press on that.

G: Yeah.

H.M.Jr: He got a good press on that. Now, listen. The thing is -- it's on the administration end and they've got, I don't know how many of these licenses all backed up on the stuff already that somebody's supposed to be handling.

G: Yes, they are being handled.

H.M.Jr: Yeah, but they're not being handled promptly.

G: Well, I'll tell you, if this thing went through the way it came over from your Department yesterday, we'd have the greatest
confusion that we've had around here in a long time, because that thing -- it's all been jammed up. We're having calls from all over the country, from the Pacific Coast and everywhere. If we -- that proclamation calls for licensing of all petroleum products. We exported -- last year we exported $350 million worth of various kinds of petroleum products.

H.M.Jr: How many licenses do you suppose we handle every day on foreign exchange -- how many ships do you suppose we handle every day? We do it every day.

Well, all I know is the fellows that are doing it say that it'll be administratively tremendously difficult.

Well, then I'd give it to somebody else to do.

Well, there are also questions there not only of the licensing, but the question of the types of things that are put on. Unless we have some thought of stopping crude petroleum and other types of petroleum products there's no use putting them on a list and requiring everybody to get a license on them.

Well, I don't know whether the President but if there's any watering down of this cream after that thing went out -- I mean, I don't see how the President can change the Order. They can license all petroleum products and issue them promptly if there is the will to do it, that's the point.

Well, I think the way this thing is prepared it would entirely save the situation as far as the President's announcement yesterday is concerned. In the decree, it simply defines what is meant by petroleum products and the statements that went to the paper were general and the proclamation is general. Now on the specific side of the thing, then, that's another matter and I don't think there'd be any misunderstanding on the part of the public.
H.M.Jr: Well, I hope so for his sake.
G: Yeah. All right.
H.M.Jr: Thank you.
G: You're welcome.
July 26, 1940

Mr. Welles read this (after Cabinet), but the President did not.
My dear Mr. President:

It is my understanding that the State Department plans to ask you to modify the proclamation you have signed adding petroleum, petroleum products and scrap metals to the list of products which can not be exported except under license and that their proposed modification would restrict the control to aviation gasoline and lubricating oil and fluid for raising the octane content of gasoline.

This, in my opinion, would be a most serious mistake, since crude oil and various other petroleum products can be converted into aviation gasoline and this restriction would not apply to Diesel oil, used by submarines and tanks.

We have today received a confidential communication from Port Arthur reporting what appears to be reliable information that cargoes of oil being shipped under contract of the Texas Oil Company with the Spanish monopoly are being transferred directly or through depots to Italian and German submarines.

I understand that the State Department's objection is that the sweeping petroleum and scrap embargo could not be administered effectively. May I most respectfully suggest that if the Division of Controls of the State Department and the Administrator of Export Controls can not administer this proclamation effectively the Treasury Department can.

As a practical matter the enforcement of the embargo on petroleum and petroleum products is a comparatively easy problem. In the case of Foreign Exchange Control, which is a much more complex problem dealing with billions of dollars of assets and an enormous number of individuals, the Treasury has not found the task impossible of achievement, nor has the effort expended been unjustified by the results achieved.

The objections raised to the oil and scrap metal control reinforce a growing impression on my part that there is something very seriously wrong with the personnel or system in effect for administering the export controls. The British have informed Mr. Philip Young of the Treasury that their defense industries are being
seriously impeded by:

1. An absolute embargo on manganese and some other metals, which, among other embarrassments, has caused them to cease manufacturing dry batteries in Canada.

2. Delay in obtaining permits for materials on order or in transit.

3. Inability to get action on other permits except after unreasonable delays.

4. Inability to execute contracts because of uncertainty regarding permits.

While I am not overly anxious to take on new headaches, I believe this situation is so serious that I ought to suggest the use of the facilities of the Treasury Department to meet the emergency.

Aside from the granting or withholding of licenses embargoing the articles proclaimed by you under the Act of July 2, 1940 (Public No. 703 - 76th Congress) the statutes put the actual enforcement upon the Treasury. The control of ship movements is in the Treasury pursuant to the Act of June 15, 1917 (40 Stat. 220; 50 U.S.C. 191) and the Regulations issued under it. The same Act also provides (40 Stat. 223) that the customs officers shall seize any goods which are attempted to be exported in violation of law or whenever there is known or probable cause to believe that any arms or munitions of war or other articles are being or are intended to be exported or shipped from or taken out of the United States in violation of law.

In order to get the most efficient administration of the National Defense Act (Public No. 703) the Administrator of Export Control could work with and under Assistant Secretary Herbert E. Gaston who is in charge of the division of the Treasury engaged in controlling ship movements and in charge of the Customs and Coast Guard officers who have the enforcement of the Act of June 15, 1917 (40 Stat. 223; 22 U.S.C. Section 238).

It goes without saying that if administration of these controls were entrusted to the Treasury, controlling policy decisions would continue to be made by you, as at present.

I believe this whole matter is one that deserves your most serious consideration.

Respectfully,

[Signature]

Secretary of the Treasury

The President,
The White House.
Original and one carbon of the letter 165 and original of the memorandum given to HM Jr to take to take to Cabinet on 7/26/40
July 26, 1942.

My dear Mr. President:

It is my understanding that the State Department plans to ask you to modify the proclamation you have signed adding petroleum, petroleum products and scrap metals to the list of products which can not be exported except under license and that their proposed modification would restrict the control to aviation gasoline and lubricating oil and fluid for raising the octane content of gasoline.

This, in my opinion, would be a most serious mistake, since crude oil and various other petroleum products can be converted into aviation gasoline and this restriction would not apply to Diesel oil, used by submarines and tanks.

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The objections raised to the oil and scrap metal control reinforce a growing impression on my part that there is something very seriously wrong with the personnel or system in effect for administering the export controls. The British have informed Mr. Philip Young of the Treasury that their defense industries are being
seriously impeded by:

1. An absolute embargo on magnesium and some other metals, which, among other embarrassments, has caused them to cease manufacturing dry batteries in Canada.

2. Delay in obtaining permits for materials on order or in transit.

3. Inability to get action on other permits except after unreasonable delays.

4. Inability to execute contracts because of uncertainty regarding permits.

While I am not overly anxious to take on new headaches, I believe this situation is so serious that I ought to suggest the use of the facilities of the Treasury Department to meet the emergency.

Aside from the granting or withholding of licenses authorizing the articles proclaimed by you under the Act of July 2, 1940 (Public No. 703 - 76th Congress) the statutes put the actual enforcement upon the Treasury. The control of ship movements is in the Treasury pursuant to the Act of June 15, 1927 (40 Stat. 223; 50 U.S.C. 191) and the Regulations issued under it. The same Act also provides (40 Stat. 223) that the customs officers shall seize any goods which are attempted to be exported in violation of law or whenever there is known or probable cause to believe that any arms or munitions of war or other articles are being or are intended to be exported or shipped from or taken out of the United States in violation of law.

In order to get the most efficient administration of the National Defense Act (Public No. 703) the Administrator of Export Control could work with and under Assistant Secretary Herbert E. Custer who is in charge of the division of the Treasury engaged in controlling ship movements and in charge of the Customs and Coast Guard officers who have the enforcement of the Act of June 15, 1927 (40 Stat. 223; 22 U.S.C. Section 236).

It goes without saying that if administration of these controls were entrusted to the Treasury, controlling policy decisions would continue to be made by you, as at present.

I believe this whole matter is one that deserves your most serious consideration.

Respectfully,

The President,
The White House.

Secretary of the Treasury.
July 25, 1940.

My dear Mr. President:

It is my understanding that the State Department plans to ask you to modify the proclamation you have signed adding petroleum, petroleum products and scrap metals to the list of products which cannot be exported except under license and that their proposed modification would restrict the control to aviation gasoline and lubricating oil and fluid for raising the octane content of gasoline.

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seriously impeded by:

1. An absolute embargo on manganese and some other metals, which, among other embarrassments, has caused them to cease manufacturing dry batteries in Canada.

2. Delay in obtaining permits for materials on order or in transit.

3. Inability to get action on other permits except after unreasonable delays.

4. Inability to execute contracts because of uncertainty regarding permits.

While I am not overly anxious to take on new headaches, I believe this situation is so serious that I ought to suggest the use of the facilities of the Treasury Department to meet the emergency.

Aside from the granting or withholding of licenses embargoing the articles proclaimed by you under the Act of July 2, 1940 (Public No. 703 - 76th Congress) the statute put the actual enforcement upon the Treasury. The control of ship movements is in the Treasury pursuant to the Act of June 15, 1917 (40 Stat. 220; 50 U.S.C. 191) and the Regulations issued under it. The same Act also provides (40 Stat. 223) that the customs officers shall seize any goods which are attempted to be exported in violation of law or whenever there is known or probable cause to believe that any arms or munitions of war or other articles are being or are intended to be exported or shipped from or taken out of the United States in violation of law.

In order to get the most efficient administration of the National Defense Act (Public No. 703) the Administrator of Export Control could work with and under Assistant Secretary Herbert E. Gaston who is in charge of the division of the Treasury engaged in controlling ship movements and in charge of the Customs and Coast Guard officers who have the enforcement of the Act of June 15, 1917 (40 Stat. 223; 22 U.S.C., Section 238).

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I believe this whole matter is one that deserves your most serious consideration.

Respectfully,

The President,  
The White House.  

Secretary of the Treasury.
Effect of Export Control on British Orders

The export control system under the administration of Colonel R. L. Maxwell has affected British orders in four distinct ways: (1) by placing a definite export embargo on certain basic materials; (2) by restricting shipment of such items as machine tools; (3) by delaying the issuance of export licenses for goods currently nearing completion or already in transit, or stored on docks and in warehouses awaiting shipment; and (4) by making it impossible for the British to sign contracts with metal working machinery manufacturers until an export license has been granted.

Export Embargo of Certain Basic Materials.—Canadian production of dry batteries will cease today (July 26th) in the plants of the Canadian subsidiary of General Dry Batteries, Inc. and some 200 men will be thrown out of employment. Thus, a war industry essential to Canada will be stopped due to the inability to secure crushed manganese ore from the United States.

Manganese ore is imported by the General Dry Batteries, Inc. from Africa and Cuba for crushing in the United States, because no crushing machines are available in Canada. As Manganese is one of the basic materials for which all export licenses have been refused, this crushed ore cannot be exported from the United States even to the Canadian subsidiary of the American firm.

Restriction of Certain Items.—Under the export control system, certain machine tools cannot be exported until passed upon by the Advisory Commission, the War Department, and the Navy Department with a view to ascertaining if such tools could be used in this country. If any use can be made of them in the United States, no export license is issued.

The British Purchasing Commission reports that 1000 freight cars are stalled in New York loaded with machine tools and other similar material for which export license is required. Of these, over 550 cars are loaded with 20,000 tons of machine tools vital to the war industry of Great Britain. 150 tons of aluminum are delayed — a situation so serious that London has cabled instructions to consider buying or renting planes to get the aluminum across the Atlantic in time to maintain the British airplane production program.

Delay in Issuance of Export Licenses.—The Canadian Car and Foundry Company, Montreal, Canada, has reported to the British
The item received

should not be opened until consultation with

Mr. [Redacted]

[Redacted]

itemized to obtain confirmation for current coupling mechanism.

been forwarded.

the document must be recognized as a

The brazilian government

its effects in the event of continued spread of the virus.

The Brazilian government has notified the United Nations that it will continue to

In writing, I remain

[Redacted]

[Redacted]
production could not be started. The British were placed in a position where they had to apply for a license for material which did not belong to them, and, if any terms of the contract were altered by mutual agreement during the production period, a new export license would have to be issued.
July 26, 1940

HM, Jr told the 9:30 group the following after his return from Cabinet.

What happened on this oil thing, we get everything except crude oil. That's what it amounts to. I can't go into the explanation, but everything goes out except the crude oil. Everything is licensed. We get aviation gasoline, scrap iron. The order was redrafted. We get everything except crude and we never would have got that unless we forced the situation.

I gave him the complaint of the English against the licensing -- Mr. Welles. He was very much upset and said he would go right after it.

And will put an American naval officer on every tanker flying the American flag from now on.
July 26, 1940.

The budget for the financial year ending March 31, 1941, was presented to Parliament on June 27 and legislation enacting the major portions of the recommendations has already been passed. Due to the war, record total revenues and expenditures are provided for. The budget is divided into two portions, a war expense account, and the ordinary budget or consolidated fund. Total war expenditures for the fiscal year are estimated at pounds New Zealand thirty-seven million five hundred thousand, of which pounds New Zealand fourteen million one hundred and twenty thousand is to be met by special war taxes, pounds New Zealand three million six hundred and thirty thousand by internal loans and pounds New Zealand nineteen million seven hundred and fifty thousand by loans placed in the United Kingdom.

In addition to war taxation imposed in 1939 new war taxes include increases in personal and company income taxes, a national security tax of one shilling on every pound of personal income, a doubling of the sales tax rate from five per cent
per cent to ten per cent, and higher death and gift duties. Internal loan arrangements include a national savings scheme for small investors and ten year loans for large investors which are to be free of interest for three years or for the duration of the war, and at not exceeding two and a half per cent interest for the balance of the war.

Expenditures in the ordinary budget total pounds New Zealand thirty-seven million and thirty-four thousand, compared with pounds New Zealand thirty-seven million six hundred and fifty-five thousand actually expended in 1939-40. Of the total, pounds New Zealand thirty million nine hundred and five thousand will be raised by taxation and the balance by interest and other receipts. A surplus of pounds New Zealand forty-six thousand is anticipated.

In addition to loan revenue to be raised for war purposes, approximately pounds New Zealand fifteen million is to be raised by loan for public works, including railways, hydro-electric schemes, highways, irrigation and land development, public buildings and subsidized dwellings construction. This represents reduction of pounds New Zealand four million from the amount of loan money required for public works in the 1939-40 fiscal year. Total expenditure on public works will be pounds New Zealand twenty million five hundred and eighty-nine thousand, compared with pounds.
-3- July 26, from Wellington.

Pounds New Zealand twenty-three million and fifty-two thousand spent in 1939-40.

The public debt on March 31, 1940 totalled pounds New Zealand three hundred and twenty-two million nine hundred and seven thousand, having increased by pounds New Zealand eighteen million nine hundred and thirty-seven thousand since March 31, 1939.

Under the financial emergency regulations, gazetted in June, the Minister of Finance is requiring all foreign securities owned by New Zealand residents to be registered by July 31, 1940, and that the government be authorized to purchase. It is estimated that approximately ninety percent of these securities are Australian and only a very small percentage American. The minister stated that the government did not intend to compel liquidation until the financial need was urgent.

Net foreign currency assets of New Zealand banks, including the reserve bank, had increased by June 24, 1940, to the total of pounds New Zealand twenty-seven million three hundred and eighty-two thousand, the highest total since May 30, 1939. This compared with net overseas assets of only periods New Zealand nine million and eighty-eight thousand on June 26, 1939. A decline in foreign balances was indicated.
indicated in July, however, by a decline in the reserve banks' net sterling exchange funds which totalled pounds New Zealand twelve million nine hundred and thirty-two thousand on July 22, a decrease of pounds New Zealand one million eight hundred and seventy-eight thousand since June 24. A decline in overseas assets normally carriiers in July with the end of the export season.

Internally, the financial situation has been characterized in recent months by a marked rise in bank deposits and note circulation. Bank deposits reached a record total of pounds New Zealand eighty million five hundred thousand on June 24. On that date the ratio of aggregate advances and discounts to total demand and time liabilities declined to fifty-eight point ninety-five per cent compared with eighty-two point fifty-nine per cent on June 26, 1934. The lowest ratio recorded was fifty-five point ninety-five per cent in August, 1934. Active note circulation on June 24 was pounds New Zealand fourteen million six hundred and ninety-nine thousand, compared with a pound New Zealand eleven million five hundred and thirty-two thousand circulation on June 26, 1938. The note issue on July 22, 1940, amounted to the record total of pounds New Zealand nineteen million four hundred and ninety-two thousand, compared with pounds New Zealand fifteen million five hundred
hundred and seventy-five thousand on July 24, 1939.

Although exports in May were approximately twenty-four point four per cent less in value than in May 1939, and import values rose by three point seven per cent, the excess export balance for the five months ended May 31, 1940 was pounds New Zealand fifteen million one hundred and sixty-seven thousand compared with pounds New Zealand eight million six hundred and forty-eight thousand for the same period in 1939. For the twelve months ended May 31, 1940, the excess balance was pounds New Zealand fifteen million one hundred and forty-one thousand compared with pounds New Zealand three million seven hundred and thirty-five thousand for the same period in 1938-39, and pounds New Zealand three million five hundred and eighty thousand in 1937-38.

Negotiations are in progress for an extension of the wartime agreements with the United Kingdom for the sale of New Zealand butter, cheese and meat. Existing agreements cover the current 1939-40 season only.

Butter gradings for export for the first eleven months of the season ending June 30, 1940, amounted to one hundred and thirty-one thousand nine hundred and forty-five long tons, an increase of eight point sixty-seven per cent over the same period in 1938-39. Cheese export gradings in the same period totaled ninety-three thousand
thousand three hundred and eighty-eight long tons, an
increase of fourteen point eight per cent.

It is estimated that the exportable surplus of meat
season, for the 1939-40/ will be approximately fifty thousand long
tons greater than the three hundred thousand long tons
contracted for by the United Kingdom. Meat production in all
lines shows substantial increases for the current season.
In the nine months period October 1, 1939, to June 30,
1940, lamb killings expressed in carcases increased by six
point seven per cent over killings for the same period
in 1938-39, mutton killings increased by twenty-four point
one per cent, beef killings in quarters increased by sixty
point one per cent, and baconer pig slaughters by
seventy three per cent.

The Minister of Finance announced that final payments
to wool growers for the 1939-40 clip brought the total paid
for greasy wool appraised up to June 30, 1940, to pounds
New Zealand twelve million six hundred and thirty-three
thousand three hundred and eighty-nine for seven hundred and
twenty thousand eight hundred and ninety-one bales. The
gross value received at sales in the 1938-39 season was
pounds New Zealand nine million three hundred and eighty-
six thousand three hundred and seventy-five for seven
hundred and twenty thousand two hundred and two bales.
Estimates of clipes wool production in the wool year ended
June
June 30, 1940, are in excess of one hundred and thirty thousand bales compared with one hundred and seventeen thousand two hundred and ninety bales in 1938-39. The total number of sheep in the Dominion on April 30, 1940 was thirty-one million, fifty thousand, eight hundred and fifty, a decrease of five hundred and twenty-one thousand two hundred and twenty-five since April 30, 1939.

The volume of wholesale and retail buying has remained active in recent months. However, the automobile market has experienced a severe slump due to gasoline rationing, fuel prices increased and import restrictions. Monthly gasoline rations were reduced by approximately one-third, commencing July first. The total number of motor vehicles (excluding dealers' vehicles) licensed on June 30, 1940, was two hundred and forty-nine thousand five hundred and thirty-seven, a decrease of two point sixty-three per cent from the number registered on June 30, 1939. New passenger car registration in the first six months of 1940 were sixty-eight point one per cent lower than in the same period of 1939, and commercial vehicles, six per cent lower.

A regular fortnightly air mail service between New Zealand and the United States was inaugurated by the arrival in Auckland on July 17 of a Pan-American airways flying boat.
8- July 26, from Wellington...

boat, which had departed from San Francisco on July 12, stopping en route at Los Angeles, Honolulu, Canton Island and Noumea.

PINKERTON

WSB
CONFIDENTIAL

Only three of the six reporting banks dealt in registered sterling today. Their transactions were as follows:

1. Purchases of £118,000, of which £111,000 were acquired from the Federal Reserve Bank of New York.

2. Sales of £1,000.

Of the above-mentioned purchases, £15,000 were bought by the banks for their customers; the remaining £3,000 apparently were used to increase registered account balances in London.

The Federal Reserve Bank of New York also stated that £5,000 in registered sterling was purchased from it by a non-reporting bank.

In the open market, the first rate quoted for sterling was 3.85-1/2, unchanged from last night’s close. It moved slowly upward during the day, and the final quotation was 3.87. The reporting banks executed orders to sell £44,000, of which £30,000 were for account of a Far Eastern bank and £14,000 for commercial concerns. Orders to purchase £67,000, all for commercial concerns, were also executed.

The other currencies closed as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss franc</td>
<td>.2274</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>12-3/8% discount</td>
</tr>
<tr>
<td>Lira</td>
<td>.0505</td>
</tr>
<tr>
<td>Reichsmark</td>
<td>.0005</td>
</tr>
<tr>
<td>Cuban peso</td>
<td>9-15/15% discount</td>
</tr>
<tr>
<td>Mexican peso</td>
<td>.2048 bid, .2041 offered</td>
</tr>
</tbody>
</table>

We purchased $51,355,000 in gold from the earmarked account of His Britannic Majesty’s Government.

The Federal Reserve Bank of New York reported that the following gold shipments were consigned to it:

- $10,915,000 from Java, representing five shipments by the Java Bank, Batavia, to be earmarked for its account.
- $240,000 from Canada, shipped by the Bank of Canada for its own account, for sale to the U.S. Assay Office.
- $325,000 from Peru, shipped by the Central Reserve Bank of Peru, to be earmarked for its account.
- $13,481,000 Total

Regraded Unclassified
The State Department forwarded to us a cable stating that the following gold shipments would be made from Australia, for sale to the U. S. Mint in San Francisco:

- $6,733,000 shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank at San Francisco.
- $144,000 shipped to the American Trust Company, San Francisco.

Total: $6,877,000

The Bombay gold price advanced the equivalent of 8¢ to $33.80.

Spot silver in Bombay worked out to the equivalent of 14¢16¢, up 1-1/8¢.

In London, the price fixed for spot silver was 22-3/8d, up 3/16d. The forward quotation was 22-1/16d, up 1/16 d. The U. S. equivalents were 40.68¢ and 40.11¢ respectively.

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

We made two purchases of silver totaling 155,000 ounces under the Silver Purchase Act. One of these, amounting to 80,000 ounces, consisted of inventory silver, and the other 75,000 ounces represented new production from foreign countries, for forward delivery.
Department of State
Washington

In reply refer to
NE 890H.516 National/21

July 26, 1940

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copy of a paraphrase of a telegram dated July 18, 1940 from the American Chargé d'Affaires ad interim at Tehran, regarding the purchase of gold in the United States for the account of the Afghan National Bank. This information has been conveyed to the Federal Reserve Bank of New York.

Enclosure:

Paraphrase of Telegram No. 167, dated July 18, 8 a.m., from Tehran.
Department of State

ENCLOSURE

TO

Letter drafted: 7/23/40

ADDRESS TO

Treasury

Regarded Unclassified
PARAPHRASE OF TELEGRAM NO. 167,
DATED JULY 18, 3 A. M., FROM TEHRAN.

I have been officially informed by the
Ambassador of Afghanistan that the National Bank
of Afghanistan wishes to buy gold in the United
States. The Ambassador, acting on instructions of
his Government, has requested me to have the Federal
Reserve Bank informed that the National Bank of Afghanis-
tan, known as Banque Millie Afghan, is the financial
representative of the Afghan Government.
A telegram (no. 255) of July 27, 1940, from the American
Legation at Peiping reads substantially as follows:

During the course of a conversation with a member of the Embassy
staff, an official of the Japanese Embassy entered into a general
discussion of the new import restrictions. He remarked that there had
been received from the American Ambassador at Tokyo a protest which
would probably be replied to in the usual manner but that protests of
this kind would not cause the Japanese Government to change the course
which it had decided upon. More protest would not change the financial
measures (?) for the protection of the national economy of Japan. The
Japanese Embassy official said that whether Japan would or would not
yield to our Government's wish depended upon circumstances and he
mentioned the possibility of reprisals. He wished to leave for dis-
cussion in Washington and Tokyo such questions of policy and principle
and he said he was willing to help in every way that he could in inter-
preting and making effective (?) willingness. He said that no doubt
many merchants, including Americans and Japanese would suffer (?)
as a result of the import restrictions and that this was unfortunate
but that the matter must be considered not from an individual angle but
from the broad point of view. He remarked that the (?) system was
necessary from the financial standpoint and for the development of
North China and he denied that it had been set up for the special
purpose.
purpose of driving foreign merchants out of China. The intention is to limit imports to the value of foreign exchange obtained by exports minus ten percent which the Federal Reserve Bank will take. In simple language, all foreign exchange will go to the Federal Reserve Bank and the Bank will allot it in such quantities and for such goods as are considered necessary. No list has been made of prohibited articles. According to this Japanese official, the decisions would be made by the Federal Reserve Bank in consultation with the affairs board which would receive its instructions from Tokyo.

In the opinion of the American Embassy, no list will be made of prohibited articles and certain articles which are clearly luxuries will be prohibited and other articles will be permitted to trickle in, each application for a permit being considered on its merits. This is the procedure which was followed in "Manchukuo". The restrictions are expected to become gradually more severe with most imported commodities in every day use finally disappearing.
TO: Secretary Morgenthau
FROM: Mr. Cochran

CONFIDENTIAL

Only two of the six reporting banks operated in registered sterling today. Their transactions were as follows:

1. Purchase of £10,000 by the National City Bank of New York for customer account.
2. Sale of £1,000 by the Guaranty Trust Company representing cotton bills.

The Federal Reserve Bank of New York reported no transactions in registered sterling.

The initial rate for open market sterling was 3.87-1/2. It closed at 3.86.

The reporting banks executed orders to sell £17,000 and to purchase £22,000. All of these transactions were for commercial concerns.

The other currencies closed as follows:

Swiss francs .2274
Canadian dollar 12-1/3% discount
Lira .0505
Reichsmark .4005

The Treasury authorised the Federal Reserve Bank of New York to transfer from His Britannic Majesty's Government Account #3 to the account of the Central Bank of China gold valued at $1,042,000.

The Federal Reserve Bank reported the shipment of gold valued at $4,375,000 by the Bank of Canada to the Federal Reserve Bank of San Francisco for account of the Bank of England. The gold will be sold to the U. S. Mint at San Francisco.

The Bombay gold price was slightly lower at the equivalent of 33.77¢.

The equivalent of spot silver in Bombay was about unchanged at 45.12¢.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 27, 1940, 11 a.m.

NO.: 3209

Reference is made to telegram of July 26, No. 3183 from the Embassy, and telegram of July 26, No. 3203 from the Embassy.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S INFORMATION.

Information has come to me that the second version of the speech by Funk which I reported in my second telegram under reference was prepared because the Propaganda Ministry made certain objections and suggestions; however, the first version, either through error or design, was released to the newspapermen.

One informant, who had seen a first draft of the speech, said that originally Funk had intended to say that no untoward economic consequences would necessarily ensue if all the gold of America were destroyed by a bomb attack from Germany. He decided later to take out the reference to German bombers and substitute a natural catastrophe. The correspondents asked Funk after the speech about the rumor regarding the plan for European economic reconstruction which it is said Schacht is preparing. It is said that Funk answered that he did not know anything about such a plan except what he read in
in the foreign press, and that he was skeptical of what he read in newspapers.

KIRK,
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Berlin, Germany
DATE: July 27, 1940, noon
NO.: 3210

Reference is made to telegram of July 27, 11 a.m. from the Embassy, and previous.

An intensive and analytical study of the speech which Funk made may well furnish some indications to theorists of a constructive system of trade relations among the countries of the world which discloses possibilities for future commercial cooperation. However, to the realistic observer, the economic organization which it appears is envisaged by Funk is one whereunder the financial center of Europe — and possibly of the world — would be transferred to Berlin. Such an organization would in general make it possible for the German régime to use its commercial policy as a ready weapon for imposing its will on any foreign nation which might continue to oppose the aims of Germany.

KIRK.
BRITISH EMBASSY,  
WASHINGTON, D.C.  
July 27th, 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 early on the morning of July 27th.

1. French "Meknes" carried 100 French naval officers including Admiral Goyet, 1126 French naval ratings, 99 officers and 796 men saved.

Destroyers "Boreas" and "Brilliant" despatched yesterday afternoon to drive off 9 enemy E-boats threatening west-bound channel convoy, were heavily bombed and fired on by shore batteries. The "Boreas" severely damaged and towed into Dover, 15 killed, 29 wounded. "Brilliant" hit aft but no casualties. E-boats retired behind smoke screen.

2. Our night bombers 24th/25th experienced very bad weather conditions, some machines unable to identify targets, however deck areas at Hamburg, Wilhelmshaven, also aircraft factories at Hannover, Wismar attacked; results unobserved. Yesterday afternoon 16 Blenheimas despatched against enemy E-boats attacking Channel convoy.

Last night 193 aircraft despatched as follows: 12 Battles against aerodrome at Boure and Hingoe; 12 Blenheimas against aerodrome in Holland and Northern Germany; 33 Wellingtons to aircraft factory at Gotha.
oil target at Dortmund, Eschwege aerodrome and railway targets; 24 Whitleys against oil targets at Namme-Flich, Castrop-Hauzel and Dortmund-Marim canal squadron; 6 Hampden leaflet dropping in Northern France; 3 Swordfish mine-laying in Seine estuary; 6 Blenheims against oil tanks at Cherbourg, 6 Hudsons against oil tanks at Amsterdam; 5 Blenheims against barges building yards at Spanan. All aircraft, except six reported missing, returned safely.

3. Enemy aircraft attacked convoy off Spurn Point early yesterday and again in the evening. Two Heinkels III probable casualties.

West-bound channel convoy heavily and frequently attacked by large formations, one of which fifty strong. Fifteen enemy aircraft shot down, of which one by A.A. Forty enemy aircraft approached the Needles yesterday morning and moved towards Portland, our fighters engaged and shot down six. Near Stroud four bombs dropped near one of our aerodromes. One enemy aeroplane shot down by A.A. and one by a training aircraft. Last night no reports of bombs dropped, but enemy mine-laying aircraft activity.

4. Summary of air casualties: Day of 25th:

**Enemy** 15 off Dover (one by A.A.), 6 off Portland, 1 Portsmouth, 2 Gloucester area (1 by A.A.). All confirmed. 11 off Dover, 2 off Portsmouth, 2 off Spurn Head. Unconfirmed.

Our losses: 6 fighters.

Night of 25th/26th:
Our losses, 6 bombers missing. Total enemy 26 confirmed and 14 unconfirmed.

Our own - 6 fighters and 6 bombers - total 12.

5. Shipping Casualties.

By air: during attack on Channel convoy British "Gorshorn" 1000 tons, "Polgrave" 800 tons, "Leo" 1100 tons, "Henry Moon" 1100 tons and "Fortalade" 1100 tons - all sunk; British "New Minister" 1000 tons, "Hodder" 1000 tons, "Tain worth" 1300 tons and Danish "Gronland" 1250 tons - severely damaged; "Summer" 500 tons - beached. M/S Trawler "Fleming" sunk by dive bombers off Narwich on evening of 24th. M/S Trawler "Berberis" in company of "Fleming" shot down one enemy aeroplane and severely damaged another. By U-Boat: on 14th. Norwegian tanker "Eritre" 6000 tons torpedoed and sunk in Atlantic.


Considerable civilian air traffic reported between Libya and Rhodesia.

Italy.

Italian air patrols west coast of Greece have started again.

Egypt.

Ammunition dump near Bardia successfully attacked on 24th. Six Gladiators acting as escort shot down four and possibly five out of eighteen enemy fighters met. All our aircraft returned safely. Bardia aerodrome successfully/
successfully attacked by Blenheims on 25th, five escorting Gladiators shot down into sea five out of seven enemy aircraft. All our machines returned safely. Considerable enemy activity reported on 25th north of Capucco.

**Italy.** Conditions at Trieste reported depressing. General discontent attributed to severe black-out conditions serious shortage of meat, coffee and tobacco.
Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.
Telegram despatched from London early on the evening of July 27th.

1. Weather not good over north Germany night of 25th to 26th; however, about half aircraft despatched located and attacked primary objectives, majority of remainder bombed alternative targets.

   Attacks particularly successful on air stores at Eschwege, aircraft factory Gotha, oil targets at Dortmund, Gastro, Haukel Bottrop and Sterkrade; delayed action bombs dropped on last two targets.

   Lighter scale attack on aerodromes in Holland and Germany, aircraft factory Kassel, blast furnaces Ruhr, and oil targets Kamen and Bremen.

   Yesterday weather unfavourable for bombing operations, tasks abandoned most cases; nevertheless two aerodromes and one power station attacked, all machines returned safely.

   Last night 33 aircraft despatched against oil targets Ludwigshafen, St. Nazaire, Cherbourg, Nantes and railway target Lassw; one aircraft missing.

2. Early yesterday morning enemy aircraft dropped ten H. E. bombs on Hastings and in vicinity.
vicinity causing 12 casualties and some material damage. Unsuccessful attack on convoy off Spithead. Enemy activity generally on much reduced scale; several formations approached the coast but showed marked disinclination to press home attacks when confronted by our fighters.

Last night enemy aircraft active over wide area though very little damage caused. Mine-laying suspected off southeast and northeast coasts. Bombing was scattered and in no locality were attacks heavy or damage or casualties important.

3. Summary of air casualties:

   Day of July 26th: Enemy: 5 confirmed, 2 unconfirmed
   Our own: 1 Hurricane

   Night of July 26th - 27th:
   Our own: 1 missing
   Total: Enemy 5, our own 2.

4. Shipping casualties,

   By U-boat, yesterday: British "Assra" (9300 tons) and "Vinemoor" (4300 tons) both in outward-bound convoy torpedoed off northern Ireland. "Assra" sunk, 340 rescued; "Vinemoor" had stern blown off, but still floating. Early this morning British "Sambre" (5200 tons) in same convoy torpedoed; further details awaited.

   By mine: yesterday, British "Bayer" (1260 tons) mined and sunk in Thames Estuary; Norwegian "Balsae" (1000 tons) mined and sunk off Sunderland.
5. **Albania.** Italian forces again reinforced by 10,000 troops July 20th, raising estimated garrison to 135,000.

**Gibraltar.** Air raided night of July 25th to 26th, did no damage to ships or dockyard.

**Middle East.** On July 25th 4 Wellesleys from the Sudan attacked petrol storage depot at Massawa. Group of buildings believed demolished.

Yesterday Blenheims from Aden successfully attacked enemy aircraft on the ground at Melle, also bombed wireless station at Habaita.

4 Italian S. 79s bombed Bugama and destroyed 1 Gladiator. Two or three enemy formations approached Malta on July 26th but turned away before our fighters.
Enemy aircraft yesterday morning attacked north-bound convoy off East coast of which British "Weston" (2800 tons) disabled; this convoy and also south-bound convoy attacked in afternoon when no damage or casualties were reported. His Majesty's destroyer "Wren" on patrol bombed and sunk off Orfordness, four officers and ninety-nine rescued. Casualties of destroyer "Montrose" in company with "Wren" seriously damaged and towed into Harwich. "Montrose" reports having shot down one and probably two aircraft.

Yesterday afternoon enemy aircraft attacked Dover Harbour. Following casualties to H. M. ships reported: Destroyer "Codrington" sunk in attack by seven H. M. 109s. Destroyer "Walpole" damaged by near misses. H. M. repair ship "Sandhust" alongside destroyer "Codrington" sustained considerable damage.

H. M. salvage vessel "Redworth" bombed off North Foreland, sustained slight damage and some casualties.

Early on July 25th nine Blimps of Fleet air arm claimed to have sunk one 3000 ton merchant vessel in Bergen area.
On July 27th one Hudson attacked Norwegian merchant vessel off Stavanger and registered direct hit on stern; ship abandoned by crew. Another Hudson attacked three merchant vessels off Ternehelling and registered one hit.

During night of July 26th to 27th weather conditions prevented our aircraft from locating oil targets at Ludwigshaven, three aircraft however attacked railway targets. Seventeen aircraft attacked oil targets at Nantes and St. Nazaire; no definite results observed.

Yesterday fourteen Blenheims despatched singly, all returned; weather conditions caused abandonment of their tasks but following targets attacked: Nordsee Canal, one hit on canal bank; barges at Staraevon; Terpitz at Wilhemshaven. Results unobserved of last two targets.

Fifty-four bombers despatched last night as follows: Twenty-four Wellingtons, seven Hampdens oil targets at Hamburg, twelve Hampdens mine-laying in Elbe Estuary, two Hampdens and six Wellingtons leaflet dropping in Brest and Beauvais areas, three Blenheims oil tanks at Amsterdam; all machines returned.

3. Enemy activity on night of July 26th to 27th more widespread. Bombs dropped northeast Scotland, parts of Essex, including outskirts of London, in Kent and southwest England. Only minor damage, two killed and fourteen wounded according to latest reports.

Yesterday/
Yesterday besides operations already reported our fighters intercepted raider on convoy Weymouth area, two enemy aircraft destroyed. Other formations approached South coast, including one of twenty aircraft, making for Dover on sighting our fighters.

Last night enemy activity probably mine-laying reported along west and cast coasts. Some bombs dropped without result. Kiddolly, Upwell-on-Severen, Earl Croombe. At Swansea damage to railway track, water mains and telephone lines, but no casualties reported.

Summary of air casualties:

Day of July 27th:

Enemy: confirmed 2 Weymouth area,

One H.E. 113 and one naval reconnaissance aircraft off Dover

One by anti-aircraft, probably 2.

Our own: Two fighters.

Total: Enemy 5, our own 2.

Early on July 26th four ships from westbound Channel convoy, bombed July 25th, were attacked by E-boats while proceeding to Shoreham. British "Zalong" (800 tons) in ballast, "London Trader" (650 tons) and "Broadhurst" (1000 tons) both carrying coal, were sunk.
On July 27th British tanker "Thiara" (10,000 tons) with whale oil mined and sunk off Inchkeith Lighthouse. Ten missing, 20 injured on British "Auckland Star" (13,200 tons) general cargo and not in convoy torpedoed and sunk off southwest Ireland.


Libya. The 33 Repeap, Sicily, (S.79 bombers) has moved from Sicily to Benina (Libya).

Six troop-carrying aircraft have arrived at Benghazi from Italy. Carrying capacity 18 each.

Mille aerodrome (Eastern Abyssinia) again attacked by Blenheims on July 27th. One bomber set on fire on the ground, others damaged.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Berlin, Germany
DATE: July 27, 1940, 6 p.m.
NO.: 3225

I refer to telegram of July 26, 5 p.m., from the Embassy, No. 3203.

The following is for the information of the Department and communication to the Treasury from Heath.

The immediate purpose of the speech which Funk gave obviously was to try to prevent the South American countries in conference at Habana from adhering to the plan for disposing of export surpluses by threatening reprisals on the part of Germany.

Statements made by other officials and newspaper articles - references, telegrams of July 6, 11 a.m., No. 2374, and of June 26, 4 p.m., No. 2115, from the Embassy - foreshadowed the other main features of the speech, viz.: the indication that a multilateral clearing system is to be set up for Europe with Berlin as a central clearing office, coupled, however, with an indistinct promise that exchange and trade restrictions are to be relaxed; the assertion that the mark is to become Europe's dominant currency, with the financial and trade center of Europe to be Berlin in the future; the rejection of gold as the basis of currency, but an intimation that under favorable circumstances the use of gold as a means of
of settlement of international balances might become a part of the policy of German-controlled Europe.

I have been informed confidentially that very soon a start will be made towards realization of a multilateral clearing through the establishment of two trilateral systems of clearing - the one would take in Germany, Denmark and Sweden, and the other would take in Germany, the Netherlands and Belgium. An agreement recently reached whereby Hungary is permitted to use the German-Hungarian clearing arrangement for trading with Belgium, Norway and the Netherlands, has laid the basis for including Hungary in such a system as described above.

A surprising point in the address given by Funk was his gratuitous advice that the dollar value in terms of gold be increased, apparently so no change need be made in the value of the Reichsmark. It has always been freely acknowledged, in the Reichsbank and other parts of the German Government having to do with developments in the monetary field, that the mark, in any future international currency settlement, should be devalued towards the level of the dollar. Devaluation has indeed already occurred, since depreciated marks - aski marks - were used in trade with certain areas, and the mark overvaluation
overvaluation in trade with other areas was corrected by subsidization of exports and by forcing importers of certain articles to turn the windfall portion of their profits (which resulted from the mark's fictitious rate) over to the export subsidy fund.

There is doubt, however, that the statements made by Funk should be taken as evidence that the German Government has reached an irrevocable decision to hold the mark's present nominal gold value. Many observers question whether his general attack on gold was sincere.

In the Government here there is a school of thought which would like to see gold completely demonetized. They now argue that it will be impossible for Germany to get sufficient reserves, or reserves which at any rate would at all be a match for those of the United States. They say that in such a situation the prestige of Germany in Europe, and her authority over countries in her orbit as concerns economic and political matters, could not be maintained as securely as through the clearing agreements system which is now used.

We are confidentially informed, on the other hand, by an economist of a leading banking institution who is working on the elaboration of the Funk plan (in a consultative capacity), that the economic authorities do not anticipate that political leadership will offer any
any doctrinaire resistance to a partial return to gold. This individual was frank in saying that the idea of the economic authorities was to bargain the agreement on the part of Germany to play the gold game against credits or trade concessions from the United States once the war is over. German officials have made similar intimations.

The occasional references which Funk made to cooperation, and his assertion that Germany does not intend to establish a European customs or currency union, do not obscure the clear picture that Germany will exercise over Europe rigid authoritarian economic control, and there will be little pretense of consulting or asking leave of the countries in her orbit. In certain quarters there is frank admission - and Funk's own remarks indeed intimated - that living standards in Germany are the controlling consideration, and that a desire to maintain the economic autonomy of other European countries was not the reason for rejecting a customs or currency union, but rather Germany was motivated by the consideration that commodities from other European states, now obtained at a relatively low price, would have to be priced at the same arbitrarily high level as that maintained for similar commodities from German farmers and raw materials producers, if such a union were established.

END OF MESSAGE.

KIRK.

EA: LWW
Secretary of State,
Washington.

374, July 27, 1 p.m.
My 335, July 6, 2 p.m.

I quote below a telegram of July 27 from the Bank of Brazil to the Federal Reserve Bank of New York,

"Reference to our letter of June 27, We now consider purchase Brazilian bonds not opportune.

However, we would be glad to use dollar credits secured by gold as set forth letter July 18, 1937 from Secretary Morgenthau as supplemented and modified by your letter of September 2, 1938.

Please cable agreement."

CAFFERY
No. 698.

Santiago, Chile, July 27, 1940.

Subject: A Petain attempt to embarrass the United States in Chile.

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

I have the honor to submit herewith a memorandum of a conversation between Mr. Frost, the Counselor, Mr. Brooks, Commercial Attaché, and the Under Secretary of Commerce here, Aranedo Ybarra, held at the latter's request on July 26, 1940. It appears that the Petain Government wishes to pay for the purchases made here only from the French blocked funds in the United States and that the French Legation here probably is responsible for the conversation requested by the Under Secretary. The Legation here has apparently accepted the position of the Petain Government, including its renunciation of democratic institutions accompanied with Petain's denunciation, and its acceptance of the principles of a Fascist state.

In a conversation with Count Sartiges, the French Minister, with whom I am on most friendly terms, the Minister, who at first was shocked by the surrender, undertook to explain why Petain denounced democratic institutions and proclaimed those of a Fascist state by saying that
it is different in the United States in that we have a Supreme Court and the President has some powers, while in France under democratic institutions there is no Court and the President is powerless, resulting in government by five hundred members of parliament. I could have suggested that since Pétain is completely reorganizing the governmental machinery in France, he might have added a Supreme Court and given additional powers to the President while retaining democratic institutions, but I did not want to embarrass the Minister.

I am informed, since the preparation of the accompanying memorandum, that the British Government has taken over the French purchases and paid for them in sterling.

Respectfully yours,

CLAUDE G. BOWERS.

Enclosure:
1/ Memorandum as stated.

700

CGB:hss.
MEMORANDUM OF INTERVIEW BY COUNSELOR BROOKS WITH ACTING UNDER SECRETARY OF COMMERCE ARANEDA TAHANA HELD AT THE LATTER'S REQUEST ON THE AFTERNOON OF JULY 25, 1940.

Mr. Araneda opened the interview by saying he had a sort of a complaint to make and stated that a French buying mission to Chile some time ago had contracted with Chilean suppliers to purchase approximately 12,000,000 pieces of beans, lentils and other products; that all the products had been delivered by the suppliers and warehoused at maritime shipping points in Chile, and that the French Government was ready to take them over but could not do so alleging that the funds from which payments were to be made had been blocked in the United States by the American Government.

Mr. Araneda then inquired if the American Embassy could be of assistance in securing the release of a sufficient amount of these funds so that the Chilean firms could be paid. He pointed out that some of these firms did not possess substantial resources, and they were being badly handicapped because payments for the products they had supplied were being held up.

Mr. Frost replied alluding to the possibility that the real reason for the failure of the French to pay for their purchases might not be the blocking of their funds in the United States, since they have other funds elsewhere. He expressed uncertainty as to how the French could hope to take delivery and transport their purchases overseas in view of the absence of ocean transport and the British blockade. In response Mr. Araneda said that he did not know.

Mr. Frost inquired further if the matter had been taken up with the French Legation in Chile. Mr. Araneda replied that the French Legation had asserted that its country would go through with the purchase if some of the French blocked funds in the United States could be released.

At this point Mr. Brooks inquired regarding the date the entire matter had been brought to Mr. Araneda’s attention since he (Mr. Brooks) had been unofficially and informally advised that on Wednesday, July 24, the British Government’s purchasing agents in Chile had received cables instructions from London that they were to take over and pay for the beans, lentils and other products which had been contracted for by the French Government. Mr. Araneda declared he had not heard of any such instructions being received, but could inquire at the British Embassy.

Mr. Frost then suggested to Mr. Araneda that he place the problem of releasing French funds in the United States before the authorities of the American Government at Washington through the Chilean Embassy in that city, and once this had been done that he (Mr. Araneda) might wish to furnish the Embassy with a memorandum in the matter, a copy of which could be brought to the attention of the Department of State. Mr. Araneda said that he would act on Mr. Frost’s suggestion.

---

Regraded Unclassified
PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Sofia.

DATE: July 27, 1940, 5 p.m.

NO.: 38.

Reference is made to Legation's telegram no. 87 of July 20, noon.

The Department of the Treasury advises that on July 20 authority was granted for a license to be issued which would permit the Chase National Bank to make all payments and transfers from the account on their books under the name of Banque Franco Bulgare, of Sofia, Bulgaria, when instructed by such office only up to an amount equal to seventy-five percent of the balance which stands to the credit of that office as of the end of business on July 15, provided that such payments and/or transfers are made to institutions of banking within the U.S. to be credited to an account in such institution of banking in the Banque Nationale de Bulgarie's name. Previously there had been a release of 25 percent of such balance.

WELLES
(Acting)

FL

EA:FL:EHS EU

EA:MSG
July 27, 1940

Dear Mr. Secretary:

Receipt is acknowledged of your letter of July 20th, with which you enclosed a copy of a confidential report as to the yacht SOUTHERN CROSS and its owner, and recommended that steps be taken to prevent this vessel from clearing for Alaska.

Instructions have been dispatched to the appropriate officers of the Coast Guard that, if application is made by the owner or master of the yacht SOUTHERN CROSS for permission to depart for Alaska, permission is to be refused, and further instructions have been given to the appropriate officers that the yacht SOUTHERN CROSS is not to be permitted to enter Alaskan waters.

Sincerely,

(Signed) Herbert E. Ganton

Herbert E. Ganton
Acting Secretary of the Treasury.

The Honorable
Secretary of War.

RE: /r
July 27, 1940

Dear Mr. Secretary:

Receipt is acknowledged of your letter of July 26th, with which you enclosed a copy of a confidential report as to the yacht SOUTHERN CROSS and its owner, and recommended that steps be taken to prevent this vessel from clearing for Alaska.

Instructions have been dispatched to the appropriate officers of the Coast Guard that if application is made by the owner or master of the yacht SOUTHERN CROSS for permission to depart for Alaska, permission is to be refused, and further instructions have been given to the appropriate officers that the yacht SOUTHERN CROSS is not to be permitted to enter Alaskan waters.

Sincerely,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Acting Secretary of the Treasury.

The Honorable

Secretary of War.

BUS/W
July 27, 1940

Dear Mr. Secretary:

Receipt is acknowledged of your letter of July 26th, with which you enclosed a copy of a confidential report as to the yacht SOUTHERN CROSS and its owner, and recommended that steps be taken to prevent this vessel from clearing for Alaska.

Instructions have been dispatched to the appropriate officers of the Coast Guard that, if application is made by the owner or master of the yacht SOUTHERN CROSS for permission to depart for Alaska, permission is to be refused, and further instructions have been given to the appropriate officers that the yacht SOUTHERN CROSS is not to be permitted to enter Alaskan waters.

Sincerely,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Acting Secretary of the Treasury.

The Honorable
Secretary of War.

HEQ/x
The Honorable,
The Secretary of the Treasury.

Dear Mr. Secretary:

Your attention is invited to the attached report, a summary of which was sent to the Intelligence Bureau of the Coast Guard on July 19, 1940.

The Southern Cross has been under observation for some time and it is felt by the War Department that its presence near certain coast defense projects is inimical to national defense.

It is recommended that steps be taken to prevent the Southern Cross from clearing for Alaska.

Sincerely yours,

[Signature]

Secretary of War.

Enclosure:
Ltr. fr. 9th C. A. 7/20/40.
In reply refer to:
(5-2) 470.9 (7-8-40)

July 20, 1940

Subject: AXEL L. WENNER-OREN

To: The Adjutant General, Washington, D. C.

1. The letter quoted below (dated July 8, 1940) has been received from the AC of G, G-2, Panama Canal Department:

"Following has been reported to this office and is forwarded for your information.

'The SOUTHERN CROSS, yacht, belonging to one AXEL L. WENNER-OREN arrived Cristobal from Miami, Fla. (and allegedly touching at a Mexican Port enroute) on July 4, 1940, and transited the Canal same day. Left Balboa July 5th for Los Angeles. Our information is that this yacht will stop at a Mexican Port enroute Los Angeles, though she cleared for Los Angeles direct.

'On board were WENNER-OREN, his wife Margarita, and his secretary Gene Gustia LIJETT. These were the only passengers.

'This yacht operated under Panamanian registry from 1934-36 when she was here before. In 1938 she had changed to Swedish. This trip she has again changed to Panamanian. It may be interesting to note that she came through here on Feb. 10, 1940 from Callao. She had aboard samples of machine guns, small arms, etc. WENNER-OREN invited certain individuals to come aboard, and demonstrated his guns to them.

'WENNER-OREN is described as personally, a bear-cat — officially a bear-cat. He is president of Bofors Munition Works in Sweden, manufacturers of supposedly the finest anti-aircraft guns in the world. He is also President and majority stock holder of Electrolux, and is a wealthy international politician. He is mixed up with Wallenbergs and works closely with them. He is known to be a close friend of Goering. It was he according to reports who negotiated the terms with Goering which has permitted Sweden to remain neutral.

'The last time WENNER-OREN came through here, PAINE & WORLAW (Englishmen) were his agents. This time HANS ELLIOT, whose activities here are definitely questionable to put it mildly, was his agent.}"
NOTE: Please notify FBI and if possible arrange for Consular checking in Mexican West Coast Ports. This office will do likewise.

2. The SOUTHERN CROSS arrived at San Francisco July 20, 1940. Information available indicates that WENNER-GREN intends to proceed from here in the yacht to Alaska some three weeks hence.

3. With the information available regarding the activities of this man it is evident that it is not desirable to have him visit Alaska at this time and it is therefore recommended that the War Department take steps to prevent the SOUTHERN CROSS from clearing for Alaska.

/s/ J. L. DeWITT,
Lieutenant General, U. S. Army
Commanding
Dear Merle,

Here is another message from London about a question of releases under the Freezing Order. Electro-Chimie is a French firm.

We might very likely be able to get some more light on the activities of this firm through the British Purchasing Commission, and if you do not think it would cross the wires in any way we will try this.

Meanwhile, we should be grateful to hear what view your Committee takes.

Yours ever,

(Signed) Jerry Pinsent

Mr. H. Merle Cochran,
United States Treasury,
Washington, D. C.
Telegram of 25th July 1940 from London

My attention has been called to the probability of an attempt being made by the Germans with the connivance of Jacoul and Painvin of Electro-Chimie to obtain the use of that Company's funds in the United States which have accrued to them largely through their royalties on various products including cellophane. Electro-Chimie have always worked very closely with I. G. Farben and Dupont.

Please take whatever action you think advisable to prevent the release not only of the existing balances but also of future income.
<table>
<thead>
<tr>
<th></th>
<th>JAPAN</th>
<th>RUSSIA</th>
<th>SPAIN</th>
<th>GREAT BRITAIN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PETROLEUM PRODUCTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel and Gas Oil</td>
<td>428,348 Bbhs.</td>
<td>---</td>
<td>---</td>
<td>103,500 Bbhs.</td>
</tr>
<tr>
<td>Crude</td>
<td>142,323 Bbhs.</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Gasoline</td>
<td>47,857 Bbhs.</td>
<td>---</td>
<td>---</td>
<td>130,000 Bbhs.</td>
</tr>
<tr>
<td>Lubricating Oil</td>
<td>55,915 Bbhs.</td>
<td>---</td>
<td>100 Bbhs.</td>
<td>122,568 Bbhs.</td>
</tr>
<tr>
<td>Iso-Octane Fluid</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>SCRAP IRON AND SCRAP STEEL</strong></td>
<td>52,669 Tons</td>
<td>---</td>
<td>6,000 Tons</td>
<td>60,601 Tons</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics. July 29, 1940.

Source: Office of Merchant Ship Control, Treasury Department.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 3:15 on July 26, First Vice President Sproul of the Federal Reserve Bank at New York telephoned me that he had received a note from Mr. Pinsent of the British Embassy in Washington, which he had not yet answered. It had been agreed with Mr. Logan that there should be prepared a form of notification for submission to Mr. Pinsent. Mr. Sproul had his secretary telephone to my office the attached draft of notification.

Mr. Sproul asked that I take this notice up informally with Mr. Pinsent. If it may be found acceptable to the British Embassy, the Federal Reserve Bank will then handle it formally.

Mr. Sproul asked that I remind Mr. Pinsent that the first cable, of June 4, from the Bank of England made it clear that the authority to the British Ambassador and to Mr. Osborne did not require their joint action. The formal note, however, does not specify whether they act jointly or singly.

Mr. Sproul asked how the British would prefer that notification be submitted, through the State and/or Treasury, or directly?

Mr. Pinsent is coming in to see me at 11:15 this morning, when I shall discuss this matter with him.

July 31, 1940

Mr. Pinsent came in to see me at 11:15 on July 29. I gave him the above explanation. He said he would study it and then communicate directly with Mr. Sproul.

The attached copy of a letter from Mr. Pinsent to Mr. Sproul has now been received. Furthermore, I have this morning spoken by telephone with Mr. Sproul who confirms that he has received the original letter from Mr. Pinsent, and that the entire matter is now satisfactorily settled.
"I have the honor with respect to paragraph (B) of the instructions contained in the note addressed by the British Foreign Office on June 20 to the American Ambassador in London, which has been communicated to you by the State Department, to notify you that the authority of the Bank of England to operate the accounts with the Federal Reserve Bank of New York in the name of His Britannic Majesty's Government is canceled, and that the emergency signing procedure in favor of, and the power and authority granted to, His Majesty's Ambassador at Washington and J. A. O. Osborne, acting jointly or singly, and any person or persons whom they or either of them may designate, to operate His Britannic Majesty's Government current account F, His Britannic Majesty's Government current account G, and His Britannic Majesty's Government #3 account, will come into force and effect upon the receipt by the Federal Reserve Bank of New York of this notification, and also that, from and after the receipt by the Federal Reserve Bank of New York of this notification, the persons who have theretofore been signatories of the Bank of England with respect to His Britannic Majesty's Government Special Account will be authorized by and in behalf of His Britannic Majesty's Government to operate said account."

Received by telephone from Mr. Spraul, Federal Reserve Bank of N. Y 3:40 p.m., July 26, 1940.
29th July 1940

Dear Mr. Sproul,

I received from Mr. Cochran the revised draft which you sent to him of the letter of notification to be sent to you by His Majesty's Ambassador, or by the Counsellor of this Embassy, Mr. Neville Butler, in the event of an emergency arising. I agree with the text of this letter, of which I enclose a copy for purposes of record.

The letter, in the event of the emergency arising, will be addressed to the Federal Reserve Bank, New York, direct by His Majesty's Ambassador or by the Counsellor.

We have already furnished through the State Department three specimen signatures of the Ambassador and of Mr. Neville Butler, and I trust that these have duly reached you.

(Sgd.) G.H.S. PINSENT.

Mr. Allan Sproul,
First Vice-President,
Federal Reserve Bank,
New York City.
Draft

"I have the honour with respect to paragraph (3) of the instructions contained in the note addressed by the British Foreign Office on June 20 to the American Ambassador in London, which has been communicated to you by the State Department, to notify you that the authority of the Bank of England to operate the accounts with the Federal Reserve Bank of New York in the name of His Britannic Majesty's Government is canceled, and that the emergency signing procedure in favour of, and the power and authority granted to, His Majesty's Ambassador at Washington and J.A.C. Osborne, acting jointly or singly, and any person or persons whom they or either of them may designate, to operate His Britannic Majesty's Government current account 7, His Britannic Majesty's Government current account 9, and His Britannic Majesty's Government No. 3 account, will come into force and effect upon the receipt by the Federal Reserve Bank of New York of this notification, and also that, from and after the receipt by the Federal Reserve Bank of New York of this notification, the persons who have theretofore been signatories of the Bank of England with respect to His Britannic Majesty's Government Special Account A will be authorized by and in behalf of His Britannic Majesty's Government to operate said account."

COPY

Regraded Unclassified
TO: Mrs. Klotz

The attached is for the record and has already been discussed with the Secretary orally.

MR. YOUNG
CONFIDENTIAL

July 29, 1940.

To:       The Secretary
From:     Mr. Young
Subject:  Curtiss-Wright Planes

Attached is a memorandum received from Mr. Purvis reporting on the Curtiss-Wright production of air frames and engines.

Enclosure.
MEMORANDUM

Re Curtiss-Wright Planes

The Hon. Henry Morgenstern, Jr., told Mr. Purvis on Thursday, July 18, that there were in the Curtiss-Wright plant on the previous Saturday 54 airplanes awaiting engines. Of these, 43 were P-36's awaiting Wright engines and 11 were P-40's awaiting Allison engines. The Secretary stated that the situation with regard to the Allisons was clear but that he would like to have checked the situation with regard to the Wright engines, and he asked Mr. Purvis to call the Curtiss-Wright Company and to report to him.

Mr. Purvis asked Sir Henry Self for a report on the above situation, which report reads as follows:

1. Curtiss-Wright supply both air frames and engines under French contracts for Curtiss P-36A aircraft now assigned to U.K.

2. Air frame production is somewhat ahead of schedule and engine production somewhat behind. The result is a temporary failure to merge into the complete aircraft.

3. The firm reports the situation to be in hand and that it will be cleared by first week in September.

4. In the case of the P-40 type aircraft, the engines are Allison engines due under the French contract placed with General Motors. As is known, Allison production is behind schedule, but is now understood to be improved and that arrears of deliveries are now falling.

A. E. P.

July 22, 1940
July 29, 1940

Dear Mr. Purvis:

In the absence of the Secretary of the Treasury, may I acknowledge your letter dated July 5thh, enclosing a copy of the preliminary munitions supply program for the United Kingdom.

I have forwarded this memorandum to Mr. William S. Knudsen of the Advisory Commission for his consideration.

Sincerely yours,

(Signed) Philip Young

Philip Young,
Assistant to the Secretary

Mr. Arthur E. Purvis,
Director General,
British Purchasing Commission,
15 Broad Street,
New York, New York.

FH: 7j
July 29, 1940

Dear Mr. Knudsen:

In the absence of the Secretary of the Treasury, I attach herewith for your consideration a preliminary munitions supply program for field guns, tanks, shells, and ammunition as submitted by Mr. Arthur Purvis, Chairman of the British Purchasing Commission.

It is the purpose of this memorandum to provide the Advisory Commission with a preliminary idea of what the United Kingdom would like to obtain to the end of 1941. This information is not yet complete, and it is my understanding that a still larger program will be submitted for your consideration in the very early future.

Sincerely yours,

(Signed) Philip Young

Philip Young,
Assistant to the Secretary
Member, President's Liaison Committee

Honorable William J. Knudsen, Member,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

P1rbj
Dear Mr. Secretary,

I enclose a Memorandum giving general particulars in regard to our Munitions Supply Programme for field guns, tanks, shell and ammunition. This is sent in order to provide the National Defense Advisory Committee with a preliminary idea of what it is desired to obtain for the United Kingdom to the end of 1941. Quantities for other Empire units still have to be determined.

Would you please note that the information does not pretend to be complete at this time, and that my understanding is that a larger programme will reach me in the very early future. In the meantime, the Memorandum gives something to work on.

Yours sincerely,

[Signature]

Arthur B. Purvis, Director General

Henry Morgenthau, Jr., Esq., Secretary of the Treasury, Washington, D.C.
The Director General of the British Purchasing Commission has the honour to submit herewith to the National Advisory Defense Committee, a tentative list of army and air munition requirements for the United Kingdom in the United States market through 1941. As will be noted in many instances purchase negotiations for these items have been going on for some time. It will be mutually recognised that the schedules are tentative only but represent the best available estimates presently in hand of orders which it is desired to place immediately. There will undoubtedly be additions. The column entitled "Monthly Rates" indicates a desirable monthly availability and furnishes a guide to capacity where new plant is involved. The column "Amount of Initial Order" is not to be taken as precluding additional orders if delivery has been completed before the close of 1941. The British Purchasing Commission wishes to proceed promptly to a realisation of this programme.

It is not possible at present to submit a comparable statement of requirements in respect of Canada, South Africa, New Zealand, Australia and India. Requests for their programmes have been issued and details will be furnished shortly in supplementary communication.

A Naval Mission is due to arrive in the immediate future. After its arrival requirements for naval services will be formulated and submitted.

Basic materials, such as steel, aluminum, copper, toluol, etc., as well as miscellaneous instruments, vehicles and machine tools are not covered herein - this programme being confined to army and air requirements of munitions.

New York
22nd July, 1940
I. Tanks

<table>
<thead>
<tr>
<th>Monthly Rate</th>
<th>Amount of Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Obtainable</td>
<td>2,000</td>
</tr>
</tbody>
</table>

1. British type "A" 15 or U.S.A. medium M 3 completely armed

II. Artillery Equipments and Ammunition

A. Guns Completely Equipped

<table>
<thead>
<tr>
<th>Description</th>
<th>Monthly Rate</th>
<th>Amount of Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. - 25 pounder or 105 mm field gun</td>
<td>Best Obtainable</td>
<td>3,000</td>
</tr>
<tr>
<td>#2. - 2 pounder anti-tank gun</td>
<td>150</td>
<td>1,500</td>
</tr>
<tr>
<td>3. - 40 mm Bofors A.A.</td>
<td>120</td>
<td>1,000</td>
</tr>
<tr>
<td>4. - 3.7&quot; A.A.</td>
<td>20</td>
<td>200</td>
</tr>
<tr>
<td>5. - 5.5&quot; gun howitzers</td>
<td>15</td>
<td>150</td>
</tr>
<tr>
<td>6. - 4.5&quot; B.L. guns</td>
<td>15</td>
<td>150</td>
</tr>
<tr>
<td>7. - 37 mm A.A.</td>
<td>Best Obtainable</td>
<td>1,000</td>
</tr>
<tr>
<td>#8. - 37 mm A.T. (Letter of Intention prepared)</td>
<td>40</td>
<td>500</td>
</tr>
</tbody>
</table>

B. Spare Barrels

<table>
<thead>
<tr>
<th>Description</th>
<th>Monthly Rate</th>
<th>Amount of Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. - 40 mm Bofors spare barrels</td>
<td>100</td>
<td>700</td>
</tr>
<tr>
<td>2. - 3.7&quot; loose barrels</td>
<td>250</td>
<td>2,500</td>
</tr>
<tr>
<td>3. - 4.5&quot; A.A. spare barrels</td>
<td>Best Obtainable</td>
<td>1,000</td>
</tr>
<tr>
<td>4. - 2 pounder guns and breech mechanisms</td>
<td>50</td>
<td>500</td>
</tr>
</tbody>
</table>

C. Artillery Instruments

<table>
<thead>
<tr>
<th>Description</th>
<th>Monthly Rate</th>
<th>Amount of Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. - Height finders for A.A. equipments</td>
<td>20</td>
<td>200</td>
</tr>
<tr>
<td>2. - Predictors for 3.7&quot; A.A. equipments</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>3. - Binoculars Prismatic No.2 Mark 2</td>
<td>5,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Item Description</td>
<td>Monthly Rate</td>
<td>Amount of Initial Order</td>
</tr>
<tr>
<td>---------------------------</td>
<td>--------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>4.-Binoculars Prismatic</td>
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</tr>
<tr>
<td>No. 5</td>
<td>2000</td>
<td>20,000</td>
</tr>
<tr>
<td>5.-Fuse setters 3.7&quot; A.A.</td>
<td>20</td>
<td>200</td>
</tr>
</tbody>
</table>

**D. Artillery Ammunition**

(Complete Rounds filled and packed)

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Monthly Rate</th>
<th>Amount of Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>*1. 12&quot; howitzer</td>
<td>9,000</td>
<td>80,000</td>
</tr>
<tr>
<td>*2. 9.2&quot; howitzer</td>
<td>30,000</td>
<td>250,000</td>
</tr>
<tr>
<td>3. 9.2&quot; gun A.B.</td>
<td>Best</td>
<td>10,000</td>
</tr>
<tr>
<td>#4. 6&quot; howitzer</td>
<td>60,000</td>
<td>500,000</td>
</tr>
<tr>
<td>5. 6&quot; gun C.P.B.C.</td>
<td>Best</td>
<td>10,000</td>
</tr>
<tr>
<td>6. 5.5&quot; medium artillery H.E.</td>
<td>50,000</td>
<td>400,000</td>
</tr>
<tr>
<td>*7. 4.5&quot; 60 pounder gun H.E.</td>
<td>50,000</td>
<td>400,000</td>
</tr>
<tr>
<td>8. 25 pounder or 105 mm</td>
<td>500,000</td>
<td>5,000,000 (1)</td>
</tr>
<tr>
<td>9. 3.7&quot; A.A.H.E.</td>
<td>100,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>*10. 75 mm. (in liquidation of incomplete French contracts under which some parts are ordered)</td>
<td>400,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>11. 40 mm. Bofors A.A. Mark 2</td>
<td>250,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>*12. 2 pounder A.P.</td>
<td>400,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>*13. 37 mm A.T. (Letter of Intention prepared)</td>
<td>100,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>14. 37 mm A.A.</td>
<td>Best</td>
<td>2,000,000</td>
</tr>
</tbody>
</table>

(Note: (1) It is quite possible that this figure may require to be doubled.)
### III. Small Arms and Ammunition

#### A. Small Arms

<table>
<thead>
<tr>
<th>Item</th>
<th>Monthly Rate</th>
<th>Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>1. 38 Mark 2 pistol revolvers</em></td>
<td>3,000</td>
<td>80,000</td>
</tr>
<tr>
<td><em>2. 50 calibre Colt Browning machine gun</em></td>
<td>5,000</td>
<td>51,000</td>
</tr>
<tr>
<td><em>3. 20 mm Hispano Suiza machine gun</em></td>
<td>1,000</td>
<td>5,000</td>
</tr>
<tr>
<td><em>4. 303 or U.S.A. 30 calibre rifles (British Pattern)</em></td>
<td>40,000</td>
<td>400,000</td>
</tr>
<tr>
<td><em>5. 30 calibre Colt Browning machine gun</em></td>
<td>3,000</td>
<td>36,000</td>
</tr>
<tr>
<td><em>6. 50 calibre Colt Browning machine gun</em></td>
<td>5,000</td>
<td>51,000</td>
</tr>
</tbody>
</table>

#### B. Small Arms Ammunition

<table>
<thead>
<tr>
<th>Item</th>
<th>Monthly Rate</th>
<th>Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>1. 303 calibre</em></td>
<td>125,000,000</td>
<td>1,500,000,000</td>
</tr>
<tr>
<td><em>2. 30 calibre</em></td>
<td>100,000,000</td>
<td>1,000,000,000</td>
</tr>
</tbody>
</table>
### Revolution ammunition

<table>
<thead>
<tr>
<th>Calibre</th>
<th>Monthly Rate</th>
<th>Initial Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>45 British type</td>
<td>500,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>9 mm (submachine gun)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>45 calibre (submachine gun)</td>
<td>50,000,000</td>
<td>600,000,000</td>
</tr>
<tr>
<td>50 calibre Colt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Browning machine gun</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Letter of Intention prepared for portion)</td>
<td>10,000,000</td>
<td>150,000,000</td>
</tr>
<tr>
<td>20 mm Hispano Suiza</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(In liquidation of incompletely French contracts)</td>
<td>2,000,000</td>
<td>25,000,000</td>
</tr>
</tbody>
</table>

### IV. Aircraft Bombs

Programme in course of preparation.

### V. Explosives

For ammunition above scheduled propellants and explosives will be required.

*Negotiations have been in process some time for items marked with an asterisk.*
Secretary of State,
Washington

2458, July twenty nine.
Weekly economic.

Third budget since beginning of war provided new and increased taxation estimated to yield 239,000,000 sterling in full year. Standard rate income tax increased to 42-1/2 per cent surtax and estate taxes and customs excise duties on wines beer tobacco and entertainments increased new purchase tax proposed in modified form particularly aimed at luxuries and other postponable purchases. New feature is compulsory deduction from current payments salaries and wages of income tax payments. Budget officially characterized as interim and for double purpose raising revenue and restricting private consumption and expenditure British railway returns six months January June generally considered encouraging. Gross revenue increased 20.7 million sterling over first half 1939 due almost entirely higher freight receipts reflecting large expansion volume freight traffic although some increase due
due higher freight rates effective May 1. Pool net
revenue 4 main line railways and London passenger trans-
port board increased by 6 million sterling to approxi-
mately 21 million. Passenger receipts likely to show little
increase in full year due lack of holiday traffic and other
war conditions while operating costs are rising but higher
freight and passenger rates and expanding freight traffic
indicate that annual revenue 1940 may well exceed minimum
guaranteed by government (39.7) million sterling industrial
stock and commodity prices showed some recovery following
presentation budget largely attributed trade circles to
fact that tax increases less than anticipated continued
efforts restrict domestic consumption included addition
various textile materials to list of goods domestic sales
of which are curtailed export efforts included new drive
to replace far as possible French fashion goods in American
and Canadian markets including holding British fashion show.
Sales these goods to be on a collective basis through new
combined export company rather than by individual firms
defence finance orders have been issued regulating payments
between United Kingdom Hungary and United Kingdom Portugal
following conclusion payments arrangements with those
countries which among other provisions restricts use of
free sterling.

INFORM COMMERCE.

KENNEDY
CABLE
FROM: Commercial Attache Nicholson
Shanghai, China.
DATE: July 29, 1940
For the Secretary of the Treasury:
Shanghai market July 27 closed easy at 3-57/64 for
cash and July 3-7/8 for August for sterling 6-3/32 for
cash and July 6-1/32 for August for U.S. dollars. Gold
bars closed at 5-332 and wei wah at discount of 5.10%.

NICHOLSON
Secretary of State,
Washington

2466, July 29.

FOR TREASURY FROM BUTTERWORTH

One. New orders came into force today giving effect to arrangements for regulating payments between the United Kingdom and Portuguese Empire and between the United Kingdom and Hungary.

Two. Steps have been taken to ensure that French banks in London conduct their future operations as if they were British concerns. It is announced in today's TIMES that "assurance has now been received by the London managements of two banks, namely, the Credit Lyonnais and the Comptoir National D'Escompte De Paris, that the branches of these banks in the sterling area will take their instructions from the London offices for the duration of the war. This applies to the Alexandria, Cairo and Port Said offices of both banks, as well as to the Bombay, Melbourne and Sydney offices of the Comptoir D'Escompte. No definite ruling has yet been given by the authorities.
July 29 from London

"Informed authorities as to the status of the Madagascar officers of the Comptoir."

KENNEDY

TFV
ATP

GRAY
BERLIN
Dated July 29, 1940
Rec'd 7:50 p.m.

Secretary of State,
Washington

3267, July 29, 4 p.m.
My 3158, July 25, 3 p.m.

FOR DEPARTMENT AND FOR TREASURY FROM HEATH

In the second paragraph of my telegram under reference, the statement was made that the war contributions of the provinces and communes were apparently not included in the official statement of tax revenues. Information has now been obtained to the effect that although they are not separately mentioned in the official communiqué these contributions are in fact included in the statement of total tax revenues. Consequently the Embassy's estimate of the central government's total net revenues (with share of provinces and communes subtracted) should be decreased by 1,500,000,000 marks to a total number of 22,500,000,000 marks a year.

KIRK

NK
Mr. Dietrich brought to my attention this morning his memorandum of July 27, in regard to the interest of the Bulgarian Minister in the estate of Constantin Hadi Kolcheff.

I have talked by telephone this morning with Mr. Knoke of the Federal Reserve Bank at New York. He stated that four banks in New York carry practically all of the balance of around $1,000,000 of Bulgarian money on that market, outside of the Federal Reserve. These banks are the B. C. I. ($500,000); Irving ($235,000); Schroeder ($235,000); Guaranty ($128,000); and Manhattan ($19,000). Mr. Knoke had called the Irving and was informed that this institution had no Constantin Hadi Kolcheff account. Mr. McKeon is telephoning the other banks. Mr. Knoke thought it most likely that this individual account might be buried in some Bulgarian bank's account in an American institution. He will make every effort, however, to locate the account. I promised to send on to him, whenever it may be received, the official communication which Mr. Livesey expects to receive from the Bulgarian Minister.

At 10:00 this morning I gave Mr. Livesey the above information.
The Secretary of the Treasury today announced the subscription figures and the basis of allotment for the offering of $250,000,000, or thereabouts, of 3/4 percent notes of Series F of the Commodity Credit Corporation.

Reports received from the Federal Reserve Banks show that subscriptions for the new notes aggregate $3,185,000,000. Such subscriptions were allotted 9 percent, but not less than $1,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.
July 29, 1940

My dear Mr. Hoover:

In the Secretary's absence, I wish to acknowledge receipt of the following communications:

July 23 - Harry Bridges' address before Ship Clerks' Association in San Francisco;

July 23 - Derision in Communist Party circles over alien legislation recently approved in United States;

July 23 - Rumor that Jewish banking group in Wall Street is negotiating to float a loan of a billion dollars to Germany for reconstruction work in Germany;

July 23 - Alarm of Soviet Government over attitude of State Department in inaugurating what is considered moral embargo against shipment of goods and merchandise and implements of war to Soviet Union, which were purchased by that Government more than a year ago.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
July 29, 1940

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(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

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:

I have just received information from a confidential source to the effect that on July 1, 1940, Harry Bridges addressed a meeting of the Ship Clerks' Association in San Francisco, California. He announced that the National Defense Program of the President is merely a blind to enable capital to defeat labor. He denounced any suggestion that the work week be extended to forty-eight hours of work and declared:

"If they try to enforce this 48-hour week and it becomes necessary for the Government to enforce this by using the Army, Navy and Marines we will fight."

I thought you would be interested in receiving these data.

Sincerely yours,

[Signature]

BY SPECIAL MESSENGER
The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Information has been received from a confidential source to the effect that the recently approved legislation concerning aliens in the United States is the subject of considerable derision in Communist Party circles. The Communist Party refers to the legislation as "the Wall Street Imperialist Law". The Communist Party has decided it will organize aliens in groups in order that they may make their application for citizenship at once, but the Party has made it clear that such steps toward citizenship "won't mean anything", and that these aliens will continue "their work".

I have also been advised confidentially that the Communist Party, in Philadelphia and New York City, is making plans for the purchase of arms, although no definite information concerning the purchase or secretion of such arms has, as yet, been obtained.

I thought you would be interested in these data.

Sincerely yours,

[Signature]

BY SPECIAL MESSENGER
Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

July 23, 1940

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

From a source which appears to be reliable, this Bureau has received information that there is a definite rumor to which considerable credence is now being given that a certain Jewish banking group in Wall Street, otherwise unidentified at present, was negotiating to float a loan of a billion dollars to Germany at one per cent interest for reconstruction work in Germany.

This Bureau's informant is making other definite inquiries for the purpose of developing additional information along this line, and I shall report to you promptly if any more specific data is obtained.

Sincerely yours,

[Signature]

J. Edgar Hoover
The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

The following information has been obtained from a confidential source closely and officially connected with the Soviet Government. I thought these data would be of interest to you.

The Soviet Government is considerably alarmed over the attitude of the Department of State of the United States Government in inaugurating what is considered a "moral embargo" against the shipment of goods and merchandise and implements of war to the Soviet Union, which were purchased by that Government more than a year ago. The complaint is made the Department of State makes the unsubstantial claim that these materials cannot be supplied because of the defense needs of the United States Government.

Representatives of the Soviet Government have suggested that, if the United States Government really wants these goods, which have already been ordered, this Government should seize them. To this suggestion, however, it is claimed the Department of State has indicated that it would be proper for the Soviet Government or its purchasing agencies to sell this material back to the manufacturers from whom it was purchased. Representatives of the Soviet Government are unwilling to follow this course because it appears that the consequent loss would have to be absorbed by the Soviet Government. It is intimated that this unsettled situation relating to the shipment of goods and merchandise has given rise to the thought on the part of the Soviet Government that it should close its Embassy in
The Secretary of the Treasury

Washington, D. C., and break off relations with the United States.

It has also been confidentially learned that the Soviet Government is considerably concerned over the recent legislation requiring the prompt registration of aliens. Representatives of the Soviet Government feel that the law is dictatorial and it has been ascertained that many citizens of the Soviet Government, now resident in the United States, are willing to return to the Soviet Union in preference to compliance with the new legislation. The Soviet Union is of the belief that the recent alien registration law is nothing more than a part of a great war scare inaugurated by President Roosevelt.

It has also been confidentially disclosed that the Soviet Union is awaiting Hitler's invasion of the British Isles until it takes steps to gain domination over the Dardanelles and the Bosphorus.

Sincerely yours,

[Signature]

BY SPECIAL MESSENGER
July 19, 1940.

Dear Mr. Stalnaker,

In the Secretary’s absence I am acknowledging your letter of July 19th, telling of Mr. Pullen’s talk with Mr. Hoover’s assistant. I shall be very glad to bring this to Mr. Roosevelt’s attention as soon as he is back in Washington.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. S. Jefferson Stalnaker,
Chairman of the Board,
United Fruit Company’s
One Federal Street,
Boston, Massachusetts.
July 20, 1940,

Dear Mr. Coolidge:

In the Secretary’s absence I am acknowledging your letter of July 15th, telling of Mr. Pullen’s talk with Mr. Hoover’s assistant. I shall be very glad to bring this to Mr. Morgenthau’s attention as soon as he is back in Washington.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. T. Jefferson Coolidge,
Chairman of the Board,
United Fruit Company,
One Federal Street,
Boston, Massachusetts.
July 29, 1940,

Dear Mr. Coolidge:

In the Secretary's absence I am acknowledging your letter of July 28th, telling of Mr. Pellam's talk with Mr. Hoover's assistant. I shall be very glad to bring this to Mr. Huguenot's attention as soon as he is back in Washington.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. T. Jefferson Coolidge,
Chairman of the Board,
United Fruit Company's
One Federal Street,
Boston, Massachusetts.
July 25, 1940

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

Dear Henry:

Mr. Pollan talked for some time with Mr. Hoover's assistant and I understand reached a very satisfactory working arrangement to cooperate with him. It was not considered necessary to send Mr. Hoover's man to the tropics, but thought better to have the reports come direct from our Boston Office.

Be sure to let me know if there is anything we can do, and as I told you, we are most anxious to cooperate.

With kindest regards.

Sincerely yours

[Signature]
July 29, 1940

Under Secretary Bell
Mr. Cochran

The Swiss Minister telephoned me this noon, referring to the articles in
the press over this weekend to the effect that Germany had made demands upon
Switzerland for foodstuffs and gold. He said that he was happy to tell me
that he had received an official cabled message from Switzerland denying this entirely.
He thought part of the story might have come from London since the British fear
that the Germans may take such a step as above indicated. The Swiss Minister
stated that our State Department favors Swiss effort to take supplies from
his country to Switzerland and thinks the British should let foodstuffs get
through to Switzerland. The Minister will keep us advised on this subject.
He seemed concerned lest the press story might move the Treasury to some action
(blocking, I presume).

[Signature]
Deals in registered sterling were confined to three of the six reporting banks:

1. Purchases of £42,000 for customer account, of which £13,000 were acquired from the Federal Reserve Bank of New York.

2. There were no sales of registered sterling.

The Federal Reserve Bank of New York also stated that £157,000 in registered sterling was purchased from it by J. P. Morgan & Co., to be used in payment for tin and whisky shipments.

Sterling in the open market was first quoted at 3.85. After moving up to 3.87-1/2 in the mid-afternoon, it returned to 3.85-1/2 at the close. The reporting banks executed orders to sell £77,000, of which £52,000 were for commercial concerns and £25,000 for account of a Far Eastern bank. Orders to purchase £120,000 were also executed, and of these, £85,000 were for commercial concerns, the other £35,000 being bought for European banks.

The other currencies closed as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss franc</td>
<td>2.275</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>12-1/8% discount</td>
</tr>
<tr>
<td>Lira</td>
<td>.9505</td>
</tr>
<tr>
<td>Reichsmark</td>
<td>.4005</td>
</tr>
<tr>
<td>Cuban peso</td>
<td>9-15/16% discount</td>
</tr>
<tr>
<td>Mexican peso</td>
<td>.2021 bid, .2041 offered</td>
</tr>
</tbody>
</table>

There were no gold transactions consummated by us today.

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

From India, for sale to U. S. Mint at San Francisco:

$495,000 representing two shipments by Netherlands banks in Bombay to the Chase National Bank, New York.

490,000 shipped by the National Bank of India, Bombay, to the Swiss Bank Corporation, New York.

From England, for sale to the U. S. Assay Office at New York:


15,000 shipped by the Westminster Bank, London, to the National City Bank, New York.

13,000 shipped by the Lloyd and National Provincial Foreign Bank, London, to the Bank of London and South America, New York.

$1,096,000 Total
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 24,
showed that such deposits totaled $36,348,000, a decrease of $1,554,000 since the
last report as of July 17. Included in this total were $28,924,000 in deposits with
the Yokohama Specie Bank, New York, made by its branches in China, and there were 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 $66,463,000,
an increase of $5,385,000 since July 17.

The Bombay gold price was equivalent to $33.74, off 3¢.

Spot silver in Bombay declined the equivalent of 3/8¢ to 44.76¢.

In London, the price fixed for spot silver rose 3/16d to 22-9/16d, and the forward
 quotation was 1/16d higher at 11-1/3d. The U. S. equivalents were 41.02¢ and 40.22¢
respectively.

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

We purchased 70,000 ounces of silver from the Bank of Canada under our regular
monthly agreement.
TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

Contents

1. German Reconnaissance Regiments and Units.
2. German Mobile Troops (Mechanized Troops and Cavalry).

1. German Reconnaissance Regiments and Units.

a. Corps Reconnaissance Regiment. The Germans have a Corps Reconnaissance Regiment which is virtually a small force of all arms, containing (1) an armored element; (2) an unarmored element; (3) a close support element; (4) an antitank element; and (5) an engineer element. This regiment is a peace-time organization. It is so organized that it can be split up to furnish four reconnaissance squadrons, part mechanized and part horse, for attachment to the infantry divisions of the line of the Army Corps. A typical Divisional Reconnaissance Squadron may be organized as follows:
## Division Reconnaissance Squadron

### Command and Staff

<table>
<thead>
<tr>
<th>HQ &amp; Signal Section</th>
<th>1st Troop Horse</th>
<th>2nd Troop Cyclist</th>
<th>3rd Troop Mechanized</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio Sets</td>
<td>Radio Receiver</td>
<td>Support</td>
<td>Anti-armor</td>
<td>Armored Mortar</td>
</tr>
<tr>
<td>Radio</td>
<td>Set</td>
<td>Tank Car</td>
<td>C-361mm</td>
<td></td>
</tr>
<tr>
<td>Radio</td>
<td>Set</td>
<td>2-75mm</td>
<td>3 A.T.</td>
<td>3 Lt. Mortars</td>
</tr>
<tr>
<td>Radio</td>
<td>Set</td>
<td>Howitzers Guns</td>
<td>Armored</td>
<td></td>
</tr>
<tr>
<td>Radio</td>
<td>Set</td>
<td>2 Light MGs</td>
<td>1 Lt. Cars</td>
<td></td>
</tr>
</tbody>
</table>

### Armament

- **Light Machine Guns**: 2
- **Heavy Machine Guns**: 8
- **37mm. Antitank Guns**: 3
- **75mm. Howitzers**: 2
- **50mm. Mortars**: 3
- **81mm. Mortars**: 3

### Strength

- 150 Officers and Men.

---

**Restriction Note:**

Regraded Unclassified
RESTRICTED

It should be remembered that flexibility in German organization is the rule rather than the exception.

For the purpose of training, all reconnaissance units are directly under the Inspectorate of Mobile Troops in the War Ministry. The Divisional Reconnaissance Squadron is responsible for tactical ground reconnaissance on the Division front. The tactics of a reconnaissance unit in action are characterized by rapid deployment and wide turning movements, coupled with surprise concentration effort and with a rapid change of objective, so as to be able to break through superior enemy protective detachments. Movement is so rapid that radio silence is rarely invoked. Communication is ordinarily by radio but may be by cyclist or mounted messenger.

b. Mechanized Reconnaissance Battalion. This organization is basically similar to the Divisional Reconnaissance Squadron, except that it is fully mechanized and exists independently in peace. It performs reconnaissance for the German Armored Division. A typical organization follows:

RESTRICTED

- 3 -
# MechaniZed ReconnaissanCe Battalion

## Command and Staff

<table>
<thead>
<tr>
<th>HQ &amp; Signal Platoon</th>
<th>1st Co.</th>
<th>2nd Co.</th>
<th>3rd Co.</th>
<th>4th Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio Sets</td>
<td>Armored Cars</td>
<td>Armored Cars</td>
<td>Motorcycle</td>
<td>Heavy Weapons</td>
</tr>
<tr>
<td>Radio</td>
<td></td>
<td></td>
<td></td>
<td>Services</td>
</tr>
<tr>
<td>Sets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2 Mea.</th>
<th>5 Small</th>
<th>2 Telephone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio</td>
<td>Radio</td>
<td>Sets</td>
</tr>
<tr>
<td>Sets</td>
<td>Sets</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HQ &amp; Signal Section</th>
<th>1st AC</th>
<th>2nd AC</th>
<th>3rd AC</th>
<th>4th AC</th>
<th>5th AC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Hwy.</td>
<td>Same</td>
<td>Same</td>
<td>9 Lt.</td>
<td>Reserve</td>
<td></td>
</tr>
<tr>
<td>3 Lt.</td>
<td>As</td>
<td>As</td>
<td>Armored</td>
<td>Crews</td>
<td></td>
</tr>
<tr>
<td>3 Lt.</td>
<td>Armored</td>
<td>1st</td>
<td>Cars</td>
<td>and</td>
<td></td>
</tr>
<tr>
<td>3 Lt.</td>
<td>Armored</td>
<td>1st</td>
<td>Cars</td>
<td>Trains</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HQ &amp; Signal Section</th>
<th>1st Platoon</th>
<th>2nd Platoon</th>
<th>3rd Platoon</th>
<th>4th Platoon</th>
<th>5th Platoon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infantery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Lt.</td>
<td>Infantery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGs</td>
<td></td>
<td>Infantery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - 50mm. Mortars</td>
<td>4th Platoon</td>
<td>Heavy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - 50mm. Mortars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Armament

<table>
<thead>
<tr>
<th>Type</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light Machine Guns</td>
<td>63</td>
</tr>
<tr>
<td>Heavy Machine Guns</td>
<td>6</td>
</tr>
<tr>
<td>20mm. Machine Guns</td>
<td>12</td>
</tr>
<tr>
<td>37mm. Antitank Guns</td>
<td>3</td>
</tr>
<tr>
<td>75mm. Howitzers</td>
<td>2</td>
</tr>
<tr>
<td>50mm. Mortars</td>
<td>3</td>
</tr>
<tr>
<td>81mm. Mortars</td>
<td>3</td>
</tr>
</tbody>
</table>

Strength

50 Officers 900 Men.

The mechanized reconnaissance unit is responsible for strategic ground reconnaissance when functioning at the disposal of the high command and for tactical ground reconnaissance when functioning on the front of an army corps or of an armored or motorized division. It is characterized by its ability to reconnoitre rapidly within a radius of action of about 150 miles, and if necessary, to fight for information. This is made possible by the potential fighting power, speed, handiness, and cross-country capacity possessed by all vehicles of the unit. Mechanized reconnaissance units work in close cooperation with observation aviation. The tactical employment of the Mechanized Reconnaissance Battalion is similar to that of the Divisional (Semi-Mechanized) Reconnaissance Squadron, except that its radius of action is very much increased. Communication within the unit and with other elements is usually by radio.

2. German Mobile Troops (Mechanised Troops and Cavalry).

In view of the recent organization by the War Department of an Armored Corps, it is interesting to examine the method adopted by Germany to fit its mechanized forces into the organizational framework of its army.

In 1938, the High Command of the Army decided to group under one heading all of the forces possessing great strategical mobility. Accordingly, the office of the Chief of Mobile Troops (Chef der Schnellen Truppen) was set up directly under the High Command. The first chief was General Guderian, a leading exponent of mechanized warfare. The office of the Chief of Mobile Troops corresponds, in general, to that of one of our chiefs of arm.
The mobile troops include:

a. Cavalry Regiments.
b. Tank Regiments.
c. Motorized Infantry Regiments of the Armored Divisions.
d. Corps Reconnaissance Regiments.
e. Mechanized Reconnaissance Battalions.
f. Motorcycle Battalions.
g. Cyclist Battalions.
h. Divisional Antitank Battalions for all types of Divisions.

It is to be noted that in this organization no tank arm has been created by Germany in the sense of an infantry arm or artillery arm. The authority of the Chief of Mobile Troops includes training and tactics, but it does not extend to the design and manufacture of mechanized matériel, except that the advice of this office is naturally sought as to types and specifications. The above organization appears to be of a provisional nature, and it is entirely possible that a different one may eventuate.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 29, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At the Group Meeting on Friday, July 26, the Secretary requested that I endeavor to obtain from New York monthly statistics in regard to payments to the Embassies and leading Consulates General in this country of Italy, Japan and Russia, along the lines of those for Germany set forth in the enclosure to Mr. Knocks's letter of July 24, 1940.

I have today spoken with Mr. Knocks on this subject. It was possible to give us considerable information on the payments to the German Embassy and to the German Consulates General in New York and San Francisco since the Reichsbank carries an account with the Federal, from which the data may be obtained. The Bank of Japan, however, has no account with the Federal. The Bank of Italy has an account with the Federal, but this is comparatively inactive, and no payments of the type under reference are made therefrom. The account of the State Bank of Russia with the Federal likewise reveals no out payments of this type. Such Russian payments are most likely to be made from the Russian accounts, including the Astorg account, with the Chase Bank. Hereafter effort will be made to obtain more detailed information from the Chase Bank with the view to noting any payments of interest from the Russian accounts with that institution. Mr. Knocks understands that we expect the German report monthly, and any data at all on the other three countries, also monthly. We should not expect, however, to receive full reports on Russia, Italy and Japan, of the type of that contributed on Germany.
Treasury Department  
Inter Office Communication  

Date: July 29, 1940  

To: Mr. Cochran  
From: Mr. Districh  

Strictly Confidential  

Mr. McKeon called today and advised that the following German payments had been made:

<table>
<thead>
<tr>
<th>Date</th>
<th>Payments Made</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 25</td>
<td>$ 92,000</td>
<td>Payment made by the Chase National Bank to the Federal Reserve Bank of New York for account of the B.I.S.</td>
</tr>
<tr>
<td>July 26</td>
<td>$330,000</td>
<td>Payment made by the Chase National Bank to the Federal Reserve Bank of New York for account of the B.I.S.</td>
</tr>
<tr>
<td>Total</td>
<td>$ 507,000</td>
<td>The last two payments were made by order of the Reichsbank.</td>
</tr>
</tbody>
</table>

Regraded Unclassified
Mr. McKeon called today to advise us of the following payments ordered by Italy:

<table>
<thead>
<tr>
<th>Date</th>
<th>Payments Made</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 25</td>
<td>$80,000</td>
<td>Payment made by the Chase National Bank by order of the Bank of Italy to the Bank of America N. T. &amp; S. A.</td>
</tr>
<tr>
<td>July 29</td>
<td>$94,000</td>
<td>Payment made by the Chase National Bank by order of the Bank of Italy to Credit Suisse, New York, for account of Credit Suisse, Zurich.</td>
</tr>
<tr>
<td>July 29</td>
<td>$95,000</td>
<td>Payment made by Chase National Bank by order of Credito Italiano, Rome, to hold at disposal Banque Commerciale Roumaine, Bucharest, in favor of same.</td>
</tr>
<tr>
<td>July 29</td>
<td>$1,293,000</td>
<td>Payment made by Chase National Bank by order of B.C.I., New York, by order Italian National Institute of Exchange to the Federal Reserve Bank for account of the National Bank of Yugoslavia.</td>
</tr>
<tr>
<td>July 29</td>
<td>$140,000</td>
<td>Payment made by Federal Reserve Bank of New York to Bank of Naples by order and for account of National Institute of Exchange, Rome. This amount originally received by the Federal by order of the National Bank of Rumania.</td>
</tr>
</tbody>
</table>

$1,702,000

Total
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE July 29, 1940

TO Secretary Morgenthau
FROM Mr. White

Subject: Recent Developments in Gold and Capital Movements

1. There was a net inflow of capital of $40 million in the week ended July 17, 1940. The net capital inflow during 1940 now amounts to $559 million.

<table>
<thead>
<tr>
<th>Net capital inflow</th>
<th>(In millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week ended July 17, 1940</td>
<td></td>
</tr>
<tr>
<td>Foreign funds held here</td>
<td>$ 35.0</td>
</tr>
<tr>
<td>U. S. claims on foreigners</td>
<td>7.8</td>
</tr>
<tr>
<td>Domestic security transactions</td>
<td>- 3.8</td>
</tr>
<tr>
<td>Foreign security transactions</td>
<td>1.7</td>
</tr>
<tr>
<td>Brokerage balances</td>
<td>- .4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 40.3</strong></td>
</tr>
</tbody>
</table>

2. The principal changes in foreign funds held in this market during the week ended July 17, 1940 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Official</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>$- 2.6</td>
<td>$- 4.2</td>
<td>$- 6.8</td>
</tr>
<tr>
<td>France</td>
<td>+ 0.4</td>
<td>- 3.6</td>
<td>- 3.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>-</td>
<td>+ 2.6</td>
<td>+ 2.6</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
<td>+ 1.9</td>
<td>+ 1.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-</td>
<td>- 2.7</td>
<td>- 2.7</td>
</tr>
<tr>
<td>Switzerland</td>
<td>+ 5.4</td>
<td>- 1.5</td>
<td>+ 3.9</td>
</tr>
<tr>
<td>Other Europe</td>
<td>+ 0.2</td>
<td>+ 0.6</td>
<td>+ 0.8</td>
</tr>
<tr>
<td>Canada</td>
<td>+ 33.2</td>
<td>- 3.9</td>
<td>+29.3</td>
</tr>
<tr>
<td>Latin America</td>
<td>-</td>
<td>+ 9.3</td>
<td>+ 9.3</td>
</tr>
<tr>
<td>Asia</td>
<td>- 2.5</td>
<td>+ 7.1</td>
<td>+ 4.6</td>
</tr>
<tr>
<td>Other countries</td>
<td>- 0.6</td>
<td>+ 1.1</td>
<td>+ 0.5</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$+ 33.5</strong></td>
<td><strong>$+ 1.5</strong></td>
<td><strong>$+35.0</strong></td>
</tr>
</tbody>
</table>
3. The principal transactions in United States domestic securities were sales of bonds for Italian, Canadian and Japanese account, accounting for $2.7 million out of total net sales of all domestic securities of $3.8 million.

4. Gold imports, adjusted for earmarking operations, amounted to $69 million in the week ended July 24, 1940 as compared with $96 million in the previous week.

Net Gold Imports Adjusted for Changes in Earmarking

(Net exports appear as (-))

(In millions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Week ended July 17, 1940</th>
<th>Week ended July 24, 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>$ 57.7</td>
<td>$ 5.1</td>
</tr>
<tr>
<td>Norway</td>
<td>- 8.1</td>
<td>-</td>
</tr>
<tr>
<td>Finland</td>
<td>- 2.8</td>
<td>- 1.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>- 2.0</td>
<td>-</td>
</tr>
<tr>
<td>Vatican State</td>
<td>- 7.7</td>
<td>-</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>- 6.8</td>
<td>-</td>
</tr>
<tr>
<td>Canada</td>
<td>46.1</td>
<td>54.3</td>
</tr>
<tr>
<td>Argentina</td>
<td>7.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Australia</td>
<td>5.1</td>
<td>-</td>
</tr>
<tr>
<td>Union of South Africa</td>
<td>-</td>
<td>3.3</td>
</tr>
<tr>
<td>Other countries</td>
<td>7.0</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 95.5</strong></td>
<td><strong>$ 66.9</strong></td>
</tr>
</tbody>
</table>
International Capital Transactions - United States

Black indicates inflow of capital
Red indicates outflow of capital

(In thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Week ending July 10, 1940</th>
<th>Week ending July 17, 1940</th>
<th>Cumulative Total From January 4, 1940 to July 17, 1940</th>
<th>Cumulative Total From December 29, 1939 to July 19, 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital flow consisting of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Banking funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Change in official balances with New York Federal Reserve Bank</td>
<td>11,907</td>
<td>33,544</td>
<td>390,748</td>
<td>60,701</td>
</tr>
<tr>
<td>b. Change in all other short-term balances</td>
<td>13,093</td>
<td>9,263</td>
<td>96,185</td>
<td>667,550</td>
</tr>
<tr>
<td>2. Security transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Domestic securities</td>
<td>3,256</td>
<td>3,801</td>
<td>15,547</td>
<td>25,831</td>
</tr>
<tr>
<td>b. Foreign securities</td>
<td>809</td>
<td>1,713</td>
<td>99,958</td>
<td>67,038</td>
</tr>
<tr>
<td>3. Brokerage balances</td>
<td>570</td>
<td>436</td>
<td>19,287</td>
<td>34,343</td>
</tr>
<tr>
<td>4. Net gold imports (including changes in gold held under earmark for foreign account)</td>
<td>85,852</td>
<td>95,546</td>
<td>2,501,631</td>
<td>1,592,719</td>
</tr>
</tbody>
</table>

Treasury Department, Division of Monetary Research. July 29, 1940.

Based on the consolidated reports of the twelve Federal Reserve Districts through June 19, 1940, and the reports of the New York Federal Reserve District through July 17, 1940.
July 29, 1940

My dear Mr. Hoover:

In the absence of Secretary Morgenthau, I am acknowledging receipt of the following communications:

July 23 - Pertinent information relative to conditions in Mexico at the present time;

July 25 - German activities in the United States with respect to labor;

July 26 - Further information on proposed purchase of aviation gasoline allegedly for the use of the Japanese Navy.

I shall be glad to bring this material to the Secretary's attention on his return to the office.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
July 29, 1940

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Private Secretary.

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:

I felt that you would be interested in some of the results already obtained from my contacting Mr. Harold K. Hochschild, President of the American Metal Company, Limited, of New York, so I am enclosing herewith a memorandum furnishing some pertinent information relative to conditions in Mexico at the present time.

Again thanking you for your kindness, I am

Sincerely yours,

[Signature]

Enclosure
MEMORANDUM

July 10, 1940

FOREIGN EXCHANGE

For internal use only.

To: Secretary

From: Assistant Secretary

Subject: Exchange Situation

According to the report for the week ending May 24, the exchange rate of the United States dollar to the British pound is approximately 3.60. The report states that the dollar is not yet on par with the pound.

The exchange rate is subject to fluctuations due to various factors, including political and economic conditions. It is important to monitor these fluctuations closely.

Please provide any additional information or guidance that may be necessary. Thank you.

[Signature]
Regraded Unclassified
It was further reported that the Government is seriously thinking of outlawing the Communist Party, probably with the idea of appeasing Washington.

This source indicated that 90% of the Mexican people in Mexico City are for Alaman. It is also reported that regardless of who heads the Mexican Government in the future, the resulting government will be very much directed to the right, resulting in the removal of the Union leaders and their power and probably a change of the collective agrarian system changing the present system of communal property into small private holdings.

This report also indicated that the decisions taken by Cardenas will play an important part in the coming Mexican Government, inasmuch as, should he change his favor from one to another candidate, many people will follow him with the idea of saving their political reputation and their jobs.

It is indicated that strong measures will be taken against present labor leaders and the resentment against the abuses of labor syndicates is being felt even by Cardenas at this time, as shown by the way he treated the railroad workers in enforcing a 20% wage reduction and his stand toward his "beloved oil workers". In fact, this source of information stated that some people predict that if Cardenas should stay on for another six months, he, himself would be obliged to liquidate the labor leaders and labor rackete.
Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

July 25, 1940

PERSONAL AND CONFIDENTIAL
SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith as of possible interest to you a copy of a memorandum containing information from a confidential source concerning German activities in the United States with respect to labor.

Sincerely yours,

[Signature]

Enclosure
Information has been received from a confidential source reported to be reliable that the German espionage system in the United States is now operating on the theory that agitation through organized labor in the United States will materially hinder the Government defense program.

The German plan reportedly calls for continuous work in the field of organized labor, urging labor to stand up for its rights and demand everything possible for the benefit of labor. In this manner the cost of production of all materials will be kept at a high level.

It was reported that the present German war machine was created in eight years at a cost of six billion dollars. The reason that this cost was kept so low was reportedly due to the fact that labor costs in Germany have been kept at the lowest possible level and thus the Government was able to spread out the money to a far greater degree. The German agents reportedly contend that to carry out a program equal in size to that which Germany put over would take the United States twelve years and would cost at least forty-one billion dollars. These figures are reportedly based on the fact that high labor costs will put a high overhead on manufacturing plants handling war materials.

It is reported that focal points in connection with this plan in the United States are: Detroit and Monroe, Michigan; Suburban Chicago, Illinois; Kenosha, Wisconsin; Pittsburgh, Pennsylvania, and surrounding industrial areas; Seattle, Washington; Sparrows Point, Maryland; Wheeling, West Virginia; Alabama; New Jersey; the oil fields of Texas; and the New England States.

In addition, information has been received that the Germans will attempt to foment as many strikes as possible throughout the United States by carefully working with major and minor leaders within the various unions. It was reported that before the summer is over, another strike will take place at the Federal Ship Yards at Kearney, New Jersey, and the next concentration will be at a ship yard in Camden, New Jersey, and then at some ship yard in New England.
According to available information, no Germans will be outwardly connected with this work and it is reported that, through German contacts, a number of labor racketeers allegedly connected with organized labor have been approached and "hooked" at a large salary per month to assist in this work.

It is further reported that the Communist Party leadership is still to continue its attack on the Administration but will continuously "pat" the Congress of Industrial Organizations and certain American Federation of Labor groups "on the back" just as long as Germany and Russia have the Non-Aggression Pact.
Federal Bureau of Investigation
United States Department of Justice
Washington, D.C.

July 26, 1940 PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

Reference is made to previous correspondence with you concerning the proposed purchase of aviation gasoline by Taiyo Sakiyu Kaisha, Limited, of Tokyo, Japan, allegedly for the use of the Japanese Navy.

I have been advised by the San Francisco Field Division of this Bureau that the Riggs National Bank, Washington, D.C., has instructed the Crocker National Bank, San Francisco, California, to pay to Mitsuhire Motoyoshi, in care of one Goldsmith, 415 Sansome Street, San Francisco, $20,000, by order of the Japanese Military Attache. The Yokohama Specie Bank is located at 415 Sansome Street, and Mitsuhire Motoyoshi is the Manager. The identity of Goldsmith has not yet been determined.

I shall be pleased to furnish you further information received by me concerning this matter.

Sincerely yours,

J. Ed. Hoover

BY SPECIAL MESSENGER
Federal Reserve Bank,
New York, N. Y.

Attention: Vice President Knoke

Dear Sirs:

Reference is made to the Department's telegram of June 19, 1940, advising that under arrangements made with the French Government the Treasury had purchased approximately two hundred fifteen thousand (215,000) kilograms of gold and authorizing you, as fiscal agent of the United States, to debit the Secretary of the Treasury - Special Account and credit ninety-five percent of the value of the gold Two hundred twenty-nine million four hundred ninety-seven thousand one hundred ninety-seven dollars and sixty-five cents ($229,497,197.65) to the account of the Bank of France on your books.

It is our understanding that as authorized and instructed in the Department's letter of June 19, 1940, the above gold was deposited by you at the United States Assay Office at New York for refining into United States Assay Office gold bars, and that upon completion of the refining of such gold, the Assay Office held 313,520.304 fine troy ounces subject to the order of the "Federal Reserve Bank of New York, as fiscal agent of the United States (Secretary's Special Account)".

Final payment is due to the Bank of France for this gold and you are hereby authorized to make the necessary entries in the "Secretary of the Treasury - Special Account" on your books and credit the Bank of France account on your books Ten million three hundred sixty-four thousand five hundred nine dollars and fifty-two cents ($10,364,509.52) representing the dollar equivalent of 313,520.304 fine troy ounces of gold at a price of Thirty-five ($35.00) dollars less (1/4 of one percent) per fine troy ounce, less the usual mint charges on the total number of ounces of gold purchased.

Very truly yours,

/s/ D. W. Bell
Acting Secretary of the Treasury

E/KLP
RDS

PLAIN

MEXICO CITY
Dated July 30, 1940
Rec'd 3:50 a.m., 31st

Secretary of State,
Washington.

286, July 30th.

Banco Nacional de Mexico requests assistance in unfreezing portions of account held in French-American Bank Corporation, New York, by the French Mining Company, Cia Minera Del Bolfo of Santa Rosalia, Lower California. Banco Nacional assures that funds to be transferred to it by Cia Bolfo will be used exclusively for labor and other expenses within the Republic. Release of these funds is urgent as company cannot meet payrolls without them. Also Jean Hermanos of Mexico City desires to transfer $100,000 from Chase National Bank in New York to Banco Nacional in Mexico City. Banco Nacional assures that funds will be used exclusively to pay expenses in Mexico and import invoices from United States and South America. Please answer by wire. Steer.

DANIELS

EMB
Secretary of State,
Washington.

FROM PARIS.
51, thirtieth.
FOR THE TREASURY.

The Paris Stock Exchange opened today for the first time since the German occupation. Trading was restricted to Government and municipal issues, excluding the exchange guaranteed rents, bank stocks and an approved list of French industrials. The attendance was only fair. No excitement prevailed and the turnover was quite light owing in part to regulations requiring immediate delivery by the seller and in part to the absence of any sustained buying movement. Rents were irregular, showing fractional gains and losses in comparison to their quotations on June 11 when the last session was held. Bank stocks and industrials rose moderately. The curb exchange is still closed.

HPD

MURPHY
Buenos Aires, July 30, 1940.

No. 1024

REQUEST OF THE BELGIAN MINISTER REGARDING TRANSFER OF FUNDS

The Honorable
The Secretary of State,
Washington.

Sir:

With reference to my despatch no. 975 of July 19, 1940 regarding the desire of my Dutch colleague, Mr. P. E. Teppema, to have a "blanket permit" issued to the New York branch of the Bank of London and South America, Limited, to enable him to have funds transferred from his account in that bank to the Buenos Aires branch, I have the honor to transmit herewith a translation of a letter which I have received from my Belgian colleague, Baron Louis Leclercq, making a similar request in his own behalf.

It will be noted that Baron Leclercq has been informed by the manager of the Buenos Aires branch of the Bank of London and South America that in order to purchase securities in New York through the branch of the bank there, a "special license" will be necessary; as well as for the transfer of any dividends to Belgians residing abroad. The Belgian Minister asks whether it will be possible to secure a general license for such transfers with a view to avoiding future difficulties.

As in the case of the Dutch Minister, I informed the Belgian...
Minister that I had no idea whether it would be possible to make such an arrangement, but consented to present the matter to the Department for its consideration and any action which it feels can properly be taken.

Respectfully yours,

Norman Armour

Enclosure: As stated.

Qn.
861
M:irm
BELGIAN LEGATION

Buenos Aires, July 23, 1940.

My dear Ambassador:

As I told you this morning, I instructed the Bank of London & South America to buy securities in New York through their agency in that city, the securities to remain deposited in the agency.

The clerk told me that he would transmit the buying order to New York, but he pointed out that Belgians being unable to buy securities in the United States without authorization, I should obtain a special license, which is also necessary for the transfer of dividends to Belgians residing abroad.

He suggested that I ask for a general license in order to avoid ultimate difficulties.

May I resort to your assistance for the purpose of requesting the competent authorities to grant me the general license for the purchase of securities in the United States as well as for the transfer here of the dividends.

I naturally pledge myself not to transmit to occupied regions the funds for which these licenses may be obtained, and, on the other hand, this would be impossible in view of the measures adopted by the Argentine Government in this connection.

Thanking you for anything you may be willing to do, please believe me, my dear Mr. Ambassador:

Yours very sincerely,

/s/ L. Leclercq

Tr: Ah
hd
PARAPHRASE OF TELEGRAM RECEIVED
FROM: AMERICAN EMBASSY (PARIS) VICHY, FRANCE.
DATE: July 30, 1940, 6 p.m.
NO. : 213

MATTHEWS TRANSMITS THE FOLLOWING FOR THE TREASURY DEPARTMENT.

After Rueff's return from Paris we lunched together today near Chatel Guyon. Rueff seems certain that there is some contention as to the authority among the Germans and there is not the oneness of purpose that there should be among them at Berlin, Paris and Wiesbaden. Rueff reports that the present financial arrangements show no improvement. Article XVII of the Armistice Agreement has not yet been interpreted by the Germans. As an exchange for the free transferring of securities from occupied to unoccupied territories, the Germans insist on superintendence of exchange control at all ports and frontiers in France. I reported this previously. Rueff says that this means that at each French customs there would be a German official although it is understood that except in exceptional cases the official would not have any transactions with the public generally.

Another statement was made by Rueff to the effect that we already know what is meant by exceptional cases.

It
It has been seen that the Germans are going much further in their dealings than would be allowed by a reasonable interpretation of the Armistice. I called to his attention again that I had told him a long time ago that this was so and was still amazed that the French were unwilling to realize the true facts. Rueff agreed with me and stated that French officialdom was every day being forced to realize the bitter truth.

If the economic and financial barriers between occupied and unoccupied territory are to be removed, Rueff told me the Germans in addition are likewise even demanding "control" over French foreign trade as a corollary necessary to them. No decision had as yet been made but the French have no alternative but to accept.

I questioned Rueff whether the delays in the financial arrangements were not caused at least in part by the fact that Germany was annoyed at the wrangling methods of the French and their insistence on details. (I had heard that in the political field such annoyances existed.) With real surprise he agreed that this might be so. The Germans, whatever the truth, are apparently in no great hurry to bring quick conclusion to the discussions.

It is presumed that Germany just before its drive against England did not have the French financial sideshow uppermost in its mind. The present indifference of the German military at frontiers of occupied territory to the exercise.
exercise of any vigilance for currency, securities, or
gold in the possession of those passing the line, is
no doubt largely explained by this fact.

/An interest in French financial assets, however,
Germans
is now being shown by the French in Paris. Installed in
the Bank of France are a German Commissioner (Schleffer)
and his two assistants who write requests for information
to the Secretary General of the Bank of France who is
also located there. The German commissioner's activities
so far have been confined to this and the French Bank
personnel has had no contact with him. The owners of
safe deposit boxes apparently did not rush to take advantage
of the German offer to individuals to open their safe
deposit boxes under German supervision. (See my telegram
of July 16, 10 p.m. no. 83, the penultimate paragraph).
The Germans, Rueff says, have therefore now submitted a
list of 100 names "picked at random" of safe deposit box
owners at the Bank of France. These owners are instructed
to present themselves and have their boxes opened tomorrow.
If they will not do so, the owners will be compelled to
open their boxes. The present whereabouts of many on the
list is not known by the bank.

MURPHY

END SECTIONS ONE TO FOUR, INCLUSIVE.

RE: EHS

Regraded Unclassified
Interest is at last being exhibited by the Germans in the gold reserves of France - they have requested the Bank of France to let them know exactly how much they have and where it is located. Rueff told me that they had not made any reply as yet and he did not know just how the inquiry was to be answered. However, he implied that in as much as little could be done by the Germans about the gold of the Bank which is now in the United States, Canada or Great Britain, he did not see any objection to letting them have the information they wanted. As for the amount of French gold elsewhere, Rueff indicated that they would say nothing about either the quantity or its location.

Rueff expressed some anxiety about the policy of Germany regarding the volume of currency in France; so far, he said, there had been no indication that the Germans want to flood France with marks. It had been necessary for the Bank of France to take in less than five hundred million francs worth of marks throughout the occupied territory, up to the present; however, he is afraid that the Germans, remembering what effect inflation had in Germany after the first World War, may try to bring about a similar situation in France. As to the consequences of such
such a policy, Rueff did not have any illusions.

In my own opinion, what attitude Germany may take as to whether to force on France a disastrous inflation depends entirely on whatever general policy toward France Germany may choose to follow. At this stage it is impossible to determine what that policy may be, in view of the combination of ignorance and censorship which constitutes this cure-resort capital of a nation which was once great.

NOTE: /Rueff remarked, incidentally, that the appointment of Alphand as Financial Attaché was to a large extent due to the fact that Bouthillier, the Minister of Finance, did not like him and was anxious that he be sent far away. He said that in the new France the clique system continues to flourish.

END OF MESSAGE.

MURPHY
Secretary of State,
Washington.

3373, July 30, 10 a.m.

My 2017, June 32, noon.

The Sunday edition of the FRANKFURTER ZEITUNG carried a long despatch from its Washington correspondent which maintains that the resignation of Acting Secretary of War Johnson and his replacement by Judge Patterson indicates the differences of opinion concerning the extent of the aid to be given to England have not been entirely settled by Woodring's resignation. According to this despatch certain Cabinet members still want to deliver more planes to the English than the War Department thinks it can spare. The article asserts that Secretary Morganthau, for example, is reported to have held out the prospect of delivery of 3,000 planes a month to the English, a figure which the article asserts American army officers have characterized as "fantastic".

According to this despatch the American re-armament program is coming increasingly into conflict with arms exports. A Treasury order forbidding American tankers to
-2- 3276, July 30, 10 a.m. from Berlin.

to transport oil to Spain is cited as a covert attempt
to prevent the supply of American oil to the axis powers.
Inform Treasury.

KIRK

HPD
The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses as of possible interest a paraphrase of a telegram no. 374, dated June 22, 1940, received from the American Chargé d'Affaires at Copenhagen regarding the treatment now accorded in that country to American property interests and the possibility of American citizens and interests obtaining permission for the transfer of funds abroad.

Enclosure:

Paraphrase of telegram.
PARAPHRASE OF TELEGRAM

To: Secretary of State
From: Copenhagen, Denmark
Date: June 22, 1940, 11:37 a.m.
No: 374

Responding to the Department's telegram of June 12, the Legation has no information regarding any cases in which there have been attempts to expropriate funds or other property belonging to Americans nor does it have information regarding any instances in which American interests have been subject to special discrimination.

Funds belonging to American firms on deposit with Danish banks are estimated at about half a million dollars. The International Harvester Corporation, the Standard Oil and Vacuum Oil Company, General Motors, Ford, and the International Telephone and Telegraph Company are the principal depositors. Even under restrictions on valuta existing previous to the occupation transfer of such funds abroad was very difficult; and as a result of the blocking of Danish credits in the United States such transactions are at present practically impossible.

With reference to the individual interests of the character described by the Department in its telegram under
under reference such cases were given special consideration
previous to German occupation and valuta was granted
relatively freely by the National Bank. Requests made
recently have been refused principally owing to the lack
of free dollars resulting from Danish credits being
blocked. In the future the cashing of dollar checks will
be affected by difficulties arising in relation to the
despatch of the checks to the United States for collection.

While it is impossible to transfer the dollar
equivalents of bank accounts and other funds through the
usual banking channels, such funds may be released and
spent in this country by relations or friends of Americans.
It might be possible to obtain permission to utilize
American Government pension checks and drafts to purchase
such funds but this would result in putting representatives
of the Government into the banking business. While the
actual working out of such an arrangement might be found
to be difficult and to lend itself to complaints of
discrimination it would appear that the only practical
method would be an arrangement for the unfreezing of
definite amounts on the basis of reciprocity.

PERKINS
SECRETARY OF STATE
WASHINGTON, D.C.

202, THIRTIETH.

MINISTER OF LITHUANIA TO FRANCE WILL BE GRATEFUL FOR DEPARTMENT'S ASSISTANCE IN OBTAINING AUTHORIZATION FOR RELEASE OF PROCEEDS OF CHECK NO. 66219 ISSUED ON MARCH SIXTH, 1940, BY BANK OF LITHUANIA ON IRVIN TRUST COMPANY AT NEW YORK IN THE AMOUNT OF $3815.34. MINISTER UNDERSTANDS THAT THESE FUNDS ARE BLOCKED AND URGENTLY NEEDS THEM FOR SALARIES AND OFFICIAL EXPENSES.

MURPHY

LMS
Telegram from London dated 30th July 1940.

Barclays Bank (D. C. and O.) Ltd. of New York hold as agents for Barclays (France) Ltd. securities on account of David Macbeth who is now in United Kingdom. It is desired to arrange for Barclays (D. C. and O.) New York to hold for account of Guaranty Trust Company of New York such of securities as are covered by our vesting orders. We should much appreciate any facilities which can be given to achieve this.
By dear Mr. Secretary:

Receipt is acknowledged of the communication of July 24, 1940 from the Acting Secretary of State, which enclosed a copy of a letter addressed to the Department of State from the Aeronautical Chamber of Commerce of America, Incorporated, dated July 5, 1940, and a copy of the Department's reply thereto.

Thank you very much for transmitting this information.

Very truly yours,

(Signed) John L. Sullivan

Acting Secretary of the Treasury.

The Honorable
The Secretary of State.
In reply refer to Co

July 24, 1940

My dear Mr. Secretary:

I refer to Mr. Hull's letter to you of June 19, 1940, with regard to flight delivery of aircraft exported to foreign purchasers and with further reference to this matter enclose for your information a copy of a letter from the Aeronautical Chamber of Commerce of America, Incorporated, and a copy of the Department's reply thereto.

Sincerely yours,

[signature]

Acting Secretary

Enclosures:

1. From the Aeronautical Chamber of Commerce of America, Incorporated, July 5, 1940.
2. To the Aeronautical Chamber of Commerce of America, Incorporated.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.
July 5, 1940

Mr. Joseph C. Green, Chief
Division of Controls
Department of State
Washington, D.C.

Dear Mr. Green:

The Consolidated Aircraft Corporation of San Diego, California, having in mind the modified regulations regarding fly-away delivery, with American crews, to Canada, have raised these questions:

1. Could the present regulations be interpreted to permit transfer of title to be effected during flight across the 3-, 12-, or 15-mile limit of our coastline?

2. Could flying boats be delivered, clearing customs, say, at New York, with title passing to the British Government somewhere over the Atlantic Ocean and with delivery either to Bermuda or direct to the British Isles?

It is assumed that Consolidated has in mind also the possibility of using U.S. flight crews on the delivery trips.

They have asked for a ruling on these points because of their difficulty in effecting flying boat operations in Canada during the winter months.

We should very much appreciate your early response to the above.

Very truly yours,

I. H. TAYLOR

Manager, Export Department
In reply refer to

Aeronautical Chamber of Commerce
of America, Incorporated,
Securities Building,
720 Fifteenth Street, Northwest,
Washington, D. C.

Sir:

I acknowledge the receipt of your letter of July 5, 1940, in which you set forth certain considerations raised by the Consolidated Aircraft Corporation with respect to the flight delivery of aircraft exported to foreign purchasers.

In reply, I have to inform you that the Department's recent interpretation referred to in your letter was intended to apply only to the flight delivery of aircraft to territory contiguous to the United States. It would appear, therefore, that delivery of aircraft by the methods outlined in your letter would not come within the scope of this interpretation.

Very truly yours,

For the Secretary of State:

Joseph G. Green
Chief, Division of Controls
Personal and Secret

July 30th, 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.
Remaining Blenheim bombed Leeuwarden aerodrome, some enemy aircraft believed damaged.

Last night 90 medium and heavy bombers attacked following targets: aerodromes Brussels and elsewhere; oil targets Cherbourg, Hamburg, Kassel, Bremen, Hamburg; aircraft factory at Wismar; marshalling yards at Hamm, Cologne; barge-building yards at Spaarndam. 12 Hampdens sent mine-laying eastern Danish waters.

2 Blenheims 1 Hampden missing.

3. During early part of yesterday, enemy activity reduced scale. One JU 88 landed intact Szechill, another JU 88 shot down Plymouth. In the afternoon, 100 enemy aircraft approaching Dover engaged by 4 squadrons of our fighters; 5 enemy fighters and 2 reconnaissance aeroplanes shot down, our casualties 2 Spitfires.

Last night, considerable enemy mine-laying activity Thames Estuary and East Coast. Most raids by single aircraft. Bombe dropped northeast Scotland, Newcastle, near Crewe, Cardiff, and southeast England. No serious damage reported, casualties 11 wounded.

One enemy aircraft crashed near Newbury; occupants escaped by parachute, still at large.

4. Summary of air casualties:

Day 28th

**Enemy**

Confirmed, 2 bombers (one landed intact) 3 fighters, 2 reconnaissance.

**British**
British

2 Spitfires.

Night of 26th/27th

Enemy

1 bomber

British

3 medium bombers.


5. Shipping casualties by air; early 26th, British "Orlockhead" (1500 tons) sunk off Thurso. British "Nathura" (9,000 tons) hit by bomb Aden; cargo of lorries wrecked.

6. Mediterranean. Malta bombed six times 26th by aircraft single or in pairs: some damage to property Grand Harbour district; later, one enemy fighter shot down by anti-aircraft.

Yesterday, a Sunderland, after attacking 3 warships near Augusta without result, was seriously damaged by enemy fighters, one or possibly two of which were shot down. Same day, another Sunderland shot down enemy fighter Malta area.

Italy. Three independent reports state that food situation Codycanese very unsatisfactory.
if blockade maintained, morale of garrison, already low, may deteriorate into open insubordination.

Fighter defense Dodecanese, reinforced by nine C.R. 48s now believed consists of 39 fighter aircraft.

Deliveries of German aircraft to Roumania, suspended about a month ago, have now been resumed.
July 30, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of July 25th addressed to the Secretary, referring to an economic commission which left Mexico City enroute to Japan.

The Secretary is absent from Washington for a few days, but I shall be glad to bring your communication to his attention upon his return.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
July 30, 1940

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H. S. Klotz,
Private Secretary.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
July 25, 1940

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

My dear Mr. Secretary:

Information has recently come to me from a confidential source that on March 17, 1940, an economic commission left Mexico City en route to Japan for the purpose of studying the possibility of establishing an intense trade current by offering to industrialists of Japan raw materials produced in Mexico, including oil, iron and other goods, and by purchasing from Japan rayon, silk and manufactured goods.

News dispatches indicated that in preliminary conferences held in Mexico City with representatives of Japanese financiers and industrialists possibilities were considered for the establishment in Mexico of large industries financed by Japanese capital, these industries to include ore smelting and refining plants. The Mexican commission was presided over by Ernesto Hidalgo, Chief Clerk of the Department of Foreign Relations, and consisted of representatives of banks, commercial houses, industrial concerns, mining companies, export firms, agriculture, salt marketers and Petroleos Mexicanos. The commission also proposed to effect a contract for the sale of petroleum to Japan, which would be shipped to Salina Cruz by pipe line.

The Japanese government, through its legation in Mexico, was said to have paid the expenses for the entire party. The interest of President Cardenas and his collaborators was fundamentally to make Mexico independent of the United States commercially and the hope that Mexico would gain a powerful commercial and military ally in Japan. It was reported to be in the interest of the Mexican government to create barter relations with Japan and this was one of
the reasons for President Cardenas' great interest in completing the pipe line from the Puerto Mexico region to Salina Cruz, at which port the Japanese could call for the Mexican oil without the necessity of passing through the Panama Canal.

A press report after the return of the commission to Mexico indicated that Mexico was beginning to send large shipments of crude oil, kerosene and gasoline to Japan in accordance with an agreement between Petroleos Mexicanos and the Casa Matsui Company, represented in Mexico City by the Laguna Petroleum Company. This operation was said to have covered 2,000,000 barrels of crude oil, 200,000 barrels of gasoline and 197,000 barrels of kerosene, the price of the products being sold to Japan being 30¢ less than that offered for such products in California.

I have just recently been advised from a confidential source that there were approximately fifty members of the commission who went to Japan ostensibly for a forty-day conference, but that as a matter of fact business was discussed on only two days. The remainder of the time they were "wined and dined" by the Japanese. They were granted an audience with the Emperor and upon their departure were showered with gifts. One of the members of the commission was given at least $1,000 worth of bric-a-brac.

Two points were stressed by the Japanese in their conversations with members of the commission; first, the justification of the Japanese invasion of China, and second, an endeavor to sell the Mexicans upon the imperialism of the United States.

Sincerely yours,

J. Ed. Hoover
CONFIDENTIAL

A telegram of July 30, 1940, from the American Consul at Rangoon reads substantially as follows:

An arrangement which is to become effective within a few days has been approved in principle by the Government of Burma which is working out the details. Under this arrangement Burma transport trucks, registered and bonded, will be allowed to run between Lashio and Kunming carrying nonprohibited cargo and enough gasoline for the round trip. No trucks of any kind have been allowed since July 18 to cross into China from Burma on the Yunnan road.
Secretary of State,
Washington.

142, July 30, 6 p.m.

North China import restrictions.

The Standard Vacuum Oil and Texas Companies report that on July 29th and July 30th, respectively, they received from the Federal Reserve Bank at Tientsin approved applications to import with link privilege for 4 small lots of gasoline received from Tientsin in bond prior to June 30th.

These are the first import applications reported by American firms to this office to have been approved with link privilege for which exchange was not settled before June 30th.

Sent to the Department. By mail to Chungking, Shanghai, Peiping and Tokyo.

Fletcher
The only transactions in registered sterling effected today by the six reporting banks were purchases of £26,000 for customer account.

The Federal Reserve Bank of New York stated that £1,000 in registered sterling were purchased from it by a non-reporting bank, and that £1,000 were sold to it by another non-reporting bank.

Sterling in the open market declined from 3.85-1/2 at the opening to 3.82 at the close. The reporting banks executed orders to sell £64,000 and to purchase £80,000. All of these transactions were for commercial concerns.

The Canadian dollar, which closed at a discount of 12-1/8% yesterday, improved slightly today. The final quotation was 11-3/4%.

The other currencies closed as follows:

- Swiss franc: .2274-1/2
- Lira: .0505
- Reichsmark: .4005
- Cuban peso: 9-15/16% discount
- Mexican peso: .2021 bid, .2041 offered

There were no gold transactions consummated by us today.

The Treasury authorized the Federal Reserve Bank of New York to transfer from His Britannic Majesty's Government Account #3 to the account of the Central Bank of the Argentine Republic, gold valued at $1,514,000.

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

- 26,000 from Ceylon, shipped by the Eastern Bank Ltd. to the Guaranty Trust Company, New York, for sale to the U.S. Assay Office.

Total $1,356,000

The State Department forwarded to us a cable stating that the Chase Bank, Hong Kong, shipped $942,000 in gold from Hong Kong to the Chase National Bank, San Francisco, for sale to the U.S. Mint.
The report of July 24 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all currencies was short the equivalent of $12,960,000, an increase of $56,000 in the short position. The net changes in the positions are as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Short Position</th>
<th>July 17</th>
<th>Short Position</th>
<th>July 24</th>
<th>Increase in Short Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>$ 947,000</td>
<td>$ 871,000</td>
<td>$ 76,000 (Decrease)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>7,672,000</td>
<td>7,762,000</td>
<td>90,000 (Increase in Long Position)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>445,000 (Long)</td>
<td>587,000 (Long)</td>
<td>122,000 (Increase in Long Position)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>272,000</td>
<td>239,000</td>
<td>33,000 (Decrease)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>3,326,000</td>
<td>3,565,000</td>
<td>240,000 (Increase in Long Position)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Asia</td>
<td>1,170,000</td>
<td>1,149,000</td>
<td>21,000 (Decrease)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All others</td>
<td>37,000 (Long)</td>
<td>59,000 (Long)</td>
<td>22,000 (Increase in Long Position)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$12,904,000</td>
<td>$12,960,000</td>
<td>$ 56,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The short position for "England" represents the banks' combined interest in registered and open market sterling. From detailed reports submitted to the Federal by a few leading banks, it appears that a small long position in registered pounds was built up in the week under review.

Gold in Bombay was unchanged at the equivalent of $33.74.

The Bombay spot silver quotation was equivalent to 44.56$, off 3/16$. In London, the price fixed for spot silver was 22-3/8d, off 3/16d. The forward quotation was 22-1/16d, off 1/16d. The U.S. equivalents were 40.68$ and 40.11$.

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

We made six purchases of silver totaling 450,000 ounces under the Silver Purchase Act, all of which represented new production from foreign countries, for forward delivery.

We also purchased 50,000 ounces of silver from the Bank of Canada under our regular monthly agreement. So far this month, we have bought 820,000 ounces of silver from that source, as compared with the agreed monthly limit of 1,200,000 ounces.
CABLE
FROM: Treasury Attache Nicholson, Shanghai, China.
DATE: July 30, 1940

For the Secretary of the Treasury.

Shanghai market July 29 closed quiet at 3-57/64 for cash and July 3-7/8 for August for sterling 6-1/16 for cash and July 6 for August for U.S. dollars. Gold bars closed at 5,383 and wai wai at discount of 4.90%.

NICHOLSON
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE    July 30, 1940

TO      Mr. Cochran
FROM    Mr. Dietrich

STRICtLY CONFIDENTIAL

I spoke to Mr. Thompson of the State Department today regarding the application for a general license by "Securitas". He stated that after consultation with Mr. Dunn they both felt that the issuance of a general license would be all right in this case provided reports were filed of the operations undertaken and that such operations were watched closely by the Treasury. Mr. Thompson further added that the State Department felt quite sure that this company was not under duress.
CABLE

FROM: Treasury Attache Nicholson, Shanghai, China.

DATE: July 31, 1940

For the Secretary of the Treasury.

Shanghai market July 30 closed uncertain at 3-55/64 for cash and July 3-27/32 for August for sterling 6 for cash and July 5-15/16 for August for U.S. dollars. Gold bars closed at 5,480 and wei wah at discount of 5%.

Nicholson
TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPE

The information contained in this series
of Bulletins will be restricted to items
from official sources which are reasonably
confirmed. The lessons necessarily are
tentative and in no sense mature studies.

Contents

1. Crossing of Rivers and Canals by German Tanks.
2. Transmission of Supplies by Air.
3. Details of Equipment Used by German Parachute Troops.

1. Crossing of Rivers and Canals by German Tanks.

The following report on German experience in trans­
porting tanks over rivers and canals during the Battle of Flanders
is from an official Allied source:

It has been reported from various sources that the
Germans have not had to deal thus far with loads over 22
tons.

Ferrying, usually the first method of getting
tanks across, is used extensively. The rafts are towed by
motor boats, and heavy rafts, built with the normal pontoon
equipment, carry 8-ton loads. One report cites the trans­
portation of an 18-ton tank on a raft built of box girders
and supported at each end by two small barges.

Tanks may be rendered waterproof and capable of
fording a river or canal if the water is not more than 3' 6".

Reports indicate that the Germans used floating
tanks in crossing the Meuse. The tanks are believed to have
been manufactured in Czechoslovakia. Since one hundred Czecho­
slovakian amphibian tanks have been recently offered for sale,
it is possible the Germans have now produced a better model.
2. Transmission of Supplies by Air.

The following is an extract from a captured document, recently issued by the German 10th Armored Division:

"Aircraft can, to a certain degree, assure the transmission of supplies in small quantities, partially by parachutes, partially by landing. This method of supply must be used only in cases of urgency. Application must be made to the Division, either by telephone or by radio. In the case of supplying by parachute, a Junkers 52 can carry, in addition to 1600 kgs. of supplies, four containers to drop.

"The contents of a container can consist of:

100 litres of fuel, or
250 kgs. of munitions, as for example,
6,600 rounds of small arms ammunition or
500 rounds of ammunition for the 20mm. tank gun, or
550 rounds of ammunition for the 30mm. anti-aircraft gun, Model 30, or
160 rounds for 37mm. tank and anti-tank guns, or
20 rounds for 75mm. tank guns, or
190 bombs for the 50mm. mortar, Model 36, or
55 rounds for the 80 mm. mortar, Model 34.

"Parachutes and containers must, in every possible case, be saved for eventual re-use. The parachutes should be packed in the containers and handed over to the Administrative Supply Services of the Division responsible for sending them back to Army Munition Depots."

Other sources advise that the containers in question are about 5 feet long by about 18 inches in diameter. If made of sheet metal, they are cylinders; if of plywood, hexagonal. When they are used to drop radio apparatus or other material subject to damage by shock, the containers are padded with cushions of sponge rubber or similar substance. Opening is lengthwise, full length of the container.

3. Details of Equipment Used by German Parachute Troops.

a. Uniform.

(1) Steel Helmet. This is of a special type, close fitting to the head like the German In-
fantryman's helmet, but without the extension down the nape of the neck. It has two chin straps to hold it firmly on the head and is thickly padded with rubber.

(2) Tunic. The ordinary German Air Force tunic, which in color and material is broadly similar to the Royal Air Force uniform, but the cut resembles rather a monkey jacket, although not quite so abbreviated. Badges of rank for officers, warrant officers, non-commissioned officers, and men is part of the shoulder-strap and collar patch markings.

(3) Trousers. The trousers of the parachutists are grey-green in color and fasten at the ankle, having a similar shape to the British uniform, and have numerous large pockets.

(4) Boots. The boots are of a special kind, having thick, heavily patterned, rubber soles. The uppers are of soft leather and are laced up the side wall above the ankle.

(5) Coveralls. Over the uniform, a loose-fitting coverall is worn. This is made of grey-green gabardine, with long sleeves, but with wide, short legs, cut off halfway down the thighs. It opens right down the front by a zip fastener and can be fastened right up to the neck. During the jump, this coverall is worn over all the equipment. Immediately the man has freed himself from the parachute, he zips open this coverall, unfastens his belt, with revolver, holster, canteen, haversack, etc., and re-buckles this on top of the coverall.

b. Parachute. All the men use automatic parachutes, worn on the back. This is said to be the same as worn by the German Air Force pilots, except that the method of packing, and the pull-out, is different. They are approximately 26 feet in diameter, with the usual hole in the top, and are manufactured either from Japanese or "Natural" German silk. The parachutes have 14 cords, which pass right over the parachute, so that there are 28 ends, and the parachute is divided into 28 sections. It measures 65 feet from apex to harness.
The parachute is folded in layers of 7 sections, with every seventh folded in a special way, so that the air catches then quickly. The first type of packing used, the R.Z.1. ("Rückenfallechirm mit Eiswagenloser") had both the parachute and its cords packed inside the container. This arrangement resulted, very often, in the cords fouling the parachute, and after a number of accidents, a new method of packing was developed.

This is the R.Z.16. In this, the parachute is packed separately from the ropes. The inner container consists of a bag shaped like an army haversack, having a large flap, which folds down over the whole of the front. The folded parachute is put in this, then the flap is put down and held by two loops of webbing, which come through to eyelets in the flap. The parachute cords, in one bunch, are drawn under the flap and then coiled through these two loops, thus keeping the flap and the cords in position. From there they are coiled under further webbing straps, on the outside of the flap.

Attached to the bottom of the haversack is a light cord, between 5 and 8 metres long, which terminates in a spring hook. This is the pull-out cord, the hook being attached inside the aircraft.

The whole haversack is next placed onto a sheet, shaped like an opened-up postal envelope, the top flap being larger than the other three. This envelope is fixed to the harness, which consists of a chest strap, a waist strap, and two straps passing between the legs. From the waist strap there is a cross-brace, ending above man's shoulders in two rings.

The ends of the parachute cords are divided into two groups of 14, which are attached to these two rings. The flaps of the envelope, which are eyeletted, are then folded over the haversack, and fastened by a thread. The pull-out cord protrudes from one corner of the bottom flap, is brought upwards, a coil made and held together behind the shoulders by rubber bands, the end is brought over the shoulder, and is normally tucked in the man's belt.

o. Weapons. It is quite clear that very little is carried by the man during the jump and that practically all the armament and ammunition is sent down in the containers. On the belt, each man carries his canteen and two haversacks, bivouac cape, and revolver holster. The gas mask is carried at the chest, a pair of egg grenades may be carried in the pockets of the trousers at the front of the thighs. In a special pocket, at the outside seam of the right trouser leg, a spring-opening jack-knife is carried for cutting the parachute cords. Canned rations and extra
underwear are often carried inside the baggy folds of the trousers round the ankles, being introduced through two slit flaps in the outside seams.

d. Equipment Container. The equipment containers are usually made of metal, although in some cases wood is used. They have colored markings to denote the unit to which they belong. They are cylindrical, or six-sided, in shape, and open along the length.

These are used for carrying all the weapons and the ammunition, the rifles being already loaded ready for instant use. Three or four are carried in each aircraft, stowed on end. They are dropped singly by the observer pulling a release lever. The parachutes are attached to one end and are either old silk ones discarded by the men, or special ones made of cotton.

e. Egg Grenade. This is an innovation with the parachute troops. The grenade is of Czech design and has a double safety device. First, there is a key, which holds a strip of aluminum tape wound around the grenade. The key is given a half turn and pulled out. When the grenade is thrown, the tape springs free and pulls out a pin, which renders the grenade live, and it explodes on contact. The key can be replaced, securing the aluminum tape again, and the grenade is safe once more.

f. Light Mortar. The following details are given:

- Height: 35 cm
- Bore: 5 cm
- Effective Range: 200 metres
- Maximum Range: 800 metres

The projectile has four vanes, and it is reported to be a very formidable weapon, because of the moral effect, the explosion resembling that of a light field gun.

There is also a heavy mortar, which is 60 cm. high, with a bore of 81 mm.

g. Anti-Tank Rifle. The anti-tank rifle is the "Solothurn," has a bore of 7.9 mm, and fires a bullet with a hard steel core and a lead casing. This rifle is fired from the shoulder, using a bipod stand. It fires single shots only, but there is an automatic breach opening and ejecting mechanism.

In addition to this, each man has a few rounds of
"S.M.H.K." ("Spitzmunition harter Kern"), which has an ordinary sized cartridge case, with the same armor piercing bullet as used in the anti-tank rifles. These can be fired from ordinary rifles and are thought to be identifiable by a red annular base marking.

h. Machine Guns. Both the heavy and light machine guns are the M.0.34. The difference lies only in the mounting and in the amount of ammunition supplied for each gun.

The light machine gun has a simple bipod or tripod mounting, whereas the heavy machine gun has a more substantial mounting, in which the traverse and elevation are operated by screws. A larger quantity of ammunition is carried for this.

i. Ammunition. Ammunition for the pistols is carried in pouches attached to the men’s belts, or loose in their pockets. For rifles, 20 clips of 5 are strung onto a strap, which, in action, is worn around the neck and the ends tucked into the belt. This is sent down in the containers.

Machine gun ammunition is in continuous belts of 300 rounds each packed in a long square tin. These tins are in Rucksacks, one in a green Rucksack and two in a blue one. These are sent down in the containers, and on landing, are taken out and worn by the men. With each machine gun there is a short belt of 100 rounds, which is stowed loose in the container ready for immediate use. Six magazines for the machine pistols are in two pouches joined by a strap, and, in action, worn around the neck.

j. Food. In Holland, the men had the following rations:

- 3 Sausages
- 3 Tins of Chocolate
- 1 Tube of Lard
- 30 Cigarettes
- 100 Hard Biscuits
- 3 Boxes of Knackerbrot
- Coffee or Tea (with or without Rum) in canteen
- 1 Field Cooking Set ("Metafuel" type)
Copy of Letter from X, Santiago, July 31, 1940.

There is nothing new in the defense law matter and it seems to me that, considering the agreement arrived at at the Habana conference, the Germans have been defeated in this matter, at least for the time being.

A couple of weeks ago there was serious danger here that a dictatorship might enter into operation under President Aguirre; both the Socialist and the Communist parties were in favor thereof. The radicals, however, showed excellent political qualities and, without abandoning the popular front combination obtained, against a change of personnel of the radical ministers, which if any will be more moderate, the assistance of the right for the dispatch of the 20,000,000 pesos for the army salaries, which was necessary in order to keep the latter contented. There is probably also a secret understanding between them against anything anti-democratic, i.e. too socialistic or dictatorial, i.e. the development is not unfavorable from a general national and commercial point of view.

The mining dollar is now in operation.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Today's registered sterling transactions by the six reporting banks consisted of purchases of £19,000 and sales of £6,000, all of which were effected for customer account.

The Federal Reserve Bank of New York stated that £4,000 in registered sterling was purchased from it by a non-reporting bank.

In the open market, sterling was first quoted at 3.82. It had a firm tone throughout the day and closed at 3.83-1/4. The reporting banks executed orders to sell £94,000, of which £64,000 were for commercial concerns and £30,000 for foreign banks. Orders to purchase £54,000, all for commercial concerns, were also executed.

The other currencies closed as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss franc</td>
<td>.2273-1/2</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>11-3/4% discount</td>
</tr>
<tr>
<td>Lira</td>
<td>.0505</td>
</tr>
<tr>
<td>Reichsmark</td>
<td>.4005</td>
</tr>
<tr>
<td>Cuban peso</td>
<td>9-15/16% discount</td>
</tr>
<tr>
<td>Mexican peso</td>
<td>.2021 bid, .2041 offered</td>
</tr>
</tbody>
</table>

We purchased $5,000,000 in gold from the earmarked account of the Bank of Sweden.

The Federal Reserve Bank of New York reported the following shipments of gold, both of which are for sale to the U. S. Assay Office at New York:

- $5,677,000 from Canada, shipped by the Bank of Canada for its account to the Federal Reserve Bank.
- $5,691,000 Total

The Bombay gold price was equivalent to $33.71, off 3%.

Spot silver in Bombay rose the equivalent of 1/16¢ to 44.61¢.

In London the prices fixed for spot and forward silver were both unchanged at 22-3/8d and 22-1/16d respectively. The U. S. equivalents were 40.6¢ and 40.11¢.

Bandy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.
We made two purchases of silver totaling 125,000 ounces under the Silver Purchase Act, both of which were new production from foreign countries, for forward delivery.

We also purchased 380,000 ounces of silver from the Bank of Canada, raising the total bought from that source during July to the agreed monthly limit of 1,200,000 ounces.

During the month of July, we purchased a total of 6,470,000 ounces of silver under the Silver Purchase Act. The sources of these purchases were as follows:

<table>
<thead>
<tr>
<th>Type of Silver</th>
<th>Ounces</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Production</td>
<td></td>
</tr>
<tr>
<td>1. From various countries</td>
<td>3,605,000</td>
</tr>
<tr>
<td>2. From Canada under agreement</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6,470,000</td>
</tr>
</tbody>
</table>

CONFIDENTIAL
I called Mr. Bolton at 12:15 o'clock p.m. today and in his absence spoke to Mr. Hawker. Were we handling purchases and sales of sterling for their account at the official rates in accordance with their wishes and was there anything in the picture which he felt impeded trading here, I inquired? I added we were surprised at the small volume offered to us. Everything so far was satisfactory, Hawker replied. The insignificant volume, he thought, was due to the fact that a good deal of the business was coming to London direct rather than through us.

I then mentioned the visit I had recently received from representatives of the foreign exchange brokers in this market who, I said, were on the verge of starvation now more so than ever because the business in free sterling was dwindling away and they could not get in on the official sterling. The brokers had inquired of us, I said, whether it would be possible for them to handle inter-bank business in official sterling at rates lying between the two official rates. If, for instance, bank A had bought commercially at 4.02 in the morning but had not been able to sell commercially and if bank B, on the other hand, had sold commercially at 4.04 without being able to cover in commercially, could the two banks, instead of A selling to us at 4.02 1/2 and B buying from us at 4.03 1/2, get together at an in-between rate, say 4.03?

Regraded Unclassified
Would that be in accordance with the Bank of England's wishes; of so there
was a chance for the broker to step in and make a little commission. The
effect of this, I continued, would of course be that official sterling would
be traded in in this market also at rates other than the 4.02 1/2 and
4.03 1/2 rates. I was not arguing pro or con, I said, but before discussing
the matter with the brokers further I would like to know what the Bank of
England's wishes were. Hawker replied that he was afraid they would not
like to hear of any quotations in the New York market for so-called registered
sterling at rates lying between their official buying and selling levels.
They had insisted that no such dealings take place in the London market and
consequently it would be very difficult and embarrassing for them in London
if such operations were allowed elsewhere. Another question raised by the
brokers, I said, was this: would we agree to sell to and buy from the market,
official sterling through brokers? I had replied, I told Hawker, that
although many years ago we had at times operated through a broker, we had not
done so in recent years. The brokers had assured me that some of the banks
might be willing to pay them a small commission for this service but I had
pointed out that such cases could necessarily be only of an isolated nature
as long as the market could at all times deal with us directly without paying
a commission. If the banks declined to pay the commission somebody else would
have to and that meant the Bank of England since we were handling this matter
without compensation to us. The result would be a market here not of 4.02 1/2
and 4.03 1/2 but of "4.02 1/2 less brokerage" and "4.03 1/2 plus brokerage".
That again, it seemed to me, would interfere with the British efforts to
have sterling quoted here officially only at 4.02 1/2 and 4.03 1/2. To
this Hawker replied that as far as the Bank of England was concerned they
could, of course, raise no objection to our dealing through brokers
provided official sterling in New York would continue to be quoted at 4.02 1/2
and 4.03 1/2.

I told Hawker that his answers were in line with what I had expected
but that in fairness to our brokers I had wanted to chat with him about
this matter before again speaking to the brokers.

I asked Hawker how they had solved this same problem in London and he
replied that the brokers had just gone out of the brokerage business which
in the circumstances had been inevitable. They had, however, been fortunate
in that the establishment of foreign exchange control, which had required
the services of close to 1,000 people, had given these brokers an opportunity
to find employment in that field.
July 31, 1940

My dear Mr. Hoover:

Your letter of July 30th addressed to the Secretary and inclosing a memorandum on Counter-Fifth Column has been received in his absence from Washington on a brief vacation. He is expected to be back in the office next Monday, and I shall immediately bring your letter to his personal attention.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
July 31, 1940

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Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
Strictly Personal and Confidential

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

Dear Mr. Secretary:

Knowing of your keen interest in what we have been trying to do in connection with so-called Fifth Column activities in the United States, as well as in the Western Hemisphere, I am enclosing herewith a copy of a document which I have just received. It is a memorandum of the Counter Fifth Column activities prepared in the War Department, having the approval of the Chief of Staff. In substance it provides for a complete change in responsibility and direction of the work which has been done on Fifth Column matters in this country.

Up to the present time, as you know, the Federal Bureau of Investigation, in line with the President's directive of last September, has been endeavoring to coordinate local activities in this respect. Great progress has been made through the excellent cooperation of the local authorities and the civil investigative agencies of the Government Departments, with the result that I do feel that today we have well in hand the situation in so far as it pertains to the Fifth Column and its activities. A national program was worked out whereby all of the local authorities have been enlisted to aid and assist in these matters. We have been able to definitely discourage creation of vigilante groups such as would exist through utilizing private civic organizations or even private individuals who might be well-intentioned but would exercise sometimes very poor judgment. Under the plan to date, any information being received is at once furnished to the interested governmental agency, including of course, the War Department and the Corps Area Commanders.
Under the proposed plan in the attached memorandum, this whole structure is changed, as you will note, and the War Department assumes entire responsibility for the handling of Fifth Column activities, not only in time of war, but also in time of peace. This latter assumption of responsibility is a very dangerous one upon the part of the War Department, it would seem to me, and is one that should be given very careful thought before it is ever acted upon, particularly at this time. Not only is there likely to be an unfavorable public reaction to the War Department's assuming jurisdiction in peace time in matters of this character, but there is a very definite possibility of confusion developing in the minds of the local authorities who have up to the present time been coordinated through the Federal Bureau of Investigation to have that procedure changed and to be coordinated through the Corps Area Commanders. In the final analysis, the local authorities cannot be compelled to do anything in peace times and their cooperation can only be enlisted through a program of education such as has been carried forth, and with a great degree of success. To change that procedure now might result in confusion and certainly interference with the proper development of a program for internal security in time of peace.

I have, of course, called the attached memorandum to the attention of the Attorney General, but I wanted you to know of it also in view of the very helpful assistance which you have been in a number of difficult situations in the past.

With expressions of my very best regards, I am

Sincerely yours,

J. Edgar Hoover

Inclosure
MEMORANDUM on COUNTER-FIFTH COLUMN.

I. Definition.

The Fifth Column is essentially a part of military operations, as much as any other military column. Its activities, based on previous, secret and intelligent planning, are coordinated in time and space with those of the uniformed forces of the enemy. Fifth Column operations are dependent for success on previous secrecy, prompt action and local surprise. They may be very diversified; but they are based on local conditions and personnel, and can be successfully met only by localised knowledge, counter-intelligence and prompt execution of suppressive measures.

II. Basic decisions.

1. Operations against the Fifth Column are war operations, and hence are military responsibilities in war.

2. Plans for these operations are military responsibilities in peace and war.

III. Basic Policies for Planning.

1. Counter-Fifth Column plans and operations must be clearly differentiated from the following, even though some agencies are used for more than one purpose in internal defense:

   a) The continuous investigation of, and passive protection from spies and saboteurs. This is primarily a counter-intelligence function of F.B.I., O.W.I. and M.I.D., supplemented by passive measures of plant protection and, in time of war, by the guarding of vital utilities, lines of communications, etc.

   b) The defense of the civil population against aerial attack: active, in the employment of air and A.A. forces; passive, in the immense organisation involved in air raid warnings, construction of shelters, supply of gas masks, provision
for air raid marshals and deputies, fire protection measures, decontamination, first aid and hospitalisation, the black-out system and the entire police control involved in all of this. This defense is open and above board — no secrecy is involved.

c) The "White Plan". This is for operations against domestic disturbances, employing federal forces only after local police or State troops have failed. For further details on the dissimilarity of this plan, in purpose and operation, from that required to counter Fifth Column operations, see attached memorandum on the "White Plan".

2. Counter-Fifth Column plans and operations must be decentralized, but also coordinated.

   a) Coordinating agency, in peace and war - the War Department.

   b) Decentralized agencies - in peace, the Corps Area Commanders; in war, Theater of Operation Commanders, through their Provost Marshal Generals.

IV. Proposed Outline of Planning.

1. War Department.

   a) M.I.D. to be responsible for the preparation of the basic plan, in coordination with -

      (1) In the War Department -
           (a) Other Divisions of the General Staff.
           (b) The Commanding General, District of Columbia.
           (c) The Judge Advocate General.

      (2) Outside of the War Department -
           (a) Department of Justice
               F.B.I.
               Other Branches of Justice controlling alien registration, U.S. Marshals, and liaison with State authorities.

           (b) Possibly other Departments of the Government or civilian organisations.

   b) War Department Planning to -

      (1) Set forth the purpose of the plan.

      (2) Contain all available information as to forms of Fifth Column operations.
(3) Outline for Corps Area Commanders the lines of cooperation with State, county and municipal authorities and F.B.I. (on advice of branches of Department of Justice).

(4) Outline possible measures of local counterintelligence and of infiltration into disaffected groups, through contact with local authorities and F.B.I. (on advice of branches of Department of Justice).

(5) Outline possible organizations to counter the Fifth Column, through use of local civilian agencies (police, constabulary, Sheriffs and deputy Sheriffs), loyal citizens or civil organizations and military police units. Purpose - to minimize the use of line troops.

(6) Determine whether legislation should be sought to carry out the above in war and, if so, prepare such legislation in consultation with the Judge Advocate General and the Department of Justice.

(7) Emphasize the need, in decentralized planning, for -
   (a) Secrecy.
   (b) Cooperation with local authorities.
   (c) Flexibility to meet local conditions.

2. Corps Area Commanders -
   a) Responsible for preparing plans in cooperation with -
      State authorities.
      F.B.I. field officers.

   (NOTE: It may be possible to decentralize further Corps Area planning to the districts covered by the various Federal courts or the 50 field offices of the F.B.I.)

   b) Plans to conform to the general principles laid down in basic War Department Plan, and to local conditions; to be susceptible of prompt execution in war by the Provost Marshal Generals of Theaters of Operations; to be reviewed by the War Department.

   Sherman Miles.
   Brigadier General, U.S. Army,
   Acting Assistant Chief of Staff, G-2.

Approved by the Chief of Staff in principle and for development, July 29, 1940.
Subject: Currency in Occupied Territory on Western Front. I.G. 5060

Source and Degree of Reliability:

Official documents and personal observation.

1. The following army decree published July 5, 1940, is of particular interest in connection with the use of currency by troops in occupied territories on the Western Front.

Heeres Verordnungsblatt

July 5, 1940,

"Various statements and reports have necessitated the issuance of the following decree:

"It is prohibited for all members of the field army to have worthless money in their possession (particularly bills which have become worthless through inflation). Anyone who possesses such money, must destroy it within 24 hours or send it back to the home country. In view of the present situation the possession of such money can only indicate that the possessor intends to use it for fraudulent purposes.

"Violations of this order should be punished severely. Rigorous investigations should be made to determine the question of whether or not a disciplinary punishment suffices or whether reports should be obtained on any fraudulent activity. In any case, a decision should be obtained from the court authorities.

"This decree will be announced to the troops immediately. The announcement will be repeated each month. Commanders will assure themselves of the observance of this decree by making occasional tests or inspections.

C-2 Distribution: 4, 5, 6

Copy No. 1, R/S; 2, L/A; 3, Section File.

From: M/A, Berlin, Germany Report #17, 428 July 31, 1940.
Non-commissioned officers and men of all units will be informed that deceit of businessmen in the occupied western areas is an act liable to punishment. Such acts seriously damage the reputation of the German Armed Forces and could place long lasting disgrace on our troops.

The Supreme Command of the Army, June 29, 1940

2. In occupied territories on the Western Front, German military personnel is paid with "Credit Kassenscheine" which is a special kind of mark. A rate of exchange is established between this money and the local currency of the country. Local business people accept these "Credit Kassenscheine" in exchange for goods at a fixed rate of exchange. Business houses or individuals in turn can redeem this money for local currency at the banks. It has been announced that eventually a settlement will be made between Germany and the country involved.

Hence, business in occupied territories in the Western Front areas is carried on by means of the "Credit Kassenscheine" as well as local currency.

The "Credit Kassenscheine" were said to be issued in order to avoid the use of a large number of various types of illegal German marks that have been circulating in foreign countries, especially those immediately bordering Germany.


1st ind.

Forwarded:

E. R. Peyton, Colonel, G. S. C., Military Attache.

From: M/A, Berlin, Germany

Report #17, 428 July 31, 1940.
FINDSIAL SITUATION IN BELGIUM AS OF JULY 31, 1940

From:
Edward A. Dow, Jr., Vice Consul
American Consulate, Brussels, Belgium

Date of completion: August 2, 1940
Date of mailing: 3 AUG 1940

Despite the cessation of military operations in Belgium, the country continues to form part of a zone under military administration and the financial situation is still an abnormal one. The general conditions prevalent in the middle of June(*), had not altered up to the end of July since although a number of important financial measures were introduced by the German authorities between June 15 and July 31, their practical effect on the financial situation still remains to be clearly seen.

The following financial measures of importance were put into effect in Belgium during the period June 15–July 31, 1940:

1. Bankaufsichtsverordnung of June 14, 1940 published in the Verordnungsblatt für die besetzten Gebiete of June 17, 1940, No. 2. This measure establishes a Bank Control Office (Bankaufsichtsamt) for Belgium, with its seat in Brussels. The office is to have general

* See report of June 10, 1940.
general control over all banks in Belgium and is authorized to
examine the books of any bank as well as to forbid any type of
banking transaction. The office may withdraw powers of attorney
from the representative of a bank and may designate another person
in his place. The Verordnungsblatt of June 17, 1940, No.3,
announced that pursuant to the foregoing decree Dr. Hans von
Becker was appointed Director of the Bankaufsichtsamt as well as
Commissioner to the National Bank of Belgium.

2. Devisenverordnung of June 17, 1940, published in the
Verordnungsblatt fur die besetzten Gebiete of June 27, 1940, No.3.
This decree forbids transactions in foreign exchange without special
license, prohibits transactions at other than the official rates
set, prevents the transfer of money outside of Belgium without
special permission and orders Belgian citizens to declare any
foreign currency, stocks, bonds or other foreign assets which they
may hold. Payments to foreigners within Belgium may not be made
without permission and all credits against foreigners are blocked.

This decree will be reported on more fully as soon as possible,
at which time more indication as to its operation may be available.

3. Decree of June 27, 1940 creating the Bank of Issue of Brussels
(Verordnung über die Emissionsbank in Brüssel), published in the
Verordnungsblatt fur die besetzten Gebiete of July 6, 1940, No. 5. A
separate report is being forwarded herewith on this decree.

4. Notice of July 10, 1940 concerning the establishment of a
Clearing System between Belgium and Germany (Bekanntmachung über die
Einrichtung eine Verrechnungsverkehr zwischen Belgien und dem
Deutschen Reich), published in the Verordnungsblatt of July 10, 1940,
No. 6. A separate report will be forwarded on this measure.

5.
5. Legal Tender Decree of July 22, 1940 (Gesetzlichen Zahlungsmittelverordnung), published in the Verordnungsblatt of July 25, 1940, No. 5. This measure provides that legal tender in Belgium shall include the Belgian franc, the belga, notes issued by the Reichskreditkassen (Reichskreditkassenscheine) and coins issued by the Reichskreditkassen. The decree also fixes the value of the Belgian franc in relation to Reichskreditkassen currency at 8 Reichspfennige and of the belga at 40 Reichspfennige.

Under an Army order of May 10, 1940 the value of the Belgian franc had been fixed at 10 Reichspfennige and the July 22 measure consequently brought the value of Reichskreditkassen currency to the same level as that of Reichsbank currency, namely 12.50 Belgian francs to the Reichsmark.

By a similar decree, also dated July 22, the value of the Luxembourg franc in relation to Reichskreditkassen currency was fixed at 10 Reichspfennige, or at the same rate as that prevailing between the Luxembourg franc and the Reichsmark.

The above measures were issued by the Military Commander of Belgium and Northern France (General von Falkenhausen), the preamble to each stating that they are issued by him under the authority vested in him by the Commander in Chief of the German Army.

Copies of the Verordnungsblatt fur die besetzten Gebiete, referred to above, are being forwarded separately. It should be mentioned that the Verordnungsblatt, particularly in the case of the earlier issues, has often not been available for some time after the theoretical date of issue.

File No. 351, cef/r
SECRET

July 31, 1940.

Subject: German Air Attack on Great Britain.

The following are paraphrases of questions cabled the Military Attaché, London, and his answers thereto:

Question 1: In connection with the prospect of an intensive air attack on the British Isles, what is the opinion of your Assistant Military Attachés for Air and yourself as to whether or not the German Air Army will fight the Royal Air Force to a finish?

Answer: There are differences of opinion among the Air officers, whose beliefs are as follows: Colonel Spatz believes that the Germans will not fight to a finish in the air. Colonel Scanlon believes that the German Air Army will attack until they gain superiority in the air. Colonel Hunter believes that the German air arm will not fight to a finish if this results in a decisive weakening of their air power. Major McDonald believes that Germany is prepared to go to any extremes and will accept the losses necessary to neutralize the Royal Air Force. It is my own independent opinion that the enemy air force will fight the British only up to a point where their losses threaten to give Russia and Italy air superiority over them.

Question 2: What are the estimates of the same officers of the relative air strengths of the two sides?

Answer: Taking into account all factors, including the employment of Italian air forces, the estimates of the Air Attachés vary from 2 to 2 1/2 to 1 against the British. My independent estimate is that the relative strength is about 2 to 1.

Question 3: What are the opinions of the same officers of the probable outcome of the German air attack, considering air operations only?

Answer: It is the consensus of opinion of the Air Attachés that the German Air Force cannot defeat the Royal Air Force in the air; and that it cannot gain superiority in the air unless British aviation can be immobilized by a concerted attack, using gas and high
explosives in a lavish manner. It is my independent opinion that regardless of the established superiority of British pilots and aircraft, the Royal Air Force can be immobilized if the Germans make continuous attacks, using their air power only against British aviation, with the lavish use of high explosives and toxic gas. This would be particularly effective if they should employ infiltration tactics in the air such as they have heretofore used on the ground. If, however, the Germans divert any considerable portion of their combat aviation to the attack of other objectives, such as shipping, munitions plants, or the civilian population, I believe that they will fail. Bearing on this subject, we have just been informed authoritatively that the British Fighter Command has quietly been doubled in size; and that the total number of fighter squadrons is 60. Many of these consist of five sections of three planes each. The total number of fighter planes assigned to squadrons is now over 1,100, of which about three-fourths are operating, giving a first line strength of about 825. However, the squadrons average over 13 pilots; so that in an emergency about 1,080 fighters could take the air simultaneously.

A high official at the Air Ministry believes that the initial German attack will aim at the immobilisation of the defending Air Force, depending mainly on gas. Officers of the British Chemical Warfare Service expect that the Germans will use gas, probably mustard and lachrymatory, on British airfields, employing spraying and air bursting bombs up to 1,000 pounds similar to those used by the Italian Air Force in Ethiopia. The Royal Air Force have greatly increased the dispersion of their aircraft and has taken increased precautions, especially in defense against gas.
Secretary of State,
Washington.

217, July 31, 5 p.m.

FOR THE TREASURY FROM MATTHEWS.

The Bank of France has announced that at the request of the Finance Ministry all balances in the name of either physical or moral Swedish persons are blocked until further notice.

Governor Fournier is returning to Paris today.

The Guaranty Trust has sent off most of its securities personnel to Paris and plans to remove its securities from Nantes "in occupied territory" to Paris.

In the face of criticism on the part of some of its clients for its failure to maintain even a small staff for cashing depositor's checks at Paris Mutualty has cabled New York for its views on whether the National City Bank should follow the lead of other American banks and provide minimum facilities there. (You will recall that the National City Bank is the only American bank with none of its assets in occupied territory.)
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 afternoon of July 30th.

Yesterday morning in an attack on Dover harbour by about 40 enemy aircraft, destroyer depot ship "Sandhurst" received slight damage. One auxiliary patrol vessel sunk and one Danish merchant vessel (1100 tons). Same evening destroyer "Delight" bombed by 16 enemy aircraft off Portland seriously damaged by near misses; 147 personnel believed landed. Casualties one killed 13 wounded.

Armed merchant cruiser "Aleutian" describes enemy raider as about 8000 tons with director firing. Firing opened at 6000 yards with great accuracy, second salvo rendered useless "Aleutian's" fire control and serial. Range subsequently closed 9,000 yards when raider turned away behind smoke-screen after having been hit. Damage inflicted on enemy not known. No damage to "Aleutian's" armament.

Early on morning of July 29th destroyer "Skate" un成功zly attacked by torpedo off Beachy Head. Subsequently four attacks carried out by two of our destroyers and one trawler resulted in oil rising.

Position
Position buoyed and trawler standing by.

About 20 E-Boats located July 28th
in North French ports.

2. Royal Air Force. Night bombing operations
July 28th/29th hampered by weather, intense anti-
aircraft and searchlights. Oil targets, aircraft
factory and railway targets engaged as primary
and several aerodromes as secondary. Accurate
estimate of results not possible. Oil tanks at
Cherbourg successfully attacked several hits and
serious fires seen.

14 Blenheim I despatched yesterday. 7
abandoned tank, one missing. Targets attacked:
aircraft depot, oil refineries, aerodromes, ship-
ping and barges. Photographs of Somme-Canal
show new squadron empty but old still
in use.

Last night 5 Blenheim I heavy bombers
sent to attack shipping at Malmö, 4 oil targets, also
railway targets; 12 Hampdens sent mine-laying
Copenhagen and Emden. All aircraft returned
safely.

3. German Air Forces. Yesterday morning
enemy aircraft attacking Dover harbour engaged
by 4 fighter squadrons. 13 bombers and 9
fighters shot down, 25 losses 3 fighters.
Unsuccessful attack also made on convoy off
Orfordness same evening by 30-40 aircraft. This
formation intercepted, two He 110's shot down.
No British casualties. Another large formation
approached southwest coast about 6.15; majority
turned off.
turned back, a few attacked naval vessel off Portland as already reported. This formation not intercepted. Last night enemy mine-laying suspected entire length of east coast; few aircraft crossed coast and little bombing. Only casualties reported, 4 slightly injured.


Enemy: Confirmed; 7 HE. 109's, 2 HE. 120's, 10 JU. 87's, 2 JU. 88's, 1 HE. 111. Total 22.
Unconfirmed; 2 HE. 109's, 1 HE. 110, 5 JU. 87's, 1 DIT 215, 1 DIT 17. Total 10.

British: 2 Spitfires (1 pilot safe) 1 Hurricane, 1 Blenheim. Total 4.

5. Shipping casualties, By mine July 28th.

British ship (3,000 tons) inward-bound, carrying iron ore sunk off Liverpool; British ship (6000 tons) carrying iron ore damaged off Harwich, tug sent to assist; British ship (1,200 tons) carrying coal sunk off Harwich; last two in north-bound convoy.

6. Malta.

Yesterday formation of fighters and bombers approaching the island turned back without dropping bombs.

Aden.

July 31, 1940

Under Secretary Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

Following our conversation this forenoon, I have talked with Mr. Foster, the officer in the Department of State who has information in regard to the whereabouts and duties of American Foreign Service personnel in France. Mr. Foster stated that only a small group of our Embassy officers are at Vichy. Mr. Matthews, the report to us, is in this group.

There is on the Embassy staff in Paris a young officer named William J. Trinkle, with the rank of diplomatic secretary and vice consul, who has had special training in economics. He was chosen by the State Department two years ago for a special detail to Princeton for one year's graduate study. Since going to Paris a year ago he has done considerable work on Foreign Exchange Control reporting. He has a working knowledge of French and has substituted for Matthews in the latter's absence.

There is also in Paris Mr. Albert George, an American secret clerk who served in the Intelligence branch of the A. R. F. and has since then been constantly with the Embassy. Mr. George has a thorough knowledge of French and an exceptional understanding of French finances. I had no junior officer such as Trinkle during my seven years in Paris, but used George heavily as assistant. He has a wide acquaintance among financial and banking circles in France, including all of the American branches established in Paris. He is absolutely dependable and discreet. He is around fifty, while Trinkle is around thirty.

If the Secretary desires that an officer be assigned to the task which he wants done in Paris, Trinkle is the man. If he wants work done with less notice thereof possibly being taken, George would be preferable. Whenever I used to come to the United States on visits, George carried on my work dependably. He does not turn in colorful reports, but is safe.

In any event, I am convinced that we should not put any new men on financial or banking reporting in Paris pending Matthews' return. Both Trinkle and George worked in Matthews' financial section, and their continuing certain inquiries during his absence would seem quite normal.

If the Secretary desires instructions sent to either Trinkle or George, the Treasury can ask the State Department to send a cablegram to Murphy, our George d'Affaires at Vichy, requesting that he send through, by courier, a message to our office in Paris, indicating what Trinkle or George should do. It will not be possible for either of these men in present circumstances to report regularly to us by cable. Any messages would have to be sent by courier to Vichy and then cabled.
I am strongly opposed to the idea of Matthews trying to travel back and forth between occupied and unoccupied points. Furthermore, I do not favor anyone undertaking a task for the Treasury which would risk being accused of espionage. Consequently, therefore, a member of the Treasury staff already established in Paris should be utilized for such work as we may wish done.
TO THE SECRETARY:

Regarding your suggestion that we have a man in France to observe and report on the treatment branches of American banks receive under present conditions there, the following is a list of names for consideration:

1. **Bank Examiners:**
   
   (a) **L. A. Jennings.** - Thirty-four years of age; appointed as Assistant Bank Examiner in 1929 and as Examiner in 1935. He has no extensive education but his superiors report him capable, energetic, dependable, and industrious. He has examined branches of American banks all around the world. However, he speaks no French.

   (b) **Frank N. Goodwin.** - Thirty years of age; was appointed Assistant Bank Examiner in 1935. He has an excellent education. AB Harvard, MBA Harvard, and one year course at Cambridge University, England. He is quiet but a satisfactory examiner. Gus Folger thinks highly of him. He has helped Jennings (above) examine South American branches.

2. **Customs Attachés:**
   
   (a) **Bernard Waite.** - Sixty years of age. He has been in the Customs Service for a number of years and in Paris since 1935. He was in Bordeaux three weeks ago, at which time he was told officially to go back to Paris. It is assumed that he is there at this time although no word has been received from him. He is discreet, a good observer and probably could give a good account of the situation.
Mr. Dow says that Waite has his likes and dislikes, but thinks that he would do a good job on this particular work.

(b) D. J. Delagrange. - Customs Attaché; 43 years of age; fairly good education; speaks French, Spanish and some German. Served as Customs Attaché in Paris since 1930, but recently returned to this country with other Customs Attachés. Has a good record but does not have the personality or approach that Waite does.

3. Embassy Employees:

(a) H. F. Matthews. - First Secretary of the Embassy in Paris, now located at Vichy, France. As you know, he reports to us now on financial matters. Probably would have difficulty in getting back and forth from Vichy to Paris.

(b) Miss C. Trimble. - Diplomatic Secretary and Vice consul. Has had special training in economics. Has been in Embassy at Paris for one year, during which time he has done considerable work on foreign exchange control work. Has working knowledge of French and has substituted for Matthews in his absence. He is now in Paris.

(c) Albert George. - Served in Intelligence Branch of A.E.F. and since that time constantly with Embassy in Paris. Made reports to Treasury in Cochran's absence. Trimble and George both work in Matthews' section. George is also in Paris.

Waite is probably now in Paris and we could instruct him to make the reports you desire although I raise the question as to whether we should not continue to get all such reports from the Embassy staff. There might be difficulty in sending a new
man from here as he would in all probability have trouble getting through the German lines. Before we definitely make up our minds, it might be well to ask for a recommendation from the Charge d'Affaires of our Embassy in France. I am inclined to favor Trimble or George, preferably the latter because of his long experience.
Dear Mr. Purvis,

Mr. R.W. Bingham, the son of the late U.S. Ambassador to London, whom I understand you have seen recently, called to see me this afternoon to say that he would like to have the following proposal put up to you:

He states that Mr. H. Agar, the editor of the Courier Journal (Mr. Bingham's paper) Louisville, Kentucky, is a close personal friend of Jesse Jones. Mr. Agar has had several conversations with Mr. Jones, in the course of which it emerged that the latter would be willing to make available R.P.C. money to us for the construction of a factory to make some war material of which we were badly in need, and for which the U.S. Government would also have a use.

Mr. Bingham has accordingly asked me to find out from you whether you have any such project in mind, to cost say, twenty million dollars. If so, and you can tell me exactly what it is, Mr. Agar will be glad to take the matter up with Mr. Jones.

I have no means of judging how accurate this information is, and it may well be a cock and bull story, but Mr. Bingham has just arrived from London with introductions from the P.M.'s close associate, Brendan Bracken. He claims to have ready access to the White House, and it is clear that he is passionately devoted to the Allied cause. Whether or not, he is, in fact, able through the medium of Mr. Agar, to put such a scheme as that outlined above in force or not, it is important in view of his connections that he should not become discouraged or critical of us for failing to take him seriously.

I would accordingly be grateful if you would let me know whether you wish me to do anything in this matter, and to have an indication of what line you wish me to take with Mr. Bingham.

Yours sincerely,

Arthur Purvis, Esq.,
British Purchasing Commission,
15, Broad Street, New York.

Regraded Unclassified
P.S. Since writing the above, Mr. Bingham has telephoned to say that he saw Jesse Jones to-night who confirms his readiness to act in this manner.

[Signature]
Dear Mr. Purvis,

Mr. R.W. Bingham, the son of the late U.S. Ambassador to London, whom I understand you have seen recently, called to see me this afternoon to say that he would like to have the following proposal put up to you:

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Arthur Purvis, Esq.
British Purchasing Commission,
15, Broad Street, New York.
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Arm.
Dear Mr. Bridge,

May 7th, 1940

Washington, D.C.

British Embassy

15, Broad Street, New York.

Arthur Purvis, Edg.

Dear Mr. Bridge,

I want to take this opportunity of thanking you for the
matter, and to have an introduction of what time you

would be glad to take.

The matter up with Mr. Jones.

We have the accordantly asked me to grind the

cooperation which would have a use...

which we were ready in need, and for which the U.S.

have been accordantly asked me to grind the

end.

May you have a good new.

with the idea that Mr. Jones.

put up to you?

set that he would like to have the following proposed.

that we could join, whom I understand you have

ambassador to London, whom I understand you have

Mr. R.W. Bridge, the son of the late R.G.

Dear Mr. Bridge,

By S.A.R.N.N.
P.S. Since writing the above, Mr. Bingham has telephoned to say that he saw Jesse Jones to-night who confirms his readiness to act in this manner.
BY SAFE HAND.

BRITISH EMBASSY,
WASHINGTON, D.C.
July 31st, 1940.

Dear Mr. Furvis,

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Arthur Purvis, Esq.,
British Purchasing Commission,
15, Broad Street, New York.

Yours sincerely,

[Signature]
P.S. Since writing the above, Mr. Bingham has telephoned to say that he saw Jesse Jones to-night who confirms his readiness to act in this manner.

JFM.
Extract from a letter dated July 31, 1940 from Ambassador Bowers to Mr. Welles:

The attempt of the French to have us release $415,000 to them on the ground that they had contracted for the purchase of that much in beans and lentils here is most interesting. I have talked with Sartiges and also with the British Embassy and the facts are these:

The French Legation did authorize agents here to make these purchases in March; a large payment was to be made on April 1st; it could have been made then from the money in New York, but the French hoped to convert francs and thus the agents were held up for two months. The agents had bought in pesos out of their own pockets and becoming alarmed they went to the British Embassy. The Embassy suggested to London that to save these English agents heavy loss the British take the beans and lentils. This was done. It bought 75% of the produce, paying the agents in sterling and taking possession of the beans and lentils. When this arrangement was made the British went to Sartiges and said that as a friendly gesture to an ex-ally, they would take the contract off their hands. He seemed much relieved and pleased.

Then something happened in Paris and the Legation here became passionately eager to take over the produce which it knew could not possibly be sent to France since no French ships come here and the British Embassy had notified it that no British ships would be authorized to take it. Yesterday the French called
may be of some value to you in preparing on the matter later.

Perhaps the background matter presented yesterday was vital, he does not believe over the
little craft that has been in the act when he can say for his benefit reported what had taken place. I think poor vertices take this a sheet.

I have been shown the minutes of the conversation on the coin to ensure a precedent for getting all the money in New York.

The British feel that it is hoped to get the 200,000

coastline. The British feel that it is right that we should not take the action here, and we have been informed that the British are preparing to leave the West African programme here, and

the United States was responsible for their not getting the

to postpone until after the war, and they told the Germans that to refuse to join the German fleet in any discussion or even insistence on it at the conference in the Mediterranean - the Germans

then, though they had had the money from the British. It was

in the British purchase of the agent here and addressed to Dr. L.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Algiers, Algeria

DATE: July 31, 1940, 3 p.m.

NO.: 69

It would be of great assistance to receive some explanation of what the exact present situation is in the United States with regard to French official and private funds. There are vague statements in the newspapers that the United States has "blocked" French funds. This Consulate General is receiving inquiries not only with regard to the personal accounts of Frenchmen who are domiciled in the U.S.A. and other places, but also inquiries as to funds in the U.S.A. which are controlled by the Office du Change, both commercial and official funds.

The Consulate General has as yet received no intimation that there might be blocking of American accounts, or that due drafts of the Consul General might be turned down.

The prevailing rate of exchange is still 43 9 and 7.

COLE.
Dear Henry:

It has seemed to us that one of the most useful things we could do in this situation was to try to set down in carefully considered articles in our Monthly Letter the essential principles bearing on such current problems as the excess profits tax. I am enclosing a proof copy of the article on this subject which we shall have in our August 1st letter, in the hope that you might find in it something of value.

I have not followed up the matter of bringing to see you the supervisor of our Argentine business, Leo Welch, because he has been in Havana for the period of the conference, and I understand he has been helpful toward bringing about some of the results which seem to me very satisfactory. I shall try to bring him in to see you some time later, as he will be in this country for some weeks.

There seems a little lull in our activities here, and we are pretty well set with our new organization, so I am planning to leave Friday for a brief holiday.

My sympathy on the Washington heat.

Sincerely yours,

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

encl.
Some of the paper companies, as a result of the heavy demand for the various paper and pulpboard products, have experienced a restricted supply situation created by the war. We have reported the highest rate of profit in several years. The same is true of certain lumber products. Among the few textile companies which issue quarterly reports, the outstanding gains were in rayon, as the production of which in 1939 was three times that of 1929, yet continues to grow at a rapid rate.

In the baking and some of the other food industries, on the other hand, the weakness in commodity prices mentioned above has shown down sales and held down earnings for the first half year, while the unseasonable weather during Spring and early Summer hurt the ice cream and dairy products industry. Petroleum refining companies, most of which made sharp gains during the first quarter as a result of the heavy demand for products (including fuel oil), have been affected to a lesser extent. Sales figures indicate that the increased federal excise and income taxes.

Change in Half Year’s Sales

Sales figures issued by 40 large manufacturing companies aggregate $2,757,000,000 for the first half year, and represent a gain of approximately 20 per cent over the $2,290,000,000 total for the same companies in the first half of last year.

Railroad and Utility Earnings

Railroad freight and passenger traffic has shown gains over last year in each of the first six months, with total operating revenues for the half year up about 11 per cent. Total operating expenses increased by only 7 per cent, and the balance of net operating income (before fixed charges) rose by 46 per cent. It is estimated that, for the class I systems as a whole, there was a net profit after interest charges in June, and a small deficit for the six months’ period, in contrast with a deficit of $92,000,000 a year ago. The high level of carloadings in July indicates a continued improvement in earnings for that month.

Considerable progress has been made this year toward reorganization of the numerous systems that are being operated by receivers or trustees, and certain roads are expected to complete their reorganization and be restored to solvency by the end of the year, with the elimination of their defaulted securities from the market and the issuance of new securities in exchange.

A group of 25 large public utility systems supplying electric light and power, gas and other services, and reporting for the twelve months ended June 30, showed an increase of about 5 per cent in total operating revenues over the twelve months of the year previous. Because of the increase in operating expenses and taxes, however, the increase in net income was only 3 per cent.

The American Telephone & Telegraph Company and its principal telephone subsidiaries, reporting for the twelve months ended May 31, had an increase in total operating revenues of 6 per cent. Despite an increase in operating expenses and taxes, the net income rose by 20 per cent, due in part to increased income from investments in non-telephone subsidiaries.

Defense Expenditures and Taxation

In the President’s regular budget message last January, military and naval expenditures for 1941 were estimated at $1,840,000,000. This total was looked upon then as an unusually heavy item for defense, and was in fact the largest for any year since 1920. However, that alarm developed over the European situation, the President submitted supplementary requests for $1,182,000,000 on May 16 and $1,373,000,000 on May 27.
277,000,000 on May 31. Actually, Congress went well beyond these figures, with the result that by the end of June total defense appropriations, including contract authorizations approved this session and available for the fiscal year 1941, had risen to $5,084,000,000.

To this total must now be added the $4,848,000,000 requested by the President July 10 for defense purposes, which would bring total funds available for such purposes to almost $10,000,000,000. This total includes only relatively small appropriations for the first year of the "Two Ocean Navy" program, authorized by Congress in July, calling for a 70 per cent expansion in naval tonnage over the next six years, the direct cost of which has been estimated by the Navy Department at more than $4,000,000,000. These figures, of course, are in addition to the ordinary running expenses of the Government, and such extraordinary expenditures as those by the WPA, PWA, AAA, or other agencies of the Government, which, together with defense expenditures, resulted in a deficit for the year ended June 30, 1940 of $3,612,000,000.

Ways and Means of Meeting the Estimates

The series of Treasury deficits resulting from business depression after 1929, forced a general increase of taxation. The Hoover Administration took the first steps toward increasing taxes and the Roosevelt administrations have been seeking more revenues ever since. Practically all of the reductions in income taxes that had been made between the end of the war and 1929 were restored, and excise taxes were expanded in like manner.

As soon as the defense program was started, work began on a new revenue bill, which became a law in June and was reviewed in these columns last month. It is estimated to yield approximately a billion dollars a year, which even yet remains an important sum. The largest item of increase will come from lowering income exemptions in both married and single groups and increasing rates. The yield from excise taxes will be increased by adding new subjects and raising rates.

On July 1, the President sent another message, proposing a "steeply graduated excess profits tax to be applied to all individuals and corporate organizations without discrimination."

When this message came Treasury officials, Army and Navy officials and the Defense Advisory Commission were in a state of perplexity on account of the Vinson-Trammell Act, which had become a law but shortly before. The act limited profits on airplane or shipbuilding contracts to 8 per cent under competitive bidding or 7 per cent under "cost-plus" arrangements. Contractors were urging that while these rates might be ample if account were taken of all costs and if the business could be counted upon to continue until new machinery and plants were fully amortized, actually neither of these conditions was fulfilled. In determining costs incurred on government contracts, certain normal items of expense are not allowable deductions,—for example, federal and state income taxes, interest on working capital loans, losses in connection with research and development, and other items. Thus, in fact, the maximum possible profit would fall considerably lower; and of course even this is not guaranteed. Considering all the normal hazards of doing business, plus uncertainty as to the duration of the present demand, contractors were naturally hesitant about building special plants for war purposes on these terms.

One of the most vexing phases of this problem has been the rate at which manufacturers taking war orders would be permitted to write off new plant and equipment in computing taxes. At present the rate is limited to 10 per cent annually which means that it will take ten years to write off plant and machinery that may become virtually worthless much sooner. New capital is not readily attracted for investment when current profits are so heavily raised as to provide little reserve against potential losses. While it is true that under the present law the Treasury has authority to allow greater than the usual charge-off on proof that the facilities have in fact become worthless, business men are reluctant to take chances on future rulings.

Thus, much business has been held up and valuable time lost. However, on July 10 an announcement was made at the White House which alters the outlook considerably. The statement said that after a conference by the President with representatives of the Treasury, the Federal Loan Administrator (Mr. Jesse Jones), the National Advisory Defense Commission (Mr. William Knudsen), and Congressional leaders—

It was unanimously agreed by those attending that the excess profits tax bill soon to be introduced will incorporate a provision for amortization, over a five-year period, of additional facilities, including both plant and equipment, certified as immediately necessary for national defense purposes by the Army and Navy Advisory Commission of the National Defense Council.

It was also unanimously agreed that the proposed excess profits tax bill, which will apply generally to all industries, will be substituted for the excess profits provisions of the Vinson-Trammell act, which now apply only to Army and Navy aircraft and naval vessels.

Encouraging as this is, it is still too soon to say what the effects will be. Whether a five-year amortization period will be regarded by manufacturers as adequate protection remains to be seen. The National Defense Advisory Commission is reported to have recommended four years, and perhaps even a shorter period might be desirable in some cases. Moreover, the new proposals still have to be approved by Congress, and, finally, there is the prospect of new taxes looming ahead.
The Excess Profits Tax As Proposed

It is this last which is giving business men particular concern. Their anxiety, however, does not arise from the expectation of making large profits out of national defense, but rather from a wish to avoid losses. They know, too, that if the risks of investment are made too great, new capital will be difficult to obtain through the normal channels; hence not only impeding the development needed to maintain employment and increase the national income out of which additional taxes might flow, but also retarding the now vitally necessary expansion of the defense industries. Some of the tax proposals which have gained a hearing in Congress have been so extreme that business men have been greatly disturbed and hardly know what to expect. Yet they must know what they are up against, if they are to make plans for the future.

It is generally assumed that the excess profits tax recommended by the President would apply chiefly to corporations, and would provide a sharply rising scale of rates to the incomes of corporations whose profits might be swelled as a result of the defense program or by this country's actual entry into war. The meaning of that part of the President's message touching individuals was not quite clear. It would be extraordinary to subject individuals to a steeply graduated excess profits tax in addition to the already steeply graded income surtaxes, which in the upper brackets leave very little income to be taxed. Recent reports from the discussions in Congress appear to indicate that this difficulty is being recognized, as it was in 1918, when a similar tax imposed in 1917 was repealed.

The excess profits tax proposal, as applied to corporations, calls for a new tax quite different from the present excess profits tax, but corresponding to the war and excess profits taxes in force during 1917-21. During those years, in addition to income tax, corporations were subject to a capital stock tax on the current value of their stock capital, and to a war excess profits tax based on "invested capital." Generally speaking, the "invested capital" had no relation to current value, but was strictly limited to the capital contributed by the shareholders plus earnings retained in the business. Earnings in excess of 8 per cent on such "invested capital" were considered excess profits and were taxed at graduated rates ranging from 20 to 65 per cent. The latter tax was repealed in 1921, and the capital stock tax in 1926.

In 1933, the capital stock tax was reenacted; but instead of basing it upon the actual current value of the capital stock, corporations were allowed to declare whatever value they pleased, without regard to current value, under penalty of paying an excess profits tax, at comparatively low rates, if their earnings exceeded 15½ per cent (later 10) of the value so declared, with annual adjustments. Naturally corporations tended to declare high values for their stock so as to minimize the excess profits tax.

Whether the present capital stock-excess profits combination taxes are retained or not, the proposal calls for a new graduated tax on earnings in excess of a normal standard. Such normal standard will probably be determined by the "invested capital" method used under the earlier laws, or by taking the average earnings for some period of years prior to 1940, or by a combination of those two methods.

Present and War-time Corporate Taxes Compared

The proposal for a new excess profits tax comes at a time when corporate taxes and corporate income generally are far different than when the war excess profits tax was originally imposed in October 1917, six months after our entry into the war. At that time, corporate incomes were relatively high, the normal federal income taxes were relatively low, and all other taxes (state, local and miscellaneous federal) were likewise low. At the present time, however, all three of these conditions are reversed, as may be seen from the table below and the diagram on the next page.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income before Federal Income Taxes</th>
<th>Total Net Income</th>
<th>Net Income from Excess Profits</th>
</tr>
</thead>
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<td>1918</td>
<td>$21,070</td>
<td>$21,070</td>
<td>$0</td>
</tr>
<tr>
<td>1919</td>
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<td>$0</td>
</tr>
<tr>
<td>1949</td>
<td>$21,070</td>
<td>$21,070</td>
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</tr>
<tr>
<td>1950</td>
<td>$21,070</td>
<td>$21,070</td>
<td>$0</td>
</tr>
</tbody>
</table>

Source: Compiled from Statistics of Income, Treasury Department. (a) Includes tax-exempt interest received, but excludes intercorporate dividends received. (b) Cash dividends on preferred and common stock. Includes stock dividends and intercorporate dividends paid. (c) Includes all interest realized. (d) Statistics of Income; excludes tax-exempt interest received. (e) Not reported. E-Estimated. - Deficit.
Rates of Corporate Income, War and Excess Profits Taxes

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Tax Credit Rate</th>
<th>War and Excess Profits Tax Credit Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1915</td>
<td>$1</td>
<td>2%</td>
</tr>
<tr>
<td>1916</td>
<td>$2</td>
<td>2%</td>
</tr>
<tr>
<td>1917-19</td>
<td>1½ to 4%</td>
<td>20 to 30% on invested capital</td>
</tr>
<tr>
<td>1918</td>
<td>$2,000</td>
<td>12%</td>
</tr>
<tr>
<td>1919-21</td>
<td>10%</td>
<td>30 to 40% on invested capital</td>
</tr>
<tr>
<td>1922-24</td>
<td>10½%</td>
<td>30 to 40% on invested capital</td>
</tr>
<tr>
<td>1925-27</td>
<td>13%</td>
<td>30 to 40% on invested capital</td>
</tr>
<tr>
<td>1928-30</td>
<td>13%</td>
<td>30 to 40% on invested capital</td>
</tr>
<tr>
<td>1931-33</td>
<td>12%</td>
<td>30 to 40% on invested capital</td>
</tr>
<tr>
<td>1934-35</td>
<td>13%</td>
<td>30 to 40% on invested capital</td>
</tr>
<tr>
<td>1936-37-a, b</td>
<td>13½% to 19%</td>
<td>30 to 40% on declared capital</td>
</tr>
<tr>
<td>1938-a</td>
<td>13½% to 19%</td>
<td>30 to 40% on declared capital</td>
</tr>
<tr>
<td>1939-a</td>
<td>12½% to 19%</td>
<td>30 to 40% on declared capital</td>
</tr>
<tr>
<td>1940-a-d</td>
<td>14½% to 19%</td>
<td>30 to 40% on declared capital</td>
</tr>
</tbody>
</table>

Source: Compiled from Statistics of Income and Revenue Acts. Because of numerous changes in the detailed provisions of the latter, the rates tabulated above are not strictly comparable.

It will be seen that although the net income before taxes of all corporations in 1937, the latest year for which official figures are available, was about 25 per cent below the 1929 all-time high, the total of corporate taxes in 1937 was the largest ever paid, with the result that net income after taxes in 1937 was less than half that of 1929.

Published reports of leading companies have indicated a sharp decline of earnings in 1938 and a partial recovery in 1939. Even the 1937 figures, however, which (together with 1936) stand around the peak of recovery in corporate earnings from the 1932 depression low, are in striking contrast with those for the three years 1917-19, when the yields of the war excess profits taxes were at their highest.

Although the aggregate net income before taxes of all corporations in 1937, best business year since 1929, was 10 per cent less than the average of the three years 1917-19, nevertheless the total of corporate taxes was 5 per cent greater, notwithstanding the inclusion of wartime excess profits taxes in the former period. As a result the net income after taxes in 1937 was 39 per cent less than the 1917-19 average.

Expressing the figures in another way, the table shows that the portion of corporate income absorbed by taxes rose during the period from 35 to 56 per cent. The relation of total taxes to the net income after taxes available to the corporations and their shareholders rose from 54 per cent to 128 per cent.

Individual Income Taxes Compared

Figures as to the growth of individual taxes are also impressive. Thus, while individual incomes in the best post-depression years — 1936-37 — remained well under the peak years 1918-19 and 1928-29, the taxes paid on these incomes, as shown by the next table and diagram on the following page, remained close to the all-time highs. This, of course, was due to the advance in tax rates, which in 1929 were close to the war-time high, and since then have been advanced to levels never before reached.

Federal Individual Income Tax Collections

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in Millions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>$178</td>
</tr>
<tr>
<td>1917</td>
<td>1925</td>
</tr>
<tr>
<td>1918</td>
<td>1,129</td>
</tr>
<tr>
<td>1919</td>
<td>1,279</td>
</tr>
<tr>
<td>1920</td>
<td>1,500</td>
</tr>
<tr>
<td>1921</td>
<td>1,279</td>
</tr>
<tr>
<td>1922</td>
<td>1,129</td>
</tr>
<tr>
<td>1923</td>
<td>1,000</td>
</tr>
<tr>
<td>1924</td>
<td>726</td>
</tr>
</tbody>
</table>

(b) Federal Excess Profits Taxes

Full Federal, State and Local Federal Taxes

Regraded Unclassified
The foregoing does not mean of course that no part of the defense program should be financed by taxes. On the contrary, there are good reasons for believing that Congress was wise in starting the program by raising taxes, and particularly by making more people tax conscious through lowering exemptions and thus widening the tax base. One of the worst consequences of voting huge appropriations without any provision for paying for them is the effect upon the public psychology with respect to the budget. Since no one seems to be paying the deficit billions, the public tends to become indifferent to them; thus discouraging all efforts at economy and leaving the door wide open to more spending and extravagance. Moreover, to the extent that taxes are postponed, borrowing has to be increased, which always creates a threat to confidence and involves passing on more difficult financing and tax problems to the future.

What the figures do mean is that the taxpayers, both individuals and corporations, are already bearing extremely heavy burdens, which should convey a warning as to the dangers of legislation that may add to these burdens in such manner as to actually stop the processes upon which we are dependent for success of the whole plan. Writers upon taxation have frequently stressed the difficulties and injustices involved in excess profit taxes, some of which are suggested in the following extract (recently quoted by the New York Times) from a Senate report of September 26, 1921 on war-time excess profit taxes then in effect:

The time for discussion of the excess profit tax is past; and the time to repeal the tax has arrived. It may be mentioned, however, that further investigation has only accentuated the conviction that the inequalities of this tax make necessary its early repeal. Whatever may be its theoretical merits, in practice it exempts the overcapitalized corporations, falls more heavily upon corporations of small or moderate size than upon the larger corporations, penalizes business conservatism, and places upon the Bureau of Internal Revenue tasks which are beyond its strength.

This quotation suggests the kind of difficulties which need careful consideration.

Need for Increased Production

The problem of the defense program centers upon production—or, to put it as simply as possible—upon getting work done. The messages of the President are based upon calculations of man-hours required to equip each branch of the fighting services as planned. The Navy needs battleships, cruisers, auxiliary ships, a fleet of airplanes and a vast amount of other equipment and supplies. The Army needs planes, artillery and guns of all kinds and all the other supplies needed to equip and maintain an army in the field.

The man-hour estimates are converted into dollar estimates in the same way that Congress for apportionment of the costs over the whole population. Every man-hour expended in building and supplying the Army and Navy must be reimbursed by the workers on the farms, in the workshops, and business offices, including all professions and employments.

It is evident that the defense program will add enormously to the man-hours of labor ordinarily required in supplying our everyday wants. It should be plain that if the program is to succeed, either the industries must be made more productive or some of the wants

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**Source:** Compiled from Statistics of Income and Revenue Acts. Because of numerous changes in the detailed provisions of the latter, the rates tabulated above are not strictly comparable. Certain individuals and partnerships were subject to an excess profit tax in 1917.

**Significance of the Figures**

The following table shows the personal normal and excess tax rates for single and married individuals.

<table>
<thead>
<tr>
<th>Year</th>
<th>Single</th>
<th>Married</th>
<th>Single</th>
<th>Married</th>
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<td>3,000</td>
<td>6,000</td>
<td>4,000</td>
<td>8,000</td>
</tr>
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<td>8,000</td>
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<td>1932-33</td>
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<td>6,000</td>
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<td>1934-35</td>
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<td>1935-36</td>
<td>3,000</td>
<td>6,000</td>
<td>4,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

**Source:** Compiled from Statistics of Income and Revenue Acts. Because of numerous changes in the detailed provisions of the latter, the rates tabulated above are not strictly comparable. Certain individuals and partnerships were subject to an excess profit tax in 1917.
must be denied, either in whole or in part. It is impossible to consume, or have, more than can be produced. Unless we can produce more, the defense program must be curtailed or the standard of living lowered, and we do not want to do either.

If it be true that the nation must either increase production, lower the standard of living, or abandon the defense program, undoubtedly the people will want to increase production. This can be done in two ways: (1) by putting idle men and idle machines to work and (2) by increasing the productivity of labor and capital already employed.

It was Germany’s recognition of the principle of work and production that largely explains her amazing success in the field, while the failure of France was foretold in the following paragraph from the Daladier-Reynaud General Report submitted to the President of France in November, 1938, and quoted two months ago in these columns:

The greatest failure, from which the others follow, has been the persistently low level of production. ** If production is insufficient it is primarily because its possibilities of development have been paralysed. The idea of a reduction in the length of the working day had been entertained on the assumption that, as a result of increased efficiency of labor and more intensive use of machinery, the same output could be obtained with fewer hours of work. But the efficiency of labor has not increased and the hopes founded on this improvement have not been realized. How could it have been otherwise when the majority of factories and shops were closed two days out of seven? All the efforts at re-organisation that have been tried have failed. Sometimes it has been the authorities themselves who have intervened to prevent the introduction of new methods designed to lower costs. In every field where activity might be reborn enterprise has been restricted and discouraged. The creative spirit and the willingness to take risks have been weakened. This—let us not be afraid to say it—is the root of the evil, for it adds a sort of moral addiction to the material difficulties.

If it were true that the United States had reached a condition of full employment of men and machines, it is obvious that the possibilities of meeting defense needs out of expanding production would be limited, and the primary problem then would be of curtailing consumption of non-essentials in order to release men and machinery for the supplying of necessary materials for the armed forces. But this is not the condition in the United States today. Though shortages of certain types of labor and manufacturing capacity do indeed exist, by and large we have large reserves of unemployed man-power and capital that can and should be brought into use.

It is against this general background that proposals to further increase the already high level of taxes should be viewed. It may be pointed out that on the basis of present rates the amount of additional revenue that the Government would realize if the economy were operating under full steam would be extremely large. One of the outstanding lessons of the tables and diagrams presented above is the way in which tax collections steadily increased during the ‘tens’ though even the tax rates were being steadily reduced.

On the other hand, if taxes are advanced too rapidly or at the wrong points there is grave danger that new inflation of the defense industries be impeded but—because of the check upon investment and consumption generally—production, employment and the national income may be frozen at the existing sub-normal levels. In such case all that will have been accomplished will be a shifting of production from peacetime to defense industries and a corresponding reduction in the standard of living.

Only within the past two months we have increased taxes to the extent of approximately a billion dollars a year, and it is conceded that additional taxation may be needed before we are through. But before subjecting industry and the people to new taxes at the risk of impairing efficiency and drying up the sources of capital, we ought to weigh carefully the possibilities that exist not only for increasing tax yields through an expansion of the national income, but also for effecting economies outside of the arms budget. For the past seven years the Federal Government has been spending billions of dollars for pump-priming and relief, justified on the ground that there were not jobs enough to go around and that but for these expenditures millions of people would starve. With so much work now urgently needing to be done for the defense program, it ought to be possible, as the program proceeds, to dispense with most of this “made” work, thus relieving the budget and making available additional funds for arms spending. But here again it is a question of the general policies pursued towards industry. If these are of a kind to encourage and stimulate industry it should be possible to make this shift. Otherwise we are likely to find ourselves saddled with a huge defense cost and a big relief bill besides.

The problem, in other words, is a broad one of making the economy strong as a whole, and of seeking the highest possible productivity of men and machines. Thus the total funds of wealth and income would be increased, and the proportionate burden of defense costs thereby diminished.

THE NATIONAL CITY BANK OF NEW YORK
August 2, 1940

My dear Mr. Burgess:

In the absence of the Secretary, I am acknowledging your letter of July 31st with which you inclosed a proof copy of the article on excess profits tax you will have in your August 1st National City Bank Letter.

I shall be very glad to bring your letter and the article to Mr. Morgenthau’s attention as soon as he returns to the office.

Sincerely yours,

(Signed) H. S. Klots

H. S. Klots,
Private Secretary.

Mr. W. Randolph Burgess,
The National City Bank,
New York, New York.
August 2, 1940

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Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. W. Randolph Burgess,
The National City Bank,
New York, New York.
By Arse Mr. Secretary,

Thank you for your letter of July 23, 1940 referring to the possibility that the principle contained in the last provision of section 1 of the Mineral Leasing Act (Public No. 145—66th Cong.) might be used in connection with petroleum shipments to countries where our nationals are not accorded equal rights in the sale of oil to those accorded nationals of such countries have.

I am grateful to you for calling this provision of law to my attention and will, of course, keep it in mind in connection with our handling of the problem as discussed on the telephone last Tuesday.

Sincerely yours,

(Signed) Herbert H. Gorman

Acting Secretary of the Treasury.

The Senate

The Secretary of the Interior.

JUL 31 '40

Regraded Unclassified
JUL 23 1940

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

My dear Mr. Secretary:

I refer to our telephonic conversation today and hand you herewith a copy of the General Land Office circular No. 672 and invite your particular attention to the marked provision (page 41) of the act approved February 25, 1920, generally known as the Mineral Leasing Law.

The principle of the marked section of this law might be used with reference to petroleum shipments to countries where our Nationals are not accorded equal rights in the sale of oil as the Nationals of such countries are accorded here.

Sincerely yours,

[Signature]

Secretary of the Interior.

Attachment.
REGULATIONS
CONCERNING
OIL AND GAS PERMITS AND LEASES
(INCLUDING RELIEF MEASURES)
AND
RIGHTS OF WAY FOR OIL AND GAS
PIPE LINES

Authorized by Act of February 25, 1920
(41 Stat., 437)

APPROVED MARCH 11, 1920
Reprint as amended to October 29, 1920
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OIL AND GAS REGULATIONS

DEPARTMENT OF THE INTERIOR,
GENERAL LAND OFFICE,

REGISTERS AND RECEIVERS,
UNITED STATES LAND OFFICE.

SUBJ: Under the authority of the act of Congress approved February 25, 1920, entitled "An act to promote the mining of coal, phosphate, oil, oil shale, gas, and sodium on the public domain," the following rules and regulations are prescribed for the administration of the provisions of said act relative to oil and gas:

I—OIL AND GAS PERMIT

Section 13 of the act authorizes the Secretary of the Interior to grant a qualified applicant the exclusive right to prospect for oil or gas for the period of two years, unless extended, and under authority thereof the following rules and regulations will govern the issuance of such permits:

1. QUALIFICATIONS OF APPLICANTS.—Pursuant to section 1 of the act, permits may be issued to (a) a citizen of the United States; (b) an association of such citizens; (c) a corporation organized under the laws of the United States or of any State or Territory thereof; or (d) a municipality.

2. LANDS TO WHICH APPLICABLE.—The permit thus issued may include not more than 2,560 acres of land wherein such deposits belong to the United States and are not within any known geological structure of a producing oil or gas field, the lands applied for to be taken in a reasonably compact form, by legal subdivisions if surveyed, and in an approximately square or rectangular tract if unsurveyed, the length of which must not exceed two and one-half times its width. Incontiguous tracts within a limited radius may be included in a permit when conditions are such that, because of prior disposals, a reasonable area of contiguous land can not be procured.

Such permits may not include land or deposits in (a) national parks; (b) forests created under the act of March 1, 1911 (36 Stat., 961), known as the Appalachian Forest Reserve act; (c) lands in military or naval reservations; or (d) Indian reservations. The application of the act to ceded Indian lands depends on the laws controlling their disposition.

All permits or leases for the exploration for or development of oil or gas deposits under this act within the limits of national forests or other reservations or withdrawals to which this act is applicable shall be subject to and contain such conditions, stipulations, and reservations as the Secretary of the Interior shall deem necessary for
the protection of such forests, reservations, or withdrawals, and the
uses and purposes for which created.

The boundaries of the geological structures of producing oil or gas
fields will be determined by the United States Geological Survey,
under the supervision of the Secretary of the Interior, and maps or
diagrams showing same will be placed on file in local United States
land offices.

It should be understood that under the act, the granting of a prospec-
ting permit for oil and gas is discretionary with the Secretary
of the Interior, and any application may be granted or denied, either
in part or in its entirety, as the facts may be deemed to warrant.

3. PERMITS OR LEASES FOR OTHER MATERIALS.—The granting of
a permit or lease for the development or production of oil or gas will
not preclude other permits or leases of the same land for the mining
of other minerals, under this act, with suitable stipulations for
such joint operation, to the end that the full development of the mineral
resources may be secured, nor will it necessarily preclude the allow-
ance of applicable entries, locations, or selections of the lands in-
cluded therein with a reservation of the mineral deposits to the
United States.

4. FORM AND CONTENTS OF APPLICATION.—Applications for permits
should be filed in the proper district land office, addressed to the
Commissioner of the General Land Office, be executed for 30 days
to enable preference-right claims to be presented before action, and
after due notation then forwarded for his consideration, with a full
report as to status and conflicts. No specific form of application
is required, and no blanks will be furnished, but it should cover, in
substance, the following points, and be under oath:

(a) Applicant’s name and address.

(b) Proof of citizenship of applicant, by affidavit of such fact, if
native born; or if naturalized, by a certified copy of the certificate
of naturalization on the form provided for use in public-land mat-
ters, unless such a copy is already on file; if a corporation, by certified
copy of the articles of incorporation, and a showing as to the resi-
dence and citizenship of its stockholders; if a municipality a showing
of (1) the law or charter and procedure taken by which it has be-
come a legal body corporate; (2) that the taking of a permit or lease
is authorized under such law or charter; and (3) that the action
proposed has been duly authorized by the governing body of such
municipality.

(c) A statement that the applicant is not the holder of more than
two other subsisting permits in the same State, nor of any permit
in the same geologic structure, together with a statement of any
other applications for permits in the same State, in which the appli-
cant is directly or indirectly interested, fully disclosing the nature
and extent of such interests. In this connection attention is directed
to the limitations and exceptions of section 27 of the act.

(d) Description of the land for which the permit is desired, by
legal subdivisions if surveyed, and by metes and bounds if unsur-
vveyed, in which latter case, if deemed necessary, a survey suffi-
cient more fully to identify the land may be required before the permit
is granted. In order to properly identify unsurveyed lands, great
care should be taken, and if practicable the metes and bounds de-
scription should be connected by course and distance with some cor-
ner of the public land surveys.

(e) A statement that to the best of applicant’s knowledge and be-
lief the land applied for is not within any known geological structure
of a producing oil or gas field.

(f) Three references as to applicant’s reputation and business
standing.

(g) If the applicant is claiming a preference right as explained
in the next succeeding section of these regulations, he should set up
fully the facts upon which such preference right is based, together
with a true copy of the posted notice.

(h) The applicant must furnish a bond, with qualified corporate
surety, in the sum of $1,000, conditioned against the failure of the
permittee to repair promptly, so far as possible, any damage to the
oil strata or deposits resulting from improper methods of operation.
The penalty of the bond may be increased by the Secretary of the
Interior when conditions warrant, particularly in relief cases. This
bond must be filed with the application, which will expedite action
thereon, or within 10 days after receipt of notice by the applicant
that the permit will be granted when the bond is filed.

Additional bonds, or a bond with additional obligations therein,
will be required in special cases where a permit embraces reserved
deposits in lands theretofore entered or patented with a reserva-
tion of the oil and gas to the United States, together with a right to
 prospect for, mine, and remove the same pursuant to the act of
July 17, 1914 (38 Stat. 509), or where the lands constitute a portion
of a reclamation project.

A revenue stamp must be attached to the bond at the rate of
1 cent on each $1 or fractional part thereof of premium paid.

The following form of bond is prescribed for use in ordinary
cases in connection with applications for permit:

DEPARTMENT OF THE INTERIOR

GENERAL LAND OFFICE

U. S. Land Office—

Serial Number—

Bond of oil and gas permit

[Act of Feb. 25, 1920 (Public No. 140)]

Know all men by these presents. That we, ————, of the county
of ————, in the State of ————, as principal, and ————
of the county of ————, in the State of ————, as surety, are
holders of a bond for the United States in the sum of ————
dollars, lawful money of the United States to be paid to the United States, for which payment, well and
truly to be made, we bind ourselves, and each of us, and each of our heirs, executors, adminis-
trators, administrators, or successors, and assigns, jointly and severally by these presents.

Signed with our hands and sealed with our seals this ———— day of ———— in
the year of our Lord one thousand nine hundred ————.

The condition of the foregoing obligation is such that, whereas the said
principal has made application under the act of February 25, 1920 (Public No.
140), for a permit to prospect for oil and gas for two years upon the following
described lands ————; whereas said permit, if granted, will be on
condition that all operations shall be conducted in accordance with approved
methods; that all proper precautions shall be exercised to prevent waste of oil
or gas developed in the lands, or the entrance of water through wells drilled by

194005 ——— ———
or on behalf of, the principal to the oil sands or oil-bearing strata to the destruction of the oil deposits.

Now therefore, if said principal shall promptly repair any damage that may result to the oil strata or deposits resulting from improper methods of operation, or from failure to comply fully with the aforesaid conditions of said permit, then the above obligation is to be void and of no effect; otherwise to remain in full force and virtue.

Signed, sealed, and delivered in presence of—

Name and address of witness:

Principal. [L. s.]

Surety. [L. s.]

In lieu of corporate surety, the applicant may deposit United States bonds of the par value of not less than $1,000, pursuant to section 1310 of the act of February 24, 1919 (see Treasury Circular No. 154, of June 30, 1919). When United States bonds are submitted as security in lieu of corporate surety same should be accompanied with a bond and power of sale duly executed by the applicant substantially the following form:

DEPARTMENT OF THE INTERIOR

GENERAL LAND OFFICE

U. S. Land Office

Serial No. ________

Bond of oil and gas permittee where United States bonds are accepted in lieu of surety or sureties, and power of attorney.

[Act of Feb. 24, 1919 (Public No. 146.)]

Know all men by these presents, That ______ of ______, State of ______, an obligor, is held and firmly bound unto the United States of America in the sum of $1,000, lawful money of the United States, to be paid to the United States, for which payment, well and truly to be made, binds himself, his heirs, executors, administrators, and assigns by these presents.

The condition of the foregoing obligation is such that whereas the said obligor has made application under the act of February 24, 1919 (Public No. 146), for a permit to explore for oil and gas for two years upon the following-described land: ______; and

Whereas said permit, if granted, will be on condition that all operations shall be conducted in accordance with approved methods; that all proper precautions shall be exercised to prevent waste of oil or gas developed in the lands, or the entrance of water through wells drilled by or on behalf of the obligor to the oil sands or oil-bearing strata to the destruction of the oil deposits.

Now, therefore, if said obligor shall promptly repair any damage that may result to the oil strata or deposits resulting from improper methods of operation, or through failure to comply fully with the aforesaid conditions of said permit, then the above obligation is to be void and of no effect; otherwise to remain in full force and virtue.

The above-described obligor, in order the more fully to secure the United States in the payment of the aforesaid mentioned sum, hereby pledges as security therefore bonds of the United States in the principal sum of $1,000, which said bonds are numbered serially and are in the denominations and amounts and are otherwise more particularly described as follows:

— bonds of ______ per cent interest with ______ coupons attached to each, numbered ______, which said bonds have this day been deposited with the Secretary of the Interior and his receipt taken therefor.

That the said obligor does hereby constitute and appoint the Secretary of the Interior as his attorney, for him and in his name to collect or to sell, assign and transfer the said United States bonds above described and deposited by the obligor as aforesaid, pursuant to authority conferred by section 1310 of the revenue act of 1919, approved February 24, 1919, as security for the faithful performance of any and all of the conditions or stipulations as aforebefore set out, and it is agreed that, in case of any default in the performance of the conditions and stipulations of such undertaking the said attorney shall have full power to collect said bonds or any part thereof, or to sell, assign, and transfer said bonds or any part thereof without notice, at public or private sale, free from any equity of redemption or without appraisement or valuation, notice and right to redeem being waived, and to apply proceeds of such sale or collection in whole or in part to the satisfaction of any damages, or deficiencies arising by reason of such default, as said attorney may deem best. The interest accruing upon said United States bonds deposited as above stated, in the absence of any default in the performance of any of the conditions or stipulations of the bond, shall be paid to said obligor. The said obligor hereby for himself, his heirs, executors, administrators, and assigns ratifies and confirms whatever his said attorney shall do by virtue of these presents.

In witness whereof I have hereunto set my hand and seal this ______ day of ______, 19____.

Signature. [L. s.]

Before me, the undersigned, a notary public within and for the county of ______ in the State of ______, personally appeared ______, and acknowledged the execution of the foregoing bond and power of attorney.

Witness my hand and seal this ______ day of ______, 19____.

[Notarial Seal.]

5. PREFERENCE RIGHT, HOW SECURED.—A preference right over others to a permit may be obtained, under section 13 of the act, by——

(a) Erecting upon the land desired, subsequent to the approval of the act, a monument not less than 4 feet high, at some conspicuous place thereon, of such a size as to be visible to anyone who may be interested. The monument may be of iron, stone, or durable wood, not less than 4 inches square or in diameter, and must be firmly embedded in the ground.

(b) Posting on or near said monument a notice stating that an application for permit will be made within 90 days after date of posting said notice, the notice to give the date and hour of posting, to be signed by the applicant, and give such a general description of the land to be covered by the permit, by reference to courses and distances from such monument and other natural objects and permanent monuments, as will reasonably identify the land. The area, approximately, must also be stated, and the notice must be so protected as to prevent its destruction by the elements. The preference right will exist for 90 days after the date of posting such notice, and if no application is filed within that time, the land will be subjected to any other application for permit or to other disposal.

(c) In cases of conflict between a preference right application and one filed without any claim of preference, the priority of the initiation of the claim will govern; for example, the filing of a proper application in the land office prior to the posting of notice by another; as aforesaid, will give a prior right.

6. FORM AND REQUIREMENTS OF PERMIT.—A permit will confer upon the recipient the exclusive right to prospect for oil or gas upon the lands embraced therein, provided he complies with the terms thereof, which permit will be, in form and substance, substantially as follows:
7. Extension of Life of Permit.—If for any good reason, the permittee is unable, with the exercise of diligence, to test the land within two years, application for extension for not to exceed two years may be filed within the life of the permit, and must be accompanied by a showing under oath, corroborated, as to the cause that made such extension necessary, and as to what efforts have been made to comply with the condition of the permit; ordinarily no extension will be granted in the absence of the minimum amount of drilling required by the permit. This application should be addressed to the Secretary of the Interior, and be filed either in the district land office or in the General Land Office. This privilege is not applicable to Alaska.

8. Reward for Discovery.—Upon establishing to the satisfaction of the Secretary of the Interior that valuable deposits of oil or gas have been discovered within the limits of the land embraced in the permit, within the period of the permit or extension thereof, the permittee is entitled (a) to a lease of one-fourth of the land included in the permit, on a royalty of 5 per cent, or for at least 160 acres if there be that area in the permit; (b) to a preference right to a lease for the remainder of the land covered by his permit at such royalty as may be fixed by the Secretary of the Interior, not less than 12 1/2 per cent in amount or value of the production, nor more than the royalties fixed for leases under section 18 of the act (sec. 19, par. 5, of these regulations), except that on that portion of the average production exceeding 200 barrels per day per well for the calendar month, the royalties shall be 35 per cent for oil of 30 degrees Baume or over and 25 per cent for oil of less than 30 degrees Baume.

9. Penalty for Default.—The permit will be subject to cancellation by the Secretary of the Interior for failure of the permittee to comply with any of the conditions enumerated therein or to exercise due diligence in the work of development.

In the absence of discovery of oil or gas within the period of the permit or extension thereof, the permit will thereupon terminate and the lands or deposits will automatically revert to their original status, but the land will continue segregated pending action by the Land Department on any application for extension that is timely filed.

10. Permits in Alaska.—The foregoing rules and regulations generally will apply to permits in Alaska, under section 13 of the act, but with some modifications, viz:

(a) A person, association, or corporation is authorized to hold five permits at one time in said territory, but only one permit in the
geologic structure of any one producing oil field; hence subdivision of section 4 of these regulations should be modified accordingly in making application for permits for lands in Alaska under section 13 of the act.

(b) The preference right treated under section 5 of these regulations extends for a period of six months after the expiration of monument and posting of notice provided therein, and the period for marking of the corners is extended to one year after the granting of the permit.

(c) The time for exploratory work in Alaska is four years; instead of two, and there is no provision for extension of such period. The various items necessary in this exploratory work are set forth in the form of permit herein provided, the Alaskan period being included in parentheses, after the period prescribed in the States.

11. PERMITS FOR RESERVOIR DEPARTS.—The deposits of oil and gas in all lands for which a patent has issued with a reservation of the oil and gas to the United States, under the act of July 17, 1914 (38 Stat., 560), subject to the preference right, if any, explained in the next succeeding section hereof, may be included in a permit under the provisions of this act, conditioned upon the permittee filing with the Secretary of the Interior a satisfactory bond or undertaking as security for the payment of all damages to crops and improvements on such lands by reason of prospecting, as required by the said act. (See G. L. & O. Circular No. 330, 44 L. D., 32.)

12. PREFERENCES RIGHT OF OWNER OF SURFACE.—Under section 20 of the act a preference right to a prospecting permit is given to an entryman or owner of land not claimed under any railroad grant, under the following conditions: (1) The entry must have been made prior to February 25, 1920; (2) the entry must have been bona fide under and pursuant to the act under which made; (3) the entry must have been made without a reservation of the oil and gas, for land withdrawn, not classified as oil and gas land, and not known to be valuable for its oil or gas deposits, at date of entry; (4) if the entry is patented, it must have been made with a reservation of the oil and gas to the Government; if the entry is not patented, the entryman must waive all right under the entry to the oil and gas in the land; (5) if the entry has been assigned or transferred, such assignment or transfer must have been prior to January 1, 1918.

(a) Should an application for permit for entered or patented lands with a reservation of the oil and gas content to the United States be filed by a person other than the entryman or owner of the land, the applicant will be required to serve personal notice of such application upon the owner or owners of the land so entered or patented, with a warning therein that if said owner desires to exercise his preference right, if any, to a permit, he must file within 30 days his application therefor in the proper local land office. The applicant must furnish evidence of the service of notice on the owner and evidence that the party served is the owner of the land involved, either by his affidavit duly corroborated, or by certificate of the officer in whose office transfer of real property are to be recorded.

(b) The preference-right applicant must show that he is entitled under the section above outlined, together with his qualifications, to hold a permit as previously set forth in these regulations, and if such an application be filed, the Secretary of the Interior will award the permit to the party entitled thereto.

(c) If the land, either withdrawn or unwithdrawn, is covered by an unpatented nonmineral entry without a reservation of the oil and gas content to the Government, a prospecting permit may not be granted as long as the entry subsists without such reservation. In cases where applications for prospecting permits are filed by persons other than the entrymen for land in this status such applications will be referred to the United States Geological Survey for classification as to the prospective oil value of the land affected.

If the Geological Survey shall conclude and report that the land embraced in such a nonmineral entry is without prospective oil or gas value, the application for permit will be rejected as to such land; but if the Geological Survey shall report that the land has a prospective oil or gas value and offers a favorable opportunity for prospecting operations, then the General Land Office will direct the proper local officers to serve notice on the nonmineral entryman to the effect that said land has been reported as valuable for its oil or gas content, and that the said entryman will be allowed fifteen (15) days within which (1) to file in the local office his consent to a permit to the Government of the oil and gas content of the land embraced in his entry and in which to exercise his preference right, if any, to a prospecting permit for said land by filing a proper application therefor, or (2) to show cause, if any there be, why he should not consent to the mineral reservation, failing in either of which his entry will be canceled without further notice. The land office will thereupon report the action taken to the commissioner, whereupon (1) if the nonmineral entryman shall have failed to take any action, order of cancellation of the nonmineral entry will be made and action taken on the prospecting permit accordingly; (2) if consent to the reservation shall have been filed, a prospecting permit will be granted to the entryman or the former applicant, as the case may be, for the reserved mineral deposits; (3) if the nonmineral entryman shall submit a showing why the entry should not be impressed with a reservation of the mineral to the Government, such showing will be referred to the Geological Survey for consideration and report. If upon the receipt of such report the department shall conclude that the land is without mineral value, the application for prospecting permit will be rejected; but if the department shall conclude that, notwithstanding the showing made by the entryman, the land has a prospective oil and gas value, such action will be taken as the facts may warrant.

From the above it will be seen that it is desirable on the part of any applicant for a prospecting permit for land already embraced in a nonmineral entry without a reservation of the mineral, and likewise desirable on the part of any nonmineral entryman who is contending that the land is nonmineral in character, to submit with their respective applications or showings as complete and accurate geological data as may be procurable, preferably the reports and opinions of qualified experts.

(d) In case of conflict between a preference-right claim under section 20 of the act and one claimed by virtue of section 18 or 19, the issue will be determined on the basis of priority.
II.—OIL AND GAS LEASES

13. Designation and Offer of Lands for Lease.—Pursuant to the provisions of section 17 of the act, the unappropriated deposits of oil or gas situated within known geological structures of producing oil or gas fields, and the lands containing same, will be divided into leasing blocks or tracts in areas not exceeding 640 acres each, and not exceeding in length two and one-half times their width, and offered for lease at a stated royalty by competitive bidding to the highest responsible bidder having the qualifications prescribed by section 15, paragraph (a) hereof.

14. Notice of Lease Offer.—Notice of the offer of lands for lease will be given by publication in a newspaper of general circulation in the county in which the lands or deposits are situated for a period of 30 days; such notice will state the day and hour on which the offering will be made at public auction at the United States land office of the district in which the lands are situated, to the qualified bidder offering the highest bonus for the lease at the stated rental and royalty. Copy of the notice will be posted in said local office during the period of publication. This notice will be published at the expense of the Government. All bidders at any such auction are warned against violation of the provisions of section 59 of the United States Criminal Code, approved March 4, 1919, prohibiting unlawful combination or intimidation of bidders.

15. Auction of Lease.—At the time fixed in the notice, the register or receiver will, by public auction, offer the land for lease on the terms and conditions as to payments of royalties and rents fixed in the notice, to the qualified bidder of the highest amount offered as a bonus for the privilege of leasing the land. The successful bidder must deposit with the receiver on the date of the sale, certified check on a solvent bank, or cash, for one-fifth of the amount bid by him, which payment the receiver will credit to "Trust funds—Unearned money." At the time of such payment the successful bidder will also file the requisite showing of his qualifications to receive a lease, which shall include the following:

(a) Proof of citizenship of applicant; by affidavit of such fact, if native born, or if naturalized, by certified copy of the certificate of naturalization, on the form provided for use in public land matters, unless such copy is already on file; if a corporation, by certified copy of the articles of incorporation and a showing as to the residence and citizenship of its stockholders.
such reasonable terms and conditions as may be prescribed by the lessee, unless otherwise provided by law at the time of the expiration of such period.

Sec. 2. In consideration of the foregoing, the lessee hereby agrees:

(a) Bond.—To furnish a bond with approved corporate surety in the sum of $5,000, conditioned upon compliance with the terms of the lease herein contained.

(b) Commence drilling.—The lessee agrees, within three months from delivery of executed lease, to proceed with reasonable diligence to install on the leased ground a Standard or other efficient drilling unit and equipment, and to commence drilling at least one well, and to continue such drilling with reasonable diligence to production, or to a point where the well is demonstrated unsuccessful, and thereafter to continue drilling with reasonable diligence to a depth of 1,000 feet at least until the lessee shall have drilled wells equal in number to the number of 400 acres or 100 wells, whichever is less, until the lessee shall, for any reason deemed sufficient, consent in writing to the drilling of a lesser number of wells; the lessee further agrees to drill all necessary wells, and to offset the wells of others on adjoining lands or deposits not the property of the United States.

(c) Royalty rents.—To pay the lessee in advance, beginning with the date of the execution of this lease a rental of $1.00 per acre per annum during the continuance hereof, the rental so paid for any one year to be credited on the royalty for that year, and, in addition to such rental, a royalty of ___ per cent of the value of all or gas produced from the land leased herein (except oil or gas used for production purposes on said lands or unavoidably lost), or, on demand of the lessee, ___ per cent of the oil or gas produced (except oil or gas used for production purposes on said lands or unavoidably lost), in which case credit for such shall be on the basis of the current field price of oil, the royalty, when paid in cash, to be due and payable monthly on the 15th of each month following the month in which produced, to the receiver of public monies of the proper land district; and when paid in kind, to be delivered in the field where produced at such times, and in such manner as may be agreed by the lessee; such royalties, whether in kind or kind, shall be subject to reduction when the state or federal government makes any public use of the oil or gas produced contemporaneously from the same field.

(d) Monthly statements.—To furnish monthly statements in detail in such form as the Secretary of the Interior may require, showing all amounts of oil and gas produced and sold during the preceding calendar month as the basis for computing the royalty due the lessee. The lessee's statement shall be verified by the lessee, and all books and accounts of the lessee shall be open at all times for the inspection of any duly authorized officer of the department.

(e) Royalty lease.—To keep a log in the form prescribed by the Secretary of the Interior, a plat showing all development work and improvements on the leased lands, and other related information, with a report to the stockholders, investors, or other parties interested in the lessee's operations, accompanied by a report to the lessee, signed by the lessee, and containing such information as the lessee may require. The lessee shall also keep a log of all work and improvements on the leased lands, and keep a record of all operations performed thereon, as may be required by law.

(f) Maps and reports.—To furnish annually and at such times as the Secretary of the Interior may require, in the manner and form prescribed by the Secretary of the Interior, a plat showing all development work and improvements on the leased lands, and other related information, with a report to the stockholders, and investors, or other parties interested in the lessee's operations, accompanied by a report to the lessee, signed by the lessee, and containing such information as the lessee may require. The lessee shall also keep a log of all work and improvements on the leased lands, and keep a record of all operations performed thereon, as may be required by law.

(g) Banker.—To keep a log in the form prescribed by the Secretary of the Interior, a plat showing all development work and improvements on the leased lands, and other related information, with a report to the stockholders, and investors, or other parties interested in the lessee's operations, accompanied by a report to the lessee, signed by the lessee, and containing such information as the lessee may require. The lessee shall also keep a log of all work and improvements on the leased lands, and keep a record of all operations performed thereon, as may be required by law.

(h) Diligence.—Prevention of waste.—Health and safety of workmen.—To use reasonable diligence in drilling and operating wells for the oil and gas on the lands covered hereby, while such products can be secured in paying quantities, unless exempt from suspension temporarily granted by the Secretary of the Interior to carry on all operations hereunder in a good and workmanlike manner, in accordance with approved methods and practices, having due regard for the prevention of waste of oil or gas developed on the land, or the escape of water through wells drilled by the lessee to the oil or gas or oil bearing strata, in the preservation or injury of the oil deposits, and the preservation and conservation of the property for future productive operations, and to the health and safety of workmen and employees; in such manner, and subject to the inspection of the lessee, to carry on at expense of the lessee all reasonable and necessary operations and requirements of lessee relative to avoiding waste and preservation of the property and the health and safety of workmen, and on failure so to do the lessee shall have the right to enter upon the property to repair damages or prevent waste at lessee's cost; to abide by and conform to the terms of this lease and to all regulations made or created by the lessee hereinbefore referred to in this paragraph; provided, That lessee shall not be held responsible for delays or casualties occasioned by causes beyond lessee's control.

(i) Taxes and fees.—Taxes and fees.—To pay all taxes levied or imposed upon the lands covered hereby, and all fees payable for the right to drill or produce oil and gas thereon.

(j) Reserved deposits.—To comply with all statutory requirements and regulations hereunder, if the lands embraced herein have been or shall hereafter be disposed of under laws converting to the United States the deposits of oil and gas therein, subject to such conditions as are or may hereafter be provided by the laws respecting such oil or gas.

(k) Reserves.—To observe faithfully the provisions of section 27 of the act defining the interest or interests that may be taken, held, or exercised under leases authorized by said act.

(l) Assignment of lease.—To assign this lease or any interest therein, not exceeding a portion of the leased premises, except with the consent of the Secretary of the Interior.

(m) Deliveries.—To deliver all oil and gas produced from the lands covered hereby, and all products of oil and gas produced thereon, to the lessee, and to the lessee's order, as the lessee may direct.

Sec. 3. The lessee expressly reserves:

(a) The right to produce oil and gas on the lands embraced herein and subject to the terms of this lease, and to sell or lease the same to the highest bidder for cash, and on such reasonable terms and conditions as the lessee shall deem advisable.

(b) The right to enter upon the lands covered hereby at all reasonable times, and to make all inspections and examinations necessary or proper to the lessee's operations.

(c) The right to make all entries, and to do all such acts, as are necessary or proper to the lessee's operations, and to the production and sale of oil and gas from the lands covered hereby.

(d) The right to purchase all or any part of the oil or gas produced from the lands covered hereby, and to sell or lease the same to the highest bidder for cash, and on such reasonable terms and conditions as the lessee shall deem advisable.

(e) The right to make all entries, and to do all such acts, as are necessary or proper to the lessee's operations, and to the production and sale of oil and gas from the lands covered hereby.

(f) The right to produce oil and gas on the lands covered hereby and subject to the terms of this lease, and to sell or lease the same to the highest bidder for cash, and on such reasonable terms and conditions as the lessee shall deem advisable.

(g) The right to make all entries, and to do all such acts, as are necessary or proper to the lessee's operations, and to the production and sale of oil and gas from the lands covered hereby.

(h) The right to produce oil and gas on the lands covered hereby and subject to the terms of this lease, and to sell or lease the same to the highest bidder for cash, and on such reasonable terms and conditions as the lessee shall deem advisable.

(i) The right to make all entries, and to do all such acts, as are necessary or proper to the lessee's operations, and to the production and sale of oil and gas from the lands covered hereby.

(j) The right to produce oil and gas on the lands covered hereby and subject to the terms of this lease, and to sell or lease the same to the highest bidder for cash, and on such reasonable terms and conditions as the lessee shall deem advisable.

(k) The right to make all entries, and to do all such acts, as are necessary or proper to the lessee's operations, and to the production and sale of oil and gas from the lands covered hereby.

(l) The right to produce oil and gas on the lands covered hereby and subject to the terms of this lease, and to sell or lease the same to the highest bidder for cash, and on such reasonable terms and conditions as the lessee shall deem advisable.

(m) The right to make all entries, and to do all such acts, as are necessary or proper to the lessee's operations, and to the production and sale of oil and gas from the lands covered hereby.
purchaser thereof; provided, that the lease shall not, as a result of the operation in this section provided for, suffer a diminution in value of the gas from which the helium has been extracted, or loss otherwise, for which the lessee is not reasonably compensated, save for the value of the helium extracted. The lessee further reserves the right to erect, maintain, and operate any and all reduction works and other apparatus necessary for the extraction of helium on the premises leased.

Sec. 4. Surrender and termination of lease.—The lessee may, on consent of the Secretary of the Interior and in writing, surrender and terminate this lease upon the payment of all rents, royalties, and other obligations due and payable to the lessee, and upon payment of all wages and moneys due and payable to the workmen employed by the lessee, and upon a satisfactory showing to the Secretary that the public interest will not be impaired; but in no case shall such termination be effective until the lessee shall have made full provision for conservation and protection of the property upon which consent has had and obtained the lessee may surrender any legal subdivisions of the area included herein.

Sec. 5. Purchase of materials, etc., on termination of lease.—Upon the expiration of this lease, or the earlier termination thereof pursuant to the last preceding section, the lessee or another lessee may, if the lessee shall in good condition and at his own expense, approve the use of any operating or producing plant, to the lessee of the property for the purpose of the lessee shall have purchased all materials, tools, machinery, appliances, structures, and equipment placed in or upon the land by the lessee, and in the use thereof as a necessary or useful part of an operating or producing plant, at market value. The lessee shall have the right to remove such materials, tools, machinery, appliances, structures, and equipment for the purpose of the lessee shall have purchased all materials, tools, machinery, appliances, structures, and equipment which the lessee shall not have elected to purchase, save and except casing in wells and other equipment or apparatus necessary for the preservation of the well or wells.

Sec. 6. Judicial proceedings in case of default.—If the lessee shall fail to comply with the provisions of the act or make default in the performance or observance of any of the terms, covenants, and stipulations hereof, or of any regulations promulgated and in force at the date hereof, and such default shall continue after the time specified herein, the lessee may institute appropriate judicial proceedings for the forfeiture and cancellation of this lease in accordance with the provisions of this act; but this provision shall not be construed to prevent the exercise by the lessee of any legal or equitable remedy which the lessee might otherwise have. A waiver of any particular cause of forfeiture shall not prevent the cancellation and forfeiture of this lease for any other cause of forfeiture, or for the same cause occurring at any other time.

Sec. 7. Heirs and successors in interest.—It is further provided that all the rights and interest herein shall be and are sold and conveyed to and by the heirs, executors, administrators, successors, or assigns of the respective parties hereto.

Sec. 8. Uplift and interest.—It is also further agreed that no Member of or Delegate to Congress or Resident Commissioner, after his election or appointment, or before or after he has qualified, and during his continuance in office, and that no officer, agent, or employee of the Department of the Interior shall be admitted to any share or part in this lease or derive any benefit that may arise therefrom, and the provisions of section 371 of the Revised Statutes of the United States, and sections 114, 115, and 116 of the Codification of the Public Lands of the United States approved March 4, 1909 (30 Stat. 1108), relating to contracts being into and form a part of this lease so far as the same may be applicable.

In witness whereof

THE UNITED STATES OF AMERICA,

By

United States, Secretary of the Interior,

Witneses:

[Signature]

[Signature]

[Signature]
18. Conditions for Relief Under Section 18:
   (a) That the land claimed must have been included in the Executive order of withdrawal of September 27, 1909, and must have remained so withdrawn.
   (b) That the claim must have been initiated under the placer mining laws prior to July 3, 1910, and claimed and possessed continuously from that time.
   (c) That no claimant who has acquired any interest in the land since September 1, 1919, from another claimant who, on that date or since that time, was, or is claiming or holding, more than the maximum allowed a claimant under section 18 of the act, may secure a lease under section 18, or any interest therein. This limitation does not, however, apply to an exchange of an interest in such lands made prior to January 1, 1920, which did not increase or reduce the area or acreage held or claimed, in excess of the maximum by either party to the exchange.
   (d) That claimant or predecessors must have drilled an oil or gas well on the land to discovery.
   (e) That all conflicting claims asserted prior to July 1, 1919, must have been disposed of, as provided in section 28 hereof or otherwise.
   (f) That no claimant who has been guilty of any fraud or who had knowledge or reasonable grounds to know of any fraud, or who has not acted honestly and in good faith, shall be entitled to any of the benefits of this section.
   (g) That claimant must, on or before August 25, 1920, file a relinquishment to the United States of all right, title, and interest in and to the land, together with an application for a lease. This relinquishment may be in the form of an unconditional quitclaim deed, duly executed and acknowledged, but not recorded, and when filed will be held for such action as the facts and the law in the case warrant and require.
   (h) That claimant must pay for one-eighth of the value at the time of production of all oil and gas produced prior to date of filing relinquishment and application for relief, exclusive of oil and gas used on the land for production purposes, or unavoidably lost.

19. Relief that May be Granted Under Section 18:
   (a) Lands not in naval petroleum reserves.—A qualified claimant, upon complying with the provisions of the act and these regulations, will be entitled to a 20-year lease from the United States, commencing and effective as of the date of filing relinquishment and application for relief, substantially in the form prescribed in section 17 hereof, at a royalty to be fixed by the Secretary of the Interior, but not less than 15 1/2 per cent of all oil and gas produced exclusive of that used for production purposes on the claim, or unavoidably lost. There is, however, a limitation placed by the act upon the acreage that may be included in such lease. If the geologic oil or gas structure of the producing field in which the claim is situated does not exceed 640 acres in area the lease may include the entire area if covered by the claim; but if the area of such structure exceeds 640 acres the act provides that not more than one-half of the area, same to be selected by the claimant but in no case to exceed 3,200 acres, may be leased to any one claimant.

(b) Lands in naval petroleum reserves.—If the land claimed is within a naval petroleum reserve the claimant will be entitled to lease only the producing wells on the claim, together with an area of land sufficient for the operation of such wells, upon a royalty to be fixed by the Secretary of the Interior, but not less than 15 1/2 per cent of the production, except that used for production purposes on the claim or unavoidably lost. The act forbids the drilling of any wells in lands subject to this provision within 600 feet of the leased wells without the consent of the lessee. It further provides that the President may, in his discretion, lease the remainder or any part of the claim on which such wells have been drilled, and in the event of such leasing the claimant shall have a preference to such lease. The President may also permit the lessees of any well to drill additional wells within the limited area of 600 feet upon such terms and conditions as he may prescribe. These terms and conditions can not be prescribed here, but will be determined on the merits in each separate case.

(c) Royalties.—The royalties payable under leases granted pursuant to section 18 of the act are cumulative, and are hereby determined and prescribed as follows:
   For all oil produced of 30° Baumé or over upon each claim on which the wells average not exceeding 20 barrels per day per well for the calendar month, 15 1/2 per cent; upon each claim on which the wells average more than 20 barrels and not more than 50 barrels per day per well for the calendar month, 16 1/2 per cent; upon each claim on which the wells average more than 50 barrels and not more than 100 barrels per day per well for the calendar month, 20 per cent; upon each claim on which the wells average more than 100 barrels per day per well for the calendar month, 25 per cent.
   For all oil produced of less than 30° Baumé upon each claim on which the wells average not exceeding 20 barrels per day per well for the calendar month, 19 1/2 per cent; upon each claim on which the wells average more than 20 barrels and not more than 50 barrels per day per well for the calendar month, 24 per cent; upon each claim on which the wells average more than 50 barrels and not more than 100 barrels per day per well for the calendar month, 28 per cent; upon each claim on which the wells average more than 100 barrels per day per well for the calendar month, 30 per cent.
   Only wells which have a commercial production during at least a part of the month shall be considered in ascertaining the average production herein, and the Secretary of the Interior shall determine what are commercially productive wells under this provision.
   The royalties on gas produced, if any, will be fixed determined in each lease.

20. Conditions for Relief Under Section 18:
   A. For permit.—(a) That the land must not be in a naval petroleum reserve.
   (b) The applicant or his predecessor in interest must have been an occupant or claimant of the land on or before October 4, 1919, under a claim initiated under the placer mining laws, when the land was not withdrawn, provided that a transfer of such a claim subsequent to October 1, 1919, will not be permitted to hold permits.
under the placer mining laws by claimant or predecessors prior to November 8, 1910, the date of the Executive order withdrawing all public lands in Alaska containing petroleum deposits, including those in national forests.

(b) That claimant must have performed all acts prior to November 8, 1910, under the then existing laws necessary to valid locations except to make discovery.

(c) That claimant, (1) prior to November 8, 1910, must have made substantial improvements for the discovery of oil or gas on or for each location, or (2) prior to February 25, 1920, expended not less than $350 in improvements on or for the benefit of each location.

(d) That claimant must on or before February 25, 1921, or within six months after final denial or withdrawal of application for patent, file a relinquishment to the United States of all right, title, and interest in and to the land, together with an application for a permit. This relinquishment may be in the form of an unconditional quit-claim deed, duly executed and acknowledged, but not recorded, and when filed will be held for such action as the facts and the law in the case warrant and require.

In addition to the above, the conditions outlined in paragraph (a) of section 20 hereof are applicable to relief in Alaska.

B. For lease.—The conditions necessary to obtaining a lease under section 19 of the act are identical with those outlined in paragraphs (a), (b), (c), and (f), for permits, together with the following additional conditions:

(a) That claimant must have made a discovery of oil or gas on or before February 25, 1920.

(b) That claimant must pay for one-eighth of the past production up to date of filing application for relief, exclusive of that used on the land for production purposes or unavoidably lost.

21. RELIEF THAT MAY BE GRANTED UNDER SECTION 19:

(a) A claimant qualified under the above conditions relating to permits, upon complying with the provisions of the act and these regulations, will be entitled to a prospecting permit upon the same terms, conditions, and limitations as to acreage, as other permits provided for in the act, substantially in form prescribed in section 6 hereof.

(b) A claimant qualified under the above conditions relating to leases is entitled to a 20-year lease from the United States, effective from date of filing application for relief, substantially in the form prescribed in section 17 hereof, the royalty to be fixed by the Secretary of the Interior, but such royalty may not be less than 121/2 per cent of all oil and gas produced exclusive of that used for production purposes on the land or unavoidably lost. In the event the land is in the geologic structure of proven territory at the time of granting the permit under this section, the royalty required under the lease based thereon shall not be less than 121/2 per cent, but if at the time the permit is granted the land is not in proven territory the amount of royalty will be governed by the general terms of the act as set out in section 18 thereof.

22. ALASKA CLAIMS—CONDITIONS FOR RELIEF UNDER SECTION 22:

A. For permit.—(a) That claimant must have been an occupant or claimant of the land on February 25, 1920, under a claim initiated
wells yield an average of 100 barrels or more per well per day for the calendar month, in which event the royalty shall be 5 per cent of all oil produced; (2) for the second period of five years from and after the date of each lease under section 29 of the act the royalty upon all leases shall be 5 per cent; (3) for the succeeding 10 years the royalty upon all leases under section 22 of the act shall be 10 per cent of all oil produced.

(b) Upon leases granted in Alaska under section 14 of the act, the permittee who discovers oil will be entitled to a lease for one-fourth of the area of the permit without payment of royalty for the first five years succeeding the date of the lease and thereafter shall pay a royalty of 5 per cent upon all oil produced. On the remaining lands included within the area of the permit, the permittee will be given a preference right to a lease without payment of royalty for the first five years succeeding the date of the lease, except in the case of leases whereon the producing wells yield an average of 100 barrels or more per well per day for the calendar month, in which event the royalty shall be 5 per cent; for the second five years, the lessee will be required to pay a royalty of 5 per cent upon all oil produced, and for the succeeding 10 years, a royalty of 10 per cent upon all oil produced.

(c) No royalty will be charged in any case upon leases wherein the wells upon the lands average less than 10 barrels per well per day for the calendar month.

(d) No rental upon any oil or gas lease in Alaska will be charged during the first five years succeeding the date of the lease. After the expiration of the first five years succeeding the date of the lease, a rental of 10 cents per acre per annum will be charged on all leases, payable in advance: Provided, That the rentals so paid for any one year shall be credited upon the royalties accruing for that year.

(e) The royalties on gas produced, if any, will be fixed and determined in each lease.

24. Beneficiaries under leases or permits.—All leases or permits under sections 18, 19, and 22 shall inure to the benefit of the claimant and all persons claiming through or under him by lease, contract, or otherwise, as their interests may appear, subject to the same limitations as to area and acreage as is provided for claimant; but such persons will not necessarily be parties to Government leases, and may assert their rights in the courts. Disputes of this character are not to be confused with adverse claims based upon independent title, hereinbefore referred to: (See sec. 23 hereof.)

244. Who may apply.—All proper parties to a claim for relief under section 18, 19, or 22 of the act should join in the application, but, if for any sufficient reason that is impracticable, any person claiming a fractional or undivided interest in such claim may make application for a lease or permit, stating the nature and extent of his interest, and the reasons for nonjoinder of his co-owner or co-owners. In cases where two or more applications are made for the same claim or part of a claim, leases or permits will be granted to one or more of the claimants, as the law and facts shall warrant and as shall be deemed just.

25. Form and content of application.—No set forms of application for a lease under section 18, 19, or 22, or a permit under section 19 or 22 of the act can be prescribed because the facts and circumstances pertaining to claims for relief are so varied. Applications for such leases or permits must be made under oath and the supporting documents and papers certified or under oath so far as practicable. The application, with all the accompanying papers, should be filed to the United States land office of the district in which the land is situated. Applications and supporting papers need not be executed in duplicate, but one complete copy of each application and supporting papers (except abstract of title) should be filed with the application, which copy will be transmitted by the register and receiver to the Chief of Field Division and notation to that effect made on the original. The application should contain full information as to the facts upon which the applicant relies for relief, covering the following points and such additional matters as may, from the peculiar fact in the case, be material in the establishment of his claim under the law:

(a) Date of application for lease or permit.
(b) Applicant's name, post-office address and citizenship.
(c) Description of land.—The land for which the application is made must be described by legal subdivisions of section, township, and range, if surveyed; if not surveyed, then by metes and bounds and courses and distances from some permanent monument. If the application is for a lease of unsurveyed land, the applicant, after he has been awarded the right to a lease, but before issuance thereof, will be required to deposit with the United States surveyor general of the State in which the land is situated the estimated cost of making a survey of the land, the balance, if any, after the survey is completed to be returned.

(d) Origin and basis of applicant's claim for relief.—The applicant must bring his claim clearly within all the requirements of the act as specifically pointed out in sections 18, 19, and 22 of these regulations. Every application must be supported by a duly certified abstract of title to the land brought up to the date of filing the application. In the event an abstract of title is already on file in the Land Department, a supplemental abstract extending over the period or periods not covered by the former may be furnished, and if furnished will be considered in connection with the abstract already on file. If any fraud has been committed in connection therewith, then a full affirmative showing must be made by the applicant to the effect that he has not been a party to such fraud, and that he has not been guilty of any fraud or has knowledge of fraud or reasonable grounds to know of any fraud in connection with his claim. If an application for patent has been filed, a brief resume of the actions taken thereon should be stated. If the land is or has been involved in litigation in the courts to which the United States is a party, the status or result of such litigation should be furnished.

(e) Particulars as to conflicting claims or interests.—All conflicting or disputed claims, if any, to the land or production therefrom, specifying the character and extent of such interests, must be shown.

(f) Discovery.—Before a lease may be awarded under the relief sections of the act it must be satisfactorily shown that the applicant or his predecessors have drilled a well to a substantial and certain discovery of oil or gas in a producing stratum on the land covered by the location under which the applicant is asserting his claim.
(g) Wells, improvements, and production.—With each application for a lease under section 18, 19, or 22 of the act there must be filed a complete and detailed statement showing the number, depth, condition, and present daily production of all wells drilled on the land by the applicant and his predecessors in interest, and the nature and extent of all other improvements placed thereon by them.

With each application for a permit under section 19 or 22 of the act, a description of the work performed and improvements made upon or for the benefit of the location by the applicant and his predecessors must be filed, together with an itemized statement of the cost thereof. If the application is made under section 22, the date the work was performed or the improvements made must also be shown.

In either case applicant must show the position of all wells and improvements by courses and distances from the nearest corner of the public land survey, if the land is surveyed; if not surveyed, then from a corner of the claim. This may be shown by means of a diagram.

(9) Amount and value of past production.—Claimant must furnish a complete detailed statement, by months, of all past production from the land, up to the date of filing the application and relinquishment, showing (1) the grade and total quantity of oil and gas produced; (2) the amount sold or otherwise disposed of, to whom sold, and the selling price or other consideration received therefor; (3) a statement of the grade and amount of any and all such production held in storage, when produced, and the value at time of production; and (4) the amount consumed for production purposes on the land, or unavoidably lost.

Copies of any and all contracts under which oil or gas produced from the land has been or is being sold or otherwise disposed of must be furnished.

(i) Inspection of records.—The agreement on the part of the applicant to permit the inspection of any and all books, records, and accounts having any bearing on the data or information required by the application and to furnish copies or abstracts of such books, records, or accounts, on demand.

(j) Interest in other leases and permits.—The applicant will also furnish a complete statement of all lands for which he has filed application for lease or permit under sections 18, 19, and 22 of the act, and of such lands as are included in other applications in which he has any direct or indirect interest, together with a full disclosure of such interest by stock ownership or otherwise. If the applicant is a corporation, a certified copy of its articles of incorporation must be furnished, and a full disclosure made of the ownership of its stock, whether such stock is owned, held, or controlled directly or indirectly by any other person or corporation, who or which is an applicant for or a holder of a lease under said sections, and, in the event of such ownership, a description of the legal subdivisions of all the lands affected thereby is required. Lists of stockholders need not necessarily be filed in the local land office, but may be filed directly with the Commissioner of the General Land Office, where they will be kept confidential except for Government purposes. In the event the lands so affected are not surveyed they may be described by the usual method of courses and distances and acreage.

(k) Limitation of area.—Applications for lease under section 18 of the act should disclose all other applications in which the applicant is directly or indirectly interested, for lease under said section for lands (describing same) in the same geologic structure; and applications under section 22 of the act should show all other applications for leases or permits under said section. The boundaries of the geologic structures of the various producing fields will be determined and announced by the United States Geological Survey under supervision of the Secretary of the Interior, and such information will be placed on file in all United States land offices.

(l) Interests of beneficiaries.—In applications for lease the nature and extent of the interests of all beneficiaries thereof by virtue of operating contracts or otherwise, not covered by paragraph 28 (j), must be disclosed, together with a full showing of all their interests in other leases or applications for leases under this act. If the beneficiary is a corporation or joint-stock company, a full disclosure must be made of the ownership of its stock and the residence and citizenship of its stockholders.

28. Payment of royalty on past production.—The application must be accompanied by a certified check in the amount of one-eighth of the gross value of all oil and gas produced and sold or held in storage, as per the statement required in paragraph 28 (4). All such sums will be held by the receiver in his account of "Trust funds.—Unearned moneys " to await instructions as to their disposition. In lieu of the certified check herein required, the applicant may be permitted to deposit a bond by approved surety company in an amount not less than one-eighth of the estimated gross value of all oil and gas produced and sold or held in storage, securing the payment to the United States within 30 days from the award of the lease of the cash value of the past production due the United States under this act. In cases where the proceeds, or part thereof, of such past production have been deposited in escrow, pursuant to operating agreements under the act of August 25, 1914 (38 Stat., 708), or where in suits brought by the Government affecting such lands the proceeds of production, or part thereof, have been impounded in the custody of receivers, a formal tender may be made of the funds so held in escrow or impounded to the extent available or in the amount necessary, as the case may be, in lieu of any cash payment. In such cases the interest accumulating on such escrowed or impounded moneys after the tender is made will go to the Government.

Liberty bonds will be accepted at original cost in payment of royalty on past production in such proportion as the sureted or impounded moneys have been invested therein.

Operating contracts made under the provisions of the act of August 25, 1914, supra, and in operation at the time of such tender, will not be terminated until the entire transaction of granting a lease and payment of royalty on past production shall have been consummated; nor will the Department of Justice be requested to dismiss any suit involving the land affected until the application for a lease has been adjudicated and approved; whereupon, after the suit has been dismissed and the impounded money tendered paid over to the Government, the lease will be executed and delivered.

27. Publication of notice.—Immediately upon the filing of an application for a lease or permit under section 18, 19, or 22 of the
act, the register and receiver will cause to be published, at the expense of the applicant, in a newspaper designated by the register, published in the vicinity of the land and most likely to give notice to the general public, a notice of the said application in substantially the following form:

**DEPARTMENT OF THE INTERIOR**

**UNITED STATES LAND OFFICE**

Notice is hereby given that __________ of __________ has applied for an oil and gas lease under section __________ of the Act of February 25, 1920 (Public No. 146), for __________ Township __________ of range __________ meridian, __________ county, State of __________. Any and all persons having adverse or conflicting claims to said land are hereby notified that a full statement, under oath, of such claim should be filed in this office showing a superior right to a permit or lease under said act or a valid existing adverse or conflicting claim to the land or the minerals therein under the public-land laws, on or before __________; otherwise such claim may be disregarded in granting the permit or lease applied for.

_____ Register.

The register and receiver will fix a date in the notice on or before which adverse or conflicting claims may be asserted, which date should be not less than 30 nor more than 40 days after the date of first publication of the notice.

Such notice will be published in the regular issue and not in any supplement of the newspaper, once each week for a period of five consecutive weeks if in a weekly paper, or if in a daily paper for a period of 30 days. The register and receiver will post a copy of said notice in a conspicuous place in their office during the period of publication.

Upon the applicant's furnishing satisfactory proof of such publication, but not earlier than the day following that set in the published notice on or before which adverse or conflicting claims were to be filed, the register and receiver will transmit by special delivery all papers in the case, including any adverse or conflicting claims that may have been filed, together with proof of posting said notice in their office, to the Commissioner of the General Land Office.

28. ADVERSE OR CONFLICTING CLAIMS—PROCEDURE. In case of adverse or conflicting claims for leases under section 18, 19, or 22, or permits under section 19 or 22, the Secretary of the Interior is clothed with authority to grant leases or permits, as the case may be, to one or more of them, as shall be deemed just.

(a) To have their claims considered in connection with the awarding of leases or permits it will be necessary for adverse claimants to make full showing (1) of a superior right to a lease or permit under this act, or (2) a superior right under some other public-land law. If the former, the conflicting claimant must make out a complete case in his own behalf as required by these regulations on or before August 25, 1920.

(b) Upon receipt of the application and showing of an adverse claimant the Commissioner of the General Land Office will consider same. If, in his judgment, the adverse claimant has failed to make a prima facie case showing that he is entitled to a lease or permit, as the case may be, for at least part of the land, his application will be rejected, subject to appeal to the Secretary of the Interior. But if the adverse claimant makes out a prima facie case the commissioner will take such course as may be advisable under the circumstances of each particular case to settle and adjust the rights of the respective parties, and may, if deemed necessary, order a formal hearing to settle disputed questions of fact. In the absence of appeal to the Secretary of the Interior from the final order or decision of the Commissioner same shall be conclusive.

29. COMPROMISES UNDER SECTION 18A.—No special procedure will be outlined under this section. Any request for a compromise or settlement under this section which may be filed in the Land Department will be transmitted to the President with such report as may be deemed advisable under the circumstances of the particular case. In case the land is in a naval petroleum reserve the Navy Department will be consulted before making such report.

IV.—RIGHTS OF WAY FOR PIPE LINES

30. Section 28 of the act grants to any applicant having the qualifications outlined in section 1 of these regulations rights of way through public lands of the United States, including national forests, for pipe-line purposes for the transportation of oil or natural gas, on condition that the pipe lines for which rights of way are granted shall be operated and maintained as common carriers. The grant carries with it the right to the use of the ground actually occupied by the pipe line, and 25 feet on each side thereof for the purpose of construction, maintenance, and operation of the pipe line. Applicants for rights of way under this act will be governed by the regulations set forth in circular of June 6, 1908 (36 L. D., 567), in so far as applicable, appropriate changes being made in the forms therein prescribed to make them applicable to right-of-way cases arising under the act of February 25, 1920 (Public, No. 146) for pipe lines to be constructed, maintained, and operated as common carriers. Failure on the part of grantee to fulfill the conditions imposed by the act shall be ground for forfeiture of the grant by the United States district court for the district in which the property, or some part thereof, is situated.

V.—FEES AND COMMISSIONS

31. Under the authority of section 38 of the act, the following fees and commissions are prescribed for transactions under the act:

(a) For receiving and acting upon each application for a permit, lease, or other right filed in the district land office in accordance with these regulations, there shall be paid a fee of $2 for each 160 acres, or fraction thereof, in such application, but such fee in no case to be less than $10, the same to be paid by the applicant and considered as earned when paid, and to be credited in equal parts on the compensation of the register and receiver within the limitations provided by law.

(b) A commission of 1 per cent on all moneys received in each receiver's office, to be equally divided between the register and receiver; such commission will not be collected from the applicant.
lessee, or permittee in addition to the money otherwise provided to be paid.
It should be understood that the commission here provided for will not affect the disposition of the proceeds arising from operations under the act as provided in section 35 thereof; also that such commission will be credited on compensation of registers and receivers only to the extent of the limitation provided by law for maximum compensation of such officers.

VI.—REPEALING AND SAVING CLAUSES

32. Section 37 of the act provides that hereafter the deposits of coal, phosphate, sodium, oil, oil shale, and gas, referred to and described therein, may be disposed of only in the manner provided in the act "except as to valid claims existing at date of passage of this act, and thereafter maintained in compliance with the laws under which initiated, which claims may be perfected under such laws, including discovery.
Stated negatively under this section of the act the following classes of oil or gas placer locations, so called, notwithstanding absence of fraud and full compliance with law in other respects, may not proceed to patent, viz:
(a) Any location made after withdrawal of the land.
(b) Any location made before withdrawal of the land, but not perfected by discovery at date of withdrawal, which does not come within the protective proviso of section 2 of the act of June 25, 1910 (36 Stat., 847); that is to say, any claimant who, at date of withdrawal, was not a bona fide occupant or claimant in diligent prosecution of work leading to discovery of oil or gas, and who has not continued in such diligent prosecution to discovery.
(c) Any location on lands not withdrawn, on which, at the date of the act, the claimant had not made discovery or was not in diligent prosecution of work leading to discovery, and does not continue such work with diligence to discovery.

Very respectfully,

CLAY TALLMAN,
Commissioner.

Approved:
JOHN BARTON PAYNE,
Secretary.

APPENDIX

DIGEST OF DECISIONS AND OPINIONS IN CONNECTION WITH THE ADMINISTRATION OF THE ACT OF FEBRUARY 25, 1920, AS APPLIED TO OIL AND GAS

Permits for lands in Government reclamation projects.
In the case of permits issued for lands within reclamation withdrawals the following additional conditions will be included in the permit:

1. (a) To reimburse damage sustained by any reclamation homestead entryman pursuant to the requirements of paragraph 8 hereof; (b) To pay any damage caused to any reclamation project or the water supply thereof by failure to comply fully with the requirements of paragraph 9 hereof.
2. That as to any lands covered by this permit which are also embraced in any reclamation homestead entry with a reservation of the oil and gas to the United States, the permittee shall reimburse the entryman for all damage to crops or improvements caused by such drilling or other operations, such damage to include reimbursement of the entryman by the permittee of all reclamation charges for construction, operation, and maintenance for the portion of the land used and occupied by the permittee during the period of such use and occupation.
3. That as to any lands covered by this permit within the area of any Government reclamation project or in proximity thereto the permittee shall erect such dikes and embankments or take such other precautions as may be necessary, as required by the project manager, effectively to impound any flow of refuse oil, salt water, or oil from wells drilled, to prevent any injury to lands susceptible of irrigation under such project or injury to the water supply thereof.

In such case the following form of bond will be required:

DEPARTMENT OF THE INTERIOR

GENERAL LAND OFFICE

U. S. Land Office —
Serial number —

Bond of oil and gas permittee
[Act of Feb. 25, 1920 (Public No. 140)]

Know all men by these presents, That ——— of ——— State of ——— as principal, and ——— of ——— State of ——— as surety, are held and firmly bound unto the United States of America, for the use and benefit of the United States and of any reclamation homestead entryman on any of the homesteads described lands embraced in that certain prospecting permit hereinbefore referred to, in the sum of $5,000, lawful money of the United States, for which payment, well and truly to be made, we bind ourselves, and each of us, and each of our heirs, executors, administrators, successors, and assigns jointly and severally by these presents.

Signed with our hands and sealed with our seals this ——— day of ———.

(27)
The condition of the foregoing obligation is such that, whereas the said principal has been granted under the act of February 25, 1929, Public No. 149, a permit (Serial No. ——) to prospect for oil and gas for two years, upon the following described lands:

1. on condition that the permittee shall (a) repair promptly, so far as possible, any damage to the oil strata or deposits resulting from improper methods of operation; (b) reimburse any homestead entryman or owner of any portion of said lands herebefore entered with a reservation of the oil and gas deposits in the United States made pursuant to the act of July 17, 1914 (38 Stat., 509), for any damage to the crops and improvements of such entryman or owner resulting from drilling or other prospecting operations.

Now, therefore, if said principal shall promptly and in all respects comply with said conditions, then the above obligation shall be void and of no effect; otherwise and in default of full and complete compliance therewith the said obligations shall remain in full force and effect.

Signed, sealed and delivered in the presence of:

(Name and address of witness.)

Principal. [L. 8.]

Surety. [L. 8.]

Permits for deposits reserved under act of July 17, 1914 (38 Stat., 509).

In the case of permits issued for deposits of oil or gas reserved to the United States under the provisions of the act of July 17, 1914 (38 Stat., 509), the following additional condition will be included in paragraph 7 thereof:

(b) To reimburse any entryman or owner of any portion of said lands herebefore entered with a reservation of the oil and gas deposits in the United States made pursuant to the act of July 17, 1914 (38 Stat., 509), for any damage to the crops and improvements of such entryman or owner resulting from drilling or other prospecting operations.

In such case the following form of bond will be required:

DEPARTMENT OF THE INTERIOR
GENERAL LAND OFFICE
U. S. Land Office —— Serial number ——
Bond of Oil and Gas Permittee
[Act of Feb. 25, 1929, Public No. 149]

Know all men by these presents, That ——— of ——— State of ——— as principal, and ——— ——— State of ——— as surety, are held and firmly bound unto the United States of America, for the use and benefit of the United States, and of any entryman or owner of any of the hereinafter described lands embraced in the certain prospecting permit hereinafter referred to, to the sum of $1,000 lawful money of the United States, for which payment, well and truly to be made, we bind ourselves, and each of us, and each of our heirs, executors, administrators, successors, and assigns jointly and severally by these presents

Signed with our hands and sealed with our seals this ——— day of ———.

Attorneys in fact.

In making applications for lease or permit corporations may act by attorneys in fact. Individuals and associations of individuals should execute their own papers.

Limitation of holdings.

A corporation (except under the relief sections) may not have an interest in more than three leases, either directly as a lessee, or indirectly as a stockholder in a corporate lessee. An individual may hold stock in any number of corporations holding leases provided his stock interests do not represent a greater acreage than 2,560 in the same producing structure, or 7,680 acres in the same State.

Alien ownership.

Aliens may not have any direct holding of lease under the oil-leasing act, but may be stockholders in American corporations holding leases, provided the laws of their country do not deny like privilege to American citizens. American corporations, some of whose stock is owned by aliens, may make application for lease with a full disclosure of the residence and citizenship of its stockholders, and the department will then determine whether a lease may be granted.

Conflicting preference rights under sections 19 and 20.

The preference right attaches to the claim first initiated and legally maintained. A locator of a mining claim who has complied with all the provisions of section 19 of the act will be entitled to a preference right over a homestead entryman whose entry was made after the location, the homestead, however, being entitled to hold the surface right. If the homestead entry was made prior to the date of the placer location, the homestead claimant will have the superior right, except in the case of a stock-raising homestead, where all minerals are reserved to the United States.
Permit for unwithdrawn land covered by agricultural entry.

No permit will be granted until entryman has elected to take patent with reservation of oil and gas to the United States. If such a waiver is filed, entryman may then exercise his preference right, if any, to permit for lands covered by such entry.

Preference rights under section 20.

Preference rights under section 20 exist in cases where entry was made prior to February 23, 1920, for unwithdrawn or unclassified lands, without any reservation of the minerals by the United States, and thereafter the claimant files a waiver of his right under the entry to the oil or gas. No preference right exists where land is covered by stock-raising entry, nor where entry is made subject to the act of July 17, 1914, with oil and gas reservations.

Assignability of permits.

Assignment of a mere right to a permit will not be recognized, but after permit is granted it may be assigned upon consent of the Secretary of the Interior first had and obtained.

Incontiguous tracts.

Incontiguous tracts within a limited radius may be included in a permit where conditions are such that, because of prior disposals, a reasonable area of contiguous land cannot be procured.

Pending application for permit, land designated as oil structure.

Where after application under section 13 for a permit, and before permit is granted the land is designated as within the structure of a producing oil or gas field, permit can not be allowed.

Preference right under section 20.

A permit to prospect will be granted an applicant entitled thereto under section 20 of the act, notwithstanding the land is part of a producing oil structure, but only one permit may be granted in the same structure to the same applicant.

Carey Act segregation as affected by leasing law.

The lands in a Carey Act segregation come under the provisions of section 2 of the oil and gas regulations, and permits and leases may be granted for such lands, subject to such stipulations and requirements as the Government may impose for the protection of the reclamation project, to the end that the best development of the lands, both for mineral and agricultural purposes, may be accomplished.

Neither the State nor its contractor would be entitled to any preference right under section 20 of the act, and whether a Carey Act entryman would have such a right would depend upon the conditions affecting his entry being such as to bring him within the provisions of section 20.

Office practice—Conflicting applications.

The issuance of a permit should be deferred, where all is regular and the applicant appears entitled to the permit, until the conflicting applicants have been notified that their applications have been rejected, because subsequent in time, subject to the right to show cause or to appeal within 15 days from receipt of notices.

Posting notice by agent.

Under the law, the action of an agent in posting notice is the action of his principal, but the application for permit may not be executed by agent, unless applicant is a corporation.

Permits of corporations as affected by stockholders' permits.

The maximum number of permits to a corporation under section 13 of the act is not limited by permits of individual stockholders, but a corporation may not have an interest in more than three permits in same State, nor in more than one in the same geologic structure, directly or indirectly. An individual may hold a direct interest in not more than three permits and his total interest as permittee and stockholder may not exceed an aggregate of 7,690 acres in the same State, or 2,500 acres in the same geologic structure.

Preference right permits to qualified assignees.

Section 19 of the act of February 25, 1920, is construed to permit qualified assignees since October 1, 1919, to secure preference right permits, but no such transfer will be permitted to hold permits exceeding 2,500 acres for such lands in the same geologic structure, nor more than three times that area in the same State.

Permits in Alaska.

The same rule applies in Alaska as in the States; that is, not more than one permit in same structure.

Rights under "paper locations."

Arguments have been presented in favor of a construction of section 37 of the leasing act, that would have the result of validating so-called "paper locations" of placer mining claims, and assuring the ultimate right to absolute patent to such claims in case of discovery. Such locations consist merely of setting stakes to indicate the boundaries, posting a notice, and perhaps filing that notice in a proper recording office. It is understood that practically all the public domain having known possible prospective value for oil, is covered by such locations. It is not believed that Congress had any such intention or that the language of the act justifies any such conclusion.

Under the express requirements of the mining laws and the decisions of the courts covering a long period of years, discovery of mineral has been the sole basis for the location of a mining claim. Without such discovery, the mere posting of notices and marking the boundaries creates no right whatever.

The mining law gives the right to any citizen to explore the public domain for the purpose of finding mineral; hence, the courts have protected a citizen in actual, physical possession of a prospective claim on the public domain, while he is engaged in diligent prosecution of work leading to the discovery of mineral, but this is as far as the courts have gone. As applied to oil lands, this rule was well stated by the Supreme Court of California, in the case of Mclemore v. Express Oil Company (158 Calif., 559), in the following language:

But where the location is uncompleted no question of assessment work is involved. What the attempting locator has is the right to continue in possession, undisturbed by any form of hostile or clandestine entry, while he is diligently prosecuting his work to a discovery. This diligent prosecution of the work of
discovery does not mean the doing of assessment work. It does not imply any attempt to hold, lean, timber pile, or unused derrick. It means the diligent, continuous prosecution of the work, with the expenditure of whatever money may be necessary to the end in view.

These propositions of law were reiterated in the United States Supreme Court as recently as March 15, 1929, in the case of Cole v. Ralph.

From the foregoing it will be seen that no rights whatever could be obtained by mere staking and posting unless such act was followed up with diligent and continuous work leading to discovery. Section 37 of the new leasing act excepts from the operation of that act "valid claims existing at date of passage of this act and thereafter maintained in compliance with the laws under which initiated, which claims may be perfected under such laws, including discovery." Obviously a valid claim under the former law is one that the court and the Land Department will protect and respect as against the claims of others. The mere staking and posting of notices do not constitute such a claim, and the regulations so hold.

Any other view as to the construction of section 37 is inconsistent with the provisions of other sections of the leasing law. Section 19 provides for relief, so-called, for those persons who initiated claims on the public domain at a time when the lands were not withdrawn or classified, and who, at the date of the act, had not perfected such claims by discovery, and it further provides that where such a claimant had expended an amount equal in the aggregate to $250 toward the development of his claim, such claimant, if in good faith and the claim was initiated prior to October 1, 1919, would be entitled to a prospector's permit for the area embraced in his claim.

The provisions of the relief sections (18, 18a, 19, and 22), were the subject of extended consideration by the committees in Congress, and it is clear that the provisions of section 19 are just as far as Congress intended to go in the protection of claims and locations of the class hereunder discussion. To construe the act as validating mere "paper locations" would be placing Congress and this department in the position of saying that one who had expended $250 on his claim would be entitled only to a prospecting permit, while one who had only a stake and notice would be left with the privilege for an indefinite time of ultimately getting an absolute title. It is further argued that under the act, claimant has the option of taking a relief permit under section 19 or standing on his "paper location" under section 37. One might as logically argue that claims for relief under section 18, over which there has been so much controversy, may now go to absolute patent by virtue of section 37. Congress never contemplated any such anomalous situation.

If the view urged in these arguments were adopted there would be little use for a leasing act for oil lands outside the withdrawn areas, and perhaps for lands within such areas. The purpose and policy sought to be accomplished by this important legislation would be largely negated, and the States and the Reclamation Service would be deprived of funds they are counting on for development purposes. Moreover, there is no practical necessity for the construction urged to protect any legitimate interest. The new law is liberal in the extreme in giving all good-faith claimants, who have

made any material expenditures on the ground, fair and reasonable opportunity to perfect such claims into permits and leases under the new law under far more practical working conditions than existed under the former laws.

Oil-land leases—Stock-raising homesteads.

The question has arisen as to whether or not the provisions of section 20 of the leasing act are applicable to lands covered by stock-raising homestead entries.

Section 20 is one of the so-called relief sections of the law, all of which sections are based upon alleged equities of the persons to whom a preference right to a permit or lease is accorded. It was designed to recognize the equities of persons who, by virtue of position, had gone upon the public domain and made homestead entries under the 160 or 320 acre homestead law, neither of which contains any reservation of minerals, upon the theory and under the belief that they were obtaining an unreserved title to the land. Because of a subsequent withdrawal or classification of the land as mineral after the allowance of their entries, and after they had spent their time and money upon the land, they were under the necessity of either losing the land entirely or accepting a patent under the provisions of the act of July 17, 1914, reserving the oil and gas deposits in the land to the United States. No such equity or reason exists in the case of entries under the 160 or 320 acre homestead law made upon lands thereafter withdrawn or classified as mineral, because the entryman knew at the time he made the entry that the mineral was known and reserved to the United States, and the most he could obtain was a patent expressly excluding the oil and gas deposits. This is true of all stock-raising homestead entries: for by the terms of the act itself all minerals within the land are expressly reserved to the United States, together with the right to enter upon the lands, mine and remove the same.

Lands within stock-raising homestead entries need not be withdrawn or classified for the purpose of preventing disposition of minerals under the agricultural land laws, because the minerals are reserved in the land itself. It is, therefore, clear that Congress, when it used in section 20 of the leasing act, the words "lands bona fide entered as agricultural and not withdrawn or classified as mineral at the time of entry," had in mind only the entries under the 160 or 320 acre homestead law, which contains no reservation or classification of mineral, and where subsequently, by reason of a withdrawal or classification, the entryman was, as stated above, under the necessity of accepting a restricted patent. Any other construction of the statute would involve the disregarding of the language "and not withdrawn or classified as mineral at the time of entry."

The regulations specifically state that the preference right under section 20 of the act exists only where the land was entered prior to withdrawal or classification, and subsequent to entry was withdrawn or classified as oil or gas bearing in character. This clearly could have no application to entries under the stock-raising homestead law, where all minerals are reserved and where no withdrawal or classification is necessary.
Preferral rights of agricultural claimants.

Whatever preference rights homesteaders or other agricultural entries may have to oil permits or leases must be found in section 30 of the act. While this section is not as clear and precise as might be desired, it is apparent that the class of entries or patents on which Congress intended by this section to confer a preference right is that made by those who when the land was not withdrawn or classified as mineral, and who were therefore permitted to make their entries without any reservation of the mineral to the Government, but were or will be compelled to make a patent with the reservation because of a withdrawal or classification of the land, or because, in the meantime, the land has become of known mineral character, before submission of final proof. It is also apparent that this section is in the nature of a relief provision, designed to take care of those who found themselves in the situation above described at the time the act was passed, and not intended to provide generally for the disposition of mineral rights under the homestead law in the future.

With these general propositions in mind, the following specific statements may be made:

1. If the land was withdrawn or classified at the time of the entry so that the entry was made with a reservation of the mineral, there is no preference right. Conversely, to entitle the homesteader to a preference right the entry must have been properly made without a reservation of the mineral.

2. There can be no preference right on an entry allowed after February 25, 1920. See section 12 of the regulations.

3. There can be no preference right on a stock-raising entry under the act of December 29, 1916, unless that act and all entries made are made with a reservation of the mineral.

4. If the homestead entry was made without reservation of the mineral, but the land was of known mineral character, for the purpose of acquiring mineral rights, there is no preference right to a permit because (a) such an entry must have been made with a reservation of the mineral and the requisite mineral affidavit on the entry was procure was fraudulent, and (b) the entry is not of lands bona fide entered as agricultural.

5. But where one has an original entry under the 160 or 320 acre law and an additional entry under the stock-raising (640-acre) law, the entrant will have the same rights under the original as he would have had he not made the additional.

6. Where one has an entry without a reservation of the mineral, nobody (not even the entrant himself) may acquire a permit or lease for the mineral in the same entry or in the same general area and unless the miner procures a permit or lease, the land is reserved for the homesteader or the homestead claimant.

7. But if the entryman in the case last above mentioned files a waiver of the mineral rights in the land, then he may exercise his preference right, if he has, and if not, others may file application for a mineral permit or lease.

8. The "reservation" of the mineral above referred to is pursuant to section 2 of the act of July 17, 1914 (38 Stat. 500), which provides that the mineral occupant shall pay any damage caused to the agricultural claimant.

9. Where a patented entry, or one on which final certificate has been sold or transferred, the transferee would have the same rights as the entryman provided he acquired the land before January 1, 1915, and if he acquired it after that date, there would be no preference right in anybody.

10. A patentee, or entryman with final certificate, with a reservation of the mineral to the Government, who has a preference right cannot withhold the land from development indefinitely. Section 12 of the regulations provides that if anybody else applies for a permit on the land, the preference right man shall be given notice and allowed 30 days within which to exercise his preference and apply for a permit himself; otherwise he will be out.

11. The preference-right claimant must be qualified to take a permit under the law the same as anybody else; for instance, an alien transferee of patented land could not get a permit or lease; one who has already received the limit of permits allowed could not get a permit.

12. The matter of whether the agricultural entry on which a preference right is based was made within or without a known mineral structure entitles to secure in connection with the preference rights hereunder consideration, provided that only one permit may be granted to the same.

13. In case of conflict between a preference-right claimant under sections 19 and 30 and one under section 29 the one would prevail whose rights were prior in their legal inception.

Conflicts between mineral claims and oil placers.

When an otherwise valid oil placer location is perfected by discovery the land is not subject to other appropriation so long as the mining claim is maintained and should it be entered or applied for under some other law prior to the filing of an application for patent by the mining claimant the burden of protecting his claim by contest will rest upon him. This is necessarily so, as the land is not segregated from record entry by a mere mining location of which the land department has no record.

An oil placer location, perfected by discovery, laid over land embraced in a prior, valid, subsisting homestead entry, is ineffective so long as the homestead stands. (Prior to the act of July 7, 1914, the surface claimant could contest the homestead and cause its cancellation; under that act the homesteader may retain surface rights and the mineral is automatically withdrawn; and under the leasing act the homesteader might have a preference right to a permit for the mineral.) A stock-raising homestead is an exception to this rule, for all minerals are reserved therefrom, and the oil deposits could have been located under the placer law up to February 25, 1920.

A mere "paper" oil placer location (that is, one without a discovery) will not prevent a homestead entry for the land, but where the claimant of a "paper location" is on the ground in diligent prosecution of work leading to discovery at the time the land is homesteaded, he may by contest defeat the homestead entry.

The allowance (after Feb. 25, 1920) of a homestead entry on land covered by valid rights to relief permits or leases under sections 18 or 19, is entirely within the discretion of the Secretary of the Interior.

Reservation of mineral—When required.

When a homestead entry (not under the grazing act) is made without a reservation of the oil to the Government and the land is withdrawn or classified as oil land before completion of final proof, is submitted, the entryman must take patent with a reservation of the oil, unless he can procure a reclassification of the land by the department or a removal of the withdrawn, or unless he can show at a hearing (the burden of proof being on him) that the land was not of a known mineral character at date of final proof.

But where, in the case last stated, the withdrawal or classification as mineral was not made until after final proof was submitted, the entryman will be entitled to a patent without a reservation, unless the Government can show (the burden of proof being on the Government) at a hearing if necessary, that the land was of known mineral character at the date of final proof. If the Government can show this, the result will be the same regardless of whether there has been a withdrawal or classification.

34:35
Interests under drilling contracts.

A drilling contract carrying with it a right in the proceeds, or in the land itself, will be considered an interest in the lease, and when it comes time to grant a lease such drilling contractor will have to show himself qualified to take a lease. In all cases where the drilling is performed under contract the nature and terms of the contract must be disclosed before lease is granted.

As to permits, the situation is different. If a contractor desires to be recognized by the department in connection with a permit, it will be necessary for him to file his contract for approval; but if he so desires he may explore the land under contract with the permittee and bring his contract to the attention of the department only when and if he wishes to be recognized as being interested in such lease as may be applied for.

Discovery on adjoining claims.

In case of two claims that adjourn, it is necessary to have discovery on each claim to secure lease for both under section 18. If the discovery is only on one claim, the permit must be confined to the limits of the claim containing the discovery.

Right of assignees to a lease under section 18.

Good faith locators or their grantees, whose right to a lease is governed by the provisions of section 18 of the act, may transfer their interests to contractors, assignees, or lessors who were in undisputed possession prior to July 1, 1919; and such owners may then jointly apply for a lease for their aggregate holdings or they may make a division of the area and each seek a separate lease for his individual holdings.

Discovery applicable to all parts of location.

A discovery on any part of a placer claim used as a basis for relief under section 18, 19, or 22 of the act will be deemed applicable to every part thereof for leasing purposes.

Only citizens may obtain permits or leases.

The oil and gas leasing bill provides for the issuance of prospecting permits and leases to citizens of the United States, associations of such citizens, corporations organized under the laws of the United States or of any State or Territory thereof, or municipalities. It follows from this that no one but a citizen can obtain a lease or permit, but aliens may be stockholders in some cases.

Citizenship of agent immaterial.

A notice of a prospecting permit may be posted by an agent or attorney in fact in the name of his principal. The citizenship of such agent is immaterial.

Oil claims to antedating leasing act.

Oil placer claims for withdrawn and unclassified lands upon which discovery was made prior to the enactment of the mineral leasing law are not, in the absence of fraud, affected thereby so long as the claimant complies with the law. If discovery was not made, the claimant in order to protect his right to a patent, must have been engaged in diligent work leading to a discovery at the date of the act and must be able to show that he has continued such work to discovery.

Preference right of State grantees.

To entitle the grantee of a State to a preference right under section 20 of the mineral leasing law, the selection must have been approved and transferred to the State prior to January 1, 1913.

When the mineral leasing act took effect.

Under the general rule of law applicable to such cases, the act of February 25, 1920, was in force and operation during that entire day. Subject, however, to the privilege of any person having a substantial right which would be affected by the application of the general rule to prove, if he can, the exact time of approval.

The act of February 25, 1920, supra, section 13, authorizes the Secretary of the Interior, under such rules as he may prescribe, to grant to qualified persons a prospecting permit upon not to exceed 2,560 acres of land, and allows would-be applicants to initiate a preference right, good for 30 days, by posting notice upon the ground. This statute and the rules and regulations promulgated thereunder do not, however, confer upon such locators a right to obtain a prospecting permit for the entire acreage described in any notice of location. The statute simply fixes the maximum amount which may be embraced in a single permit, 2,560 acres.

Paragraph 2 of the regulations approved March 11, 1920, states that the granting of such a permit "is discretionary with the Secretary of the Interior, and any application may be granted or denied, either in part or in entirety, as the facts may be deemed to warrant."

Subject to the foregoing, the following rule is announced for the guidance of the officers of the Interior Department and of parties in interest in the disposition of conflicts and controversies arising out of locations and applications made or filed during the day of February 25, 1920:

All locations made or applications filed, pursuant to section 13 of the act of February 25, 1920, at any time during the day of February 25, 1920, will be held, treated, and regarded as simultaneous, and in case of conflict of location and application, in whole or in part, between two or more qualified applicants, all such applicants will be allowed 30 days from notice within which to compromise their differences by division of lands or otherwise, in default of which this department will make such division or disposition as the facts may warrant.

Limitations under section 27.

It will be noted that section 27 seems to apply to two classes of interests, namely, those held directly from the Government and those held indirectly through ownership of stock in corporations. As to leases held directly, there does not seem to be much doubt that the same person or corporation may not at the same time have more than three leases in any one State, or more than one lease within the geologic structure of the same producing oil or gas field.

The section further provides that "no corporation shall hold any interest as a stockholder of another corporation in more than such number of leases. This language, taken in conjunction with the
language preceding it, seems to hold that a corporation may not have an interest in more than three leases, either directly as a lessee, or indirectly as a stockholder in a corporate lessee. True, the next clause provides that "no person or corporation shall take or hold any interest or interests as a member of an association or associations, or as a stockholder of a corporation or corporations," in which the aggregate leasehold interests exceed an amount equivalent to the maximum number of acres allowed to one lessee. It is clear that as to a corporation the clause last quoted is inconsistent with the clause first quoted, and as the clause first quoted is more restrictive as to a corporation than the following clause, it is considered that the former controls. But this leaves an individual with the right to hold three leases directly, and, at the same time, to have a stock interest in corporations having leases, provided his direct and indirect holdings do not exceed the maximum for one person, namely, not exceeding 2,560 acres in the same structure or 7,680 in the same State. It follows also that a person may hold stock in any number of corporations holding leases provided his stock interests do not represent a greater acreage than that above stated.

While under the regulations substantially the same restrictions apply to permits as apply to leases, the number of leases one has will not necessarily limit the number of permits he may have, but when a permit ripens into a lease, then the restrictions as to leases apply to both.

Bond with preference right application.

In the case of a preference right application under section 19, the bond may be filed therewith, or deferred until permit is authorized.

Articles of incorporation.

Under section 26 of the regulations, a certified copy of the articles of incorporation should be filed with the original application, but an uncertified copy is sufficient to accompany the duplicate.

Rights of association in geologic structure.

An association may hold only one permit in the same geologic structure, and the interest of a member of different associations may aggregate 2,560 acres in the same structure.

Ceded Ute Indian lands subject to leasing act.

By departmental decision of August 9, 1930, it was held that the oil and gas deposits contained in that portion of the Ute Indian Reservation in the State of Colorado formerly occupied by the Ucom-paligre and White River Utes, ceded to the United States by the confederated bands of Ute Indians by the treaty of March 2, 1865, as amended, accepted, and ratified by the act of June 16, 1880 (31 Stat., 199), and opened to disposal under the provisions of the act of July 28, 1882 (22 Stat., 178), are subject to disposal under the mineral leasing act.

Uintah ceded Indian lands subject to leasing act.

The Uintah Indian lands opened to sale and entry by act of May 27, 1909 (32 Stat., 263), are subject to the operation of the leasing act of February 25, 1930.

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Department of the Interior,

General Land Office,

Washington, October 6, 1930.

Register and Receiver,

United States Land Office.

Gentlemen: Instructions have been requested from several local offices as to the proper procedure to take in connection with nonmineral applications or selections filed for lands embraced in applications for prospecting permits or leases, or which may be subject to preference rights, under the leasing act of February 25, 1930.

A prospecting permit is granted in contemplation of a future lease for a part or all of the same land in case of discovery; hence as to subsequent nonmineral entries, with a reservation of the oil or gas to the United States, the lands embraced in a prospecting permit should be treated the same as if embraced in an oil or gas lease, with a reservation to the United States of the right "to lease, sell, or otherwise dispose of the surface of the lands embraced within such lease under existing law or laws hereafter enacted, in so far as said surface is not necessary for the use of the lessee in extracting or removing the deposits therein," pursuant to section 29 of the leasing act. As the placing of such a reservation in a lease is made discretionary with the Secretary, it necessarily follows that any disposition of the surface of lands embraced in permits or leases is by the act left entirely discretionary with the Land Department, to be determined on the facts of each particular case.

The so-called relief sections of the act (18, 18(a), 19, and 29) recognize equitable rights in the owners and occupants of claims initiated under the general mining laws and accord to them a preference right which may be exercised by applying within the time and in the manner prescribed by said sections for oil or gas leases or permits. These prior rights or claims, if asserted within the time accorded the claimants by the statute, are superior, both in time and right, to nonmineral applications or selections having their inception subsequent to the leasing act. It is apparent also that the allowance of nonmineral appropriation of the surface of vacant lands in producing structures will interfere with the leasing of such lands by competitive bidding under section 17 of the leasing act.

You are therefore directed:

LANDS OUTSIDE PRODUCING STRUCTURES

(1) In all cases of applications to make nonmineral entries or selections of lands outside of areas which have been designated by the department as within the geologic structures of producing oil or gas fields, and which lands are also embraced in applications for prospecting permits or in permits granted, such nonmineral applications should be received, noted on your records, suspended, and transmitted to the Commissioner of the General Land Office for instructions. If in any case such nonmineral entry or selection shall be allowed by you on instructions from the Commissioner, the same will be with a reservation of the oil or gas to the United States, and sub-
ject to the rights of the permittee or lessee, as the case may be, to use so much of the surface of such land as is necessary in extracting and removing the mineral deposits, without compensation to the nonmineral entryman for such use, in accordance with section 29 of the leasing act.

LANDS IN PRODUCING STRUCTURES

(2) You will reject all applications to enter, file upon, or select under the nonmineral land laws, lands which have been or shall be designated by the department as being within the known geologic structures of producing oil or gas fields, pending consideration by the department of the agricultural character and value of such lands and a determination as to whether the surface of the land is of agricultural character and value and may be disposed of without detriment to the public interest.

CONFLICTS WITH PREFERENCE RIGHTS

(3) All homestead entries or other nonmineral filings or selections allowed prior to receipt of these instructions and subsequent to February 24, 1920, which are found to be in conflict with preference rights timely asserted under the remedial provisions of the act of February 25, 1920, shall be suspended pending the consideration of the application for the permit or lease, and the parties in interest so advised. If the permit or lease be allowed or granted, such homestead entry or other allowed nonmineral application or selection will be canceled if the lands are within designated geologic structures of producing oil or gas fields. If outside of such designations, the agricultural entries, applications, or selections will be allowed to stand or will be canceled in the discretion of the department, as provided in section 1 hereof.

LIABILITY FOR DAMAGES

(4) Your attention is drawn to the distinction which exists under the law with respect to the rights of permittees and lessees of mineral deposits in cases where the nonmineral entry or selection is allowed subsequent to the application for permit or lease or subsequent to February 25, 1920, in conflict with rights recognized by sections 18, 18(a), 19, and 22 of the leasing act, and those cases where the nonmineral entry, filing, or selection with a reservation of the mineral (either at time of entry or later) under the acts of July 17, 1914 (38 Stat., 509), or December 29, 1916 (39 Stat., 862), precedes the permit, lease, or mineral right, for in the latter case the nonmineral claimant is entitled to be reimbursed for all damages to crops and improvements by reason of the operations of the permittee or lessee, as provided in those acts, while in the former the respective rights of the mineral and surface claimants are governed by section 29 of the leasing act.

Very respectfully,

C. T. Tallman,
Commissioner.

Approved October 6, 1920.

John Barton Payne,
Secretary.

[Public—No. 146—56th Congress]

[8. 2775]

AN ACT To promote the mining of coal, phosphate, oil, oil shale, gas, and sodium on the public domain

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That deposits of coal, phosphate, sodium, oil, oil shale, or gas, and lands containing such deposits owned by the United States, including those in national forests, but excluding lands acquired under the act known as the Appalachian Forest act, approved March 1, 1911, (Thirty-sixth Statutes, page 961), and those in national parks, and in lands withdrawn or reserved for military or naval uses or purposes, except as hereinafter provided, shall be subject to the disposal in the form and manner provided by this act to citizens of the United States, or to any association of such persons, or to any corporation organized under the laws of the United States, or of any State or Territory thereof, and in the case of coal, oil, oil shale, or gas, to municipalities: Provided, That the United States reserves the right to extract helium from all gas produced from lands permitted, leased, or otherwise granted under the provisions of this act, under such rules and regulations as shall be prescribed by the Secretary of the Interior: Provided further, That in the extraction of helium from gas produced from such lands, it shall be so extracted as to cause no substantial delay in the delivery of gas produced from the well to the purchaser thereof: And provided further, That citizens of another country, the laws, customs, or regulations of which deny similar or like privileges to citizens or corporations of this country, shall not by stock ownership, stock holding, or stock control own any interest in any lease acquired under the provisions of this act.

[Sections 2 to 8, inclusive, relate to coal.]

[Sections 9 to 12, inclusive, relate to phosphates.]

OIL AND GAS

Sec. 13. That the Secretary of the Interior is hereby authorized, under such necessary and proper rules and regulations as he may prescribe, to grant to any applicant qualified under this Act a prospecting permit, which shall give the exclusive right, for a period not exceeding two years, to prospect for oil or gas upon not to exceed two thousand five hundred and sixty acres of land wherein such deposits belong to the United States and are not within any known geological structure of a producing oil or gas field upon condition that the permittee shall begin drilling operations within six months from the date of the permit, and shall, within one year from and after the date of permit, drill one or more wells for oil or gas to a depth of not less than five hundred feet each, unless valuable deposits of oil
or gas shall be sooner discovered, and shall, within two years from date of the permit, drill for oil or gas to an aggregate depth of not less than two thousand feet unless valuable deposits of oil or gas shall be sooner discovered. The Secretary of the Interior may, if he shall find that the permittee has been unable with the exercise of diligence to test the land in the time granted by the permit, extend any such permit for such time, not exceeding two years, and upon such conditions as he shall prescribe. Whether the lands sought in any such application and permit are surveyed or unsurveyed the applicant shall, prior to filing his application for permit, locate such lands in a reasonably compact form and according to the legal subdivisions of the public land surveys if the land be surveyed; and in an approximately square or rectangular tract if the land be an unsurveyed tract, the length of which shall not exceed two and one-half times its width, and if he shall cause to be erected upon the land for which a permit is sought a monument not less than four feet high, at some conspicuous place thereon, and shall post a notice in writing on or near said monument, stating that an application for permit will be made within thirty days after date of posting said notice, the name of the applicant, the date of the notice, and such a general description of the land to be covered by such permit by reference to courses and distances from such monument and such other natural objects and permanent monuments as will reasonably identify the land, stating in amount thereof in acres, he shall during the period of thirty days following such marking and posting, be entitled to a preference right over others to a permit for the land so identified. The applicant shall, within ninety days after receiving a permit, mark each of the corners of the tract described in the permit upon the ground with substantial monuments, so that the boundaries can be readily traced on the ground, and shall post in a conspicuous place upon the lands a notice that such permit has been granted and a description of the lands covered thereby: Provided, That in the Territory of Alaska prospecting permits not more than five in number may be granted to any qualified applicant for periods not exceeding four years, actual prospecting operations shall begin within two years from date of permit, and oil and gas wells shall be drilled to a depth of not less than five hundred feet, unless valuable deposits of oil or gas shall be sooner discovered, within three years from date of the permit and to an aggregate depth of not less than two thousand feet; unless valuable deposits of oil or gas shall be sooner discovered, within four years from date of permit; Provided further, That in said Territory the applicant shall have a preference right over others to a permit for land identified by temporary monuments and notice posted on or near the same for six months following such marking and posting, and upon receiving a permit he shall mark the corners of the tract described in the permit upon the ground with substantial monuments within one year after receiving such permit.

Sec. 14. That upon establishing to the satisfaction of the Secretary of the Interior that valuable deposits of oil or gas have been discovered within the limits of the land embraced in any permit, the permittee shall be entitled to a lease for one-fourth of the land embraced in the prospecting permit: Provided, That the permittee shall be granted a lease for as much as one hundred and sixty acres of said lands, if there be that number of acres within the permit. The area to be selected by the permittee shall be in compact form and, if surveyed, to be described by the legal subdivisions of the public land surveys; if unsurveyed, to be surveyed by the Government at the expense of the applicant for lease in accordance with rules and regulations to be prescribed by the Secretary of the Interior, and the land so leased shall be confirmed to and taken in accordance with the legal subdivisions of such surveys; deposits made to cover expenses of surveys shall be deemed appropriated for that purpose, and any excess deposits may be repaid to the person or persons making such deposit or their legal representatives. Such leases shall be for a term of twenty years upon a royalty of 5 per centum in amount or value of the production and the annual payment in advance of a rental of $1 per acre, the rental paid for any one year to be credited against the royalties as they accrue for that year, with the right of renewal as prescribed in section 17 hereof. The permittee shall also be entitled to a preference right to a lease for the remainder of the land in his prospecting permit at a royalty of not less than 12 1/2 per centum in amount or value of the production, and under such other conditions as are fixed for oil or gas leases in this act, the royalty to be determined by competitive bidding or fixed by such other method as the Secretary may by regulations prescribe: Provided, That the Secretary shall have the right to reject any or all bids.

Sec. 15. That until the permittee shall apply for lease to the one quarter of the permit area heretofore provided for he shall pay to the United States 20 per centum of the gross value of all oil or gas secured by him from the lands embraced within his permit and sold or otherwise disposed of or held by him for sale or other disposition.

Sec. 16. That all permits and leases of lands containing oil or gas, made or issued under the provisions of this act, shall be subject to the condition that no wells shall be drilled within two hundred feet of any of the outer boundaries of the lands so permitted or leased, unless the adjoining lands have been patented or the title thereto otherwise vested in private owners, and to the further condition that the permittee or lessee will, in conducting his explorations and mining operations, use all reasonable precautions to prevent waste of oil or gas developed in the land, or the entrance of water through wells drilled by him to the oil sands or oil-bearing strata, to the destruction or injury of the oil deposits. Violations of the provisions of this section shall constitute grounds for the forfeiture of the permit or lease, to be enforced through appropriate proceedings in courts of competent jurisdiction.

Sec. 17. That all unappropriated deposits of oil or gas situated within the known geologic structure of a producing oil or gas field and the unentered lands containing the same, not subject to preferential lease, may be leased by the Secretary of the Interior to the highest responsible bidder by competitive bidding under general regulations to qualified applicants in areas not exceeding six hundred and forty acres and in tracts which shall not exceed in length two and one-half times their width, such leases to be conditioned upon the payment by the lessee of such bonus as may be accepted and of such royalty as may be fixed in the lease, which shall not be less than 12 1/2. For the purpose of such competitive bidding, the Secretary of the Interior may cause surveys and appraisals to be made as may be necessary.

Sec. 18. That the Secretary of the Interior may, in his discretion, lease any or all of the lands embraced in any permit and so permitted by the constitution, to the highest responsible bidder by competitive bidding under general regulations to qualified applicants in areas not exceeding six hundred and forty acres and in tracts which shall not exceed in length two and one-half times their width, such leases to be conditioned upon the payment by the lessee of such bonus as may be accepted and of such royalty as may be fixed in the lease, which shall not be less than 12 1/2.
per centum in amount or value of the production, and the payment in advance of a rental of not less than $1 per acre per annum thereafter during the continuance of the lease, the rental paid for any one year to be credited against the royalties as they accrue for that year. Leases shall be for a period of twenty years, with the preferential right in the lessee to renew the same for successive periods of ten years upon such reasonable terms and conditions as may be prescribed by the Secretary of the Interior, unless otherwise provided by law at the time of the expiration of such periods. Whenever the average daily production of any oil well shall not exceed ten barrels per day, the Secretary of the Interior is authorized to reduce the royalty on future production when in his judgment the wells can not be successfully operated upon the royalty fixed in the lease. The provisions of this paragraph shall apply to all oil and gas leases made under this act.

Sect. 18. That upon relinquishment to the United States, filed in the General Land Office within six months after the approval of this act, of all right, title, and interest claimed and possessed prior to July 3, 1910, and continuously since by the claimant or his predecessor in interest under the preexisting placer mining laws to any oil or gas bearing land upon which there has been drilled one or more oil or gas wells to discovery embraced in the Executive order of withdrawal issued September 27, 1909, and not within any naval petroleum reserve, and upon payment as royalty to the United States of an amount equal to the value at the time of production of one-eighth of all the oil or gas already produced except oil or gas used for production purposes on the claim, or unavoidably lost, from such land, the claimant, or his successor, if in possession of such land, undisputed by any other claimant prior to July 1, 1910, shall be entitled to a lease thereon from the United States for a period of twenty years, at a royalty of not less than 12½ per centum of all the oil or gas produced except oil or gas used for production purposes on the claim, or unavoidably lost: Provided, That not more than one-half of the area, but in no case to exceed three thousand two hundred acres, within the geologic oil or gas structure of a producing oil or gas field shall be leased to any one claimant under the provision of this section when the area of such geologic oil structure exceeds six hundred and forty acres. Any claimant or his successor, subject to this limitation, shall, however, have the right to select and receive the lease as in this section provided for that portion of his claim or claims equal to, but not in excess of, said one-half of the area of such geologic oil structure, but not more than three thousand two hundred acres. All such leases shall be made and the amount of royalty to be paid for oil and gas produced, except oil or gas used for production purposes on the claim, or unavoidably lost, after the execution of such lease shall be fixed by the Secretary of the Interior under appropriate rules and regulations: Provided, however, That as to all like claims situate within any naval petroleum reserve the producing wells thereon only shall be leased, together with an area of land sufficient for the operation thereof, upon the terms and payment of royalties for past and future production as herein provided for in the leasing of claims. No wells shall be drilled in the land subject to this provision within six hundred and sixty feet of any such leased well without the consent of the lessee: Provided, however, That the President may, in his discretion, lease the remainder of any part of any such claim upon which such wells have been drilled, and in the event of such leasing said claimant or his successor shall have a preference right to such lease: And provided further, That he may permit the drilling of additional wells by the claimant or his successor within the limited area of six hundred and sixty feet theretofore provided for upon such terms and conditions as he may prescribe.

No claimant for a lease who has been guilty of any fraud, or who had knowledge or reasonable grounds to know of any fraud, or who has not acted honestly and in good faith, shall be entitled to any of the benefits of this section.

Upon the delivery and acceptance of the lease, as in this section provided, all suits brought by the Government affecting such lands may be settled and adjusted in accordance herewith and all money impounded in such suits or under the Act entitled "An Act to amend an Act entitled 'An Act to protect the locators in good faith of oil and gas lands who shall have effected an actual discovery of oil or gas on the public lands of the United States, or their successors in interest,' approved March 2, 1911," approved August 25, 1911 (Thirty-eighth Statutes at Large, page 708), shall be paid over to the parties entitled thereto. In case of conflicting claimants for leases under this section, the Secretary of the Interior is authorized to grant leases to one or more of them as shall be deemed just. All leases hereunder shall inure to the benefit of the claimant and all persons claiming through or under him by lease, contract, or otherwise, as their interests may appear, subject, however, to the same limitation as to area and acreage as is provided for claimant in this section: Provided, That no claimant acquiring an interest in such lands since September 1, 1919, from a claimant on or since said date claiming or holding more than the maximum allowed claimant under this section shall secure a lease thereon or any interest therein, but the inhibition of this proviso shall not apply to an exchange of any interest in such lands made prior to the 1st day of January, 1920, which did not increase or reduce the area or acreage held or claimed in excess of said maximum by either party to the exchange: Provided further, That no lease or leases under this section shall be granted, nor shall any interest therein inure, to any person, association, or corporation for a greater aggregate acreage or acreage than the maximum in this section provided for.

Sect. 18a. That whenever the validity of any gas or petroleum placer claim under preexisting law to land embraced in the Executive order of withdrawal issued September 27, 1909, has been or may hereafter be drawn in question on behalf of the United States in any departmental or judicial proceedings, the President is hereby authorized at any time within twelve months after the approval of this Act to direct the compromise and settlement of any such controversy upon such terms and conditions as may be agreed upon, to be carried out by an exchange or division of land or division of the proceeds of operation.
Sec. 19. That any person who on October 1, 1919, was a bona fide occupant or claimant of oil or gas lands under a claim initiated while such lands were not withdrawn from oil or gas location and entry, and who had previously performed all acts under then existing laws necessary to valid locations thereof except to make discovery and upon which discovery had not been made prior to the passage of this act, and who has performed work or expended on or for the benefit of such locations an amount equal in the aggregate of $250 for each location if application therefor shall be made within six months from the passage of this act shall be entitled to prospecting permits thereon upon the same terms and conditions, and limitations as to acreage, as other permits provided for in this act, or where any such person has heretofore made such discovery, he shall be entitled to a lease thereon under such terms as the Secretary of the Interior may prescribe unless otherwise provided for in section 18 hereof: Provided, That where such prospecting permit is granted upon lands within any known geologic structure of a producing oil or gas field, the royalty to be fixed in any lease thereon or any portion thereof shall be not less than 12½ per centum of all the oil or gas produced except oil or gas used for production purposes on the claim, or unavoidably lost: Provided, however, That the provisions of this section shall not apply to lands reserved for the use of the Navy: Provided, however, That no claimant for a permit or lease who has been guilty of any fraud or who had knowledge or reasonable grounds to know of any fraud, or who has not acted honestly and in good faith, shall be entitled to any of the benefits of this section.

All permits or leases hereunder shall inure to the benefit of the claimant and all persons claiming through or under him by lease, contract, or otherwise, as their interests may appear.

Sec. 20. In the case of lands bona fide entered as agricultural and not withdrawn or classified as mineral at the time of entry, but not including lands claimed under any railroad grant, the entryman or patentee, or assign, where assignment was made prior to January 1, 1918, if the entry has been patented with the mineral right reserved, shall be entitled to a preference right to a permit and to a lease, as herein provided, in case of discovery; and within an area not greater than a township such entryman and patentee or assigns holding restricted patents may combine their holdings, not to exceed two thousand five hundred and sixty acres, for the purpose of making joint application. Leases executed under this section and embracing only lands so entered shall provide for the payment of a royalty of not less than 12½ per centum as to such areas within the permit as may not be included within the discovery lease to which the permit is entitled under section 14 hereof.

[Section 21 relates to oil shale.]

ALASKA OIL PROVISO

Sec. 22. That any bona fide occupant or claimant of oil or gas bearing lands in the Territory of Alaska, who, or whose predecessors in interest, prior to withdrawal had complied otherwise with the requirements of the mining laws, but had made no discovery of oil or gas in wells and who prior to withdrawal had made substantial improvements for the discovery of oil or gas on or for each location or had prior to the passage of this act expended not less than $250 in improvements on or for each location shall be entitled, upon relinquishment or surrender to the United States within one year from the date of this act, or within six months after final denial or withdrawal of application for patent, to a prospecting permit or permits, lease or leases, under this act covering such lands, not exceeding five permits or leases in number and not exceeding an aggregate of one thousand two hundred and eighty acres in each: Provided, That leases in Alaska under this act whether as a result of prospecting permits or otherwise shall be upon such rental and royalties as shall be fixed by the Secretary of the Interior and specified in the lease, and be subject to readjustment at the end of each twenty-year period of the lease: Provided further, That for the purpose of encouraging the production of petroleum products in Alaska the Secretary may, in his discretion, waive the payment of any rental or royalty not exceeding the first five years of any lease.

No claimant for a lease who has been guilty of any fraud or who had knowledge or reasonable grounds to know of any fraud or who has not acted honestly and in good faith, shall be entitled to any of the benefits of this section.

[Sections 23, 24, and 25 relate to sodium.]

GENERAL PROVISIONS APPLICABLE TO COAL, PHOSPHATE, SODIUM, OIL, OIL SHALE, AND GAS LEASES

Sec. 26. That the Secretary of the Interior shall reserve and may exercise the authority to cancel any prospecting permit upon failure by the permittee to exercise due diligence in the prosecution of the prospecting work in accordance with the terms and conditions stated in the permit, and shall insert in every such permit issued under the provisions of this act appropriate provision for its cancellation by him.

Sec. 27. That no person, association, or corporation, except as herein provided, shall take or hold more than one coal, phosphate, or sodium lease during the life of such lease in any one State; no person, association, or corporation shall take or hold, at one time, more than three oil or gas leases granted hereunder in any one State, and not more than one lease within the geologic structure of the same producing oil or gas field; no corporation shall hold any interest as a stockholder of another corporation in more than such number of leases; and no person or corporation shall take or hold any interest or interests as a member of an association or associations or as a stockholder of a corporation or corporations holding a lease under the provisions hereof, which, together with the area embraced in any direct holding of a lease under this act, or which, together with any other interest or interests, as a member of an association or associations, or as a stockholder of a corporation or corporations, holding a lease under the provisions hereof, for any kind of mineral leased hereunder, exceeds in the aggregate an amount equivalent to the maximum number of acres of the respective kinds of minerals allowed to any one lessee under this act. Any interests held in violation of this act shall be forfeited to the United States by appropriate
proceedings instituted by the Attorney General for that purpose in
the United States district court for the district in which the property,
or some part thereof, is located, except that any ownership or interest
forbidden in this act which may be acquired by descent, will, judgment,
or decree may be held for two years and not longer after its
acquisition: Provided, That nothing herein contained shall be con-
structed to limit sections 18, 18a, 19, and 20, or to prevent any number
of lessees under the provisions of this act from combining their sev-
eral interests so far as may be necessary for the purposes of con-
structing and carrying on the business of a refinery, or of establish-
ing and constructing as a common carrier a pipe line or lines of railroads
to be operated and used by them jointly in the transportation of oil
from their several wells, or from the wells of other lessees under this
act, or the transportation of coal: Provided further, That any com-
bination for such purpose or purposes shall be subject to the approval
of the Secretary of the Interior on application to him for permission
to form the same: And provided further, That if any of the lands or
deposits leased under the provisions of this act shall be subleased,
trusted, possessed, or controlled by any device permanently, tem-
porarily, directly, indirectly, tacitly, or in any manner whatsoever,
so that they form part of, or are in anywise controlled by any com-
bination in the form of an unlawful trust, with consent of lessees, or
form the subject of any contract or conspiracy in restraint of trade
in the mining or selling of coal, phosphate, oil, oil shale, gas, or so-
dium entered into by the lessee, or any agreement or understanding,
written, verbal, or otherwise to which such lessee shall be a party, of
which his or its output is to be or become the subject, to control the
price or prices thereof or of any holding of such lands by any indi-
vidual, partnership, association, corporation, or control in excess of
the amounts of lands provided in this act, the lease thereof shall be
forfeited by appropriate court proceedings.

Sec. 24. That rights of way through the public lands, including
the forest reserves, of the United States are hereby granted for pipe-
line purposes for the transportation of oil or natural gas to any appli-
cant possessing the qualifications provided in section 1 of this Act,
to the extent of the ground occupied by the said pipe line and twenty-
five feet on each side of the same under such regulations as to survey,
location, application, and use as may be prescribed by the Secretary
of the Interior and upon the express condition that such pipe lines
shall be constructed, operated, and maintained as common carriers:
Provided, That the Government shall in express terms reserve and
shall provide in every lease of oil lands hereunder that the lessee,
assignee, or beneficiary, if owner, or operator or owner of a controlling
interest in any pipe line or of any company operating the same
which may be operated accessible to the oil derived from lands under
such lease, shall at reasonable rates and without discrimination ac-
cept and convey the oil of the Government or of any citizen or com-
pany not the owner of any pipe line, operating a lease or purchasing
gas or oil under the provisions of this act: Provided further, That
no right of way shall hereafter be granted over said lands for the
transportation of oil or natural gas except under and subject to the
provisions, limitations, and conditions of this section. Failure to
comply with the provisions of this section or the regulations pre-
scribed by the Secretary of the Interior shall be ground for forfeiture
of the grant by the United States district court for the district in
which the property, or some part thereof, is located in an appropri-
ate proceeding.

Sec. 25. That any permit, lease, occupation, or use permitted
under this Act shall reserve to the Secretary of the Interior the right
to permit upon such terms as he may determine to be just, for joint
or several use, such easements or rights of way, including easements
in tunnels upon, through, or in the lands leased, occupied, or used
as may be necessary or appropriate to the working of the same, or of
other lands containing the deposits described in this Act, and the
transportation and shipment of the products thereof by or under authority
of the Government, its lessees, or permittees, and for other public
purposes: Provided, That said Secretary, in his discretion, in making
any lease under this Act, may reserve to the United States the right
to lease, sell, or otherwise dispose of the surface of the lands em-
braced within such lease under existing law or laws hereafter enacted,
in so far as said surface is not necessary for use of the lessee in
extracting and removing the deposits therein: Provided further,
That if such reservation is made it shall be so determined before the
offering of such lease: And provided further, That the said Secretary,
during the life of the lease, is authorized to issue such permits for
easements herein provided to be reserved.

Sec. 26. That no lease issued under the authority of this act shall
be assigned or sublet, except with the consent of the Secretary of
the Interior. The lessee may, in the discretion of the Secretary of
the Interior, be permitted at any time to make written relinquish-
ment of all rights under such a lease, and upon acceptance thereof
be thereby relieved of all future obligations under said lease, and may
with like consent surrender any legal subdivision of the area included
within the lease. Each lease shall contain provisions for the purpose
of insuring the exercise of reasonable diligence, skill, and care in
the operation of said property; a provision that such rules for the
safety and welfare of the miners and for the prevention of undue
waste as may be prescribed by said Secretary shall be observed,
including a restriction of the workday to not exceeding eight hours in
any one day for underground workers except in cases of emergency;
provisions prohibiting the employment of any boy under the age of
ten or the employment of any girl or woman, without regard to age,
in any mine below the surface; provisions securing the workmen
complete freedom of purchase; provision requiring the payment of
wages at least twice a month in lawful money of the United States,
and providing proper rules and regulations to insure the fair and just
weighing or measurement of the coal mined by each miner, and
such other provisions as he may deem necessary to insure the sale
of the production of such leased lands to the United States and to
the public at reasonable prices, for the protection of the interests of
the United States, for the prevention of monopoly and for the safe-
guarding of the public welfare: Provided, That none of such pro-
visions shall be in conflict with the laws of the State in which the
leased property is situated.

Sec. 31. That any lease issued under the provisions of this act
may be forfeited and canceled by an appropriate proceeding in the
United States district court for the district in which the property, or some part thereof, is located, whenever the lessee fails to comply with any of the provisions of this act, of the lease, or of the general regulations promulgated under this act and in force at the date of the lease; and for the settlement of disputes or for remedies for breach of specified conditions thereof.

Sec. 32. That the Secretary of the Interior is authorized to prescribe necessary and proper rules and regulations and to do any and all things necessary to carry out and accomplish the purposes of this act, also to fix and determine the boundary lines of any structure, or oil or gas field, for the purposes of this act: Provided, That nothing in this act shall be construed or held to affect the rights of the States or other local authority to exercise any rights which they may have, including the right to levy and collect taxes upon improvements, output of mines, or other rights, property, or assets of any lessee of the United States.

Sec. 33. That all statements, representations, or reports required by the Secretary of the Interior under this act shall be upon oath, unless otherwise specified by him, and in such form and upon such blanks as the Secretary of the Interior may require.

Sec. 34. That the provisions of this act shall also apply to all deposits of coal, phosphate, sodium, oil, oil shale, or gas in the lands of the United States, which lands may have been or may be disposed of under laws reserving to the United States such deposits, with the right to prospect for, mine, and remove the same, subject to such conditions as are or may hereafter be provided by such laws reserving such deposits.

Sec. 35. That 10 per centum of all money received from sales, bonuses, royalties, and rentals under the provisions of this act, excepting those from Alaska, shall be paid into the Treasury of the United States and credited to miscellaneous receipts; for past production 70 per centum, and for future production 25 per centum of the amounts derived from such bonuses, royalties, and rentals shall be paid into, reserved, and appropriated as a part of the reclamation fund created by the act of Congress, known as the reclamation act, approved June 17, 1902, and for past production 20 per centum, and for future production 371/2 per centum of the amounts derived from such bonuses, royalties, and rentals shall be paid by the Secretary of the Treasury after the expiration of each fiscal year to the State within the boundaries of which the leased lands or deposits are or were located, said moneys to be used by such State or subdivisions thereof for the construction and maintenance of public roads or for the support of public schools or other public educational institutions, as the legislature of the State may direct: Provided, That all moneys which may accrue to the United States under the provisions of this act from lands within the naval petroleum reserves shall be deposited in the Treasury as "Miscellaneous receipts."

Sec. 36. That all royalty accruing to the United States under any oil or gas lease or permit under this act on demand of the Secretary of the Interior shall be paid in oil or gas.

Upon granting any oil or gas lease under this act, and from time to time thereafter during said lease, the Secretary of the Interior shall, except whenever in his judgment it is desirable to retain the same for the use of the United States, offer for sale for such period as he may determine, upon notice and advertisement on sealed bids or at public auction, all royalty oil and gas accruing or reserved to the United States under such lease. Such advertisement and sale shall reserve to the Secretary of the Interior the right to reject all bids whenever within his judgment the interest of the United States demands; and in cases where no satisfactory bid is received or where the accepted bidder fails to complete the purchase, or where the Secretary of the Interior shall determine that it is unwise in the public interest to accept the offer of the highest bidder, the Secretary of the Interior, within his discretion, may readvertise such royalty for sale, or sell at private sale at not less than the market price for such period, or accept the value thereof from the lessee: Provided, however, That pending the making of a permanent contract for the sale of any royalty, oil or gas as herein provided, the Secretary of the Interior may sell the current product at private sale, at not less than the market price: And provided further, That any royalty oil or gas may be sold at not less than the market price at private sale to any department or agency of the United States.

Sec. 37. That the deposits of coal, phosphate, sodium, oil, oil shale, and gas, herein referred to, in lands valuable for such minerals, including lands and deposits described in the joint resolution entitled "Joint resolution authorizing the Secretary of the Interior to permit the continuation of coal mining operations on certain lands in Wyoming," approved August 1, 1912 (Thirty-seventh Statutes at Large, page 1346), shall be subject to disposition only in the form and manner provided in this act, except as to valid claims existent at date of passage of this act and thereafter maintained in compliance with the laws under which initiated, which claims may be perfected under such laws, including discovery.

Sec. 38. That, until otherwise provided, the Secretary of the Interior shall be authorized to prescribe fees and commissions to be paid registers and receivers of United States land offices on account of business transacted under the provisions of this act.

Approved, February 25, 1920.