DIARY

Book 298 (Puleston Reports)

January - March, 1940

Regraded Unclassified

	Book	Page
Airplanes:		
Bottleneck is production of engines of 1000 horse-power and up	298	60
Armor on German machines cannot be penetrated by machine guns now in use by British Air Force - 3/21/40		249
Ashton-Gwatkin; Rist, Dr.: Conversations with		214,217,222
Belgium:		
Impending invasion		29
Threat of invasion played down		47
China:		
Supply routes to		85,136
Centralization of transportation system (Sheehan plan)		140,179,232, 243,258
a) Major McHugh's estimate of results: See Book 299, page 139		
b) Improvement reported: See Book 299, page 305		
Kung, David (son of H.H.): Departure from Philippines to United States - 2/26/40		146,152
Finland:		6,24,34,53, 58,129,133
Loan by United States urged by Breckenridge (Henry)		44
Mannerheim Line: Break through reported		156
British Government prepared to send "all possible military assistance" - 3/11/40		195
a) Peace reported between Russia and Finland - 3/11/40		196,205,206,209
France: Evaluation of Army shows it to be superior to German Army in every way: United States Army opinion		31
General Motors: Conversation with Riley (Assistant General Manager, Export Division): Overtures from Goering		113
Germany:		
Radio propaganda		112
Hitler's indecision		143
Maguire's (Colonel, Military Intelligence) prognostications diametrically opposed to Puleston's - 3/5/40		173
Brenner Pass meeting - 3/18/40		227
Holland:		
Impending invasion		29
Threat of invasion played down		47
Hore-Belisha, Leslie: Resignation of		26,43
Italy:		
Brenner Pass meeting - 3/18/40		227
Mussolini-Ciano relationship: Ambassador Phillips' opinion - 3/27/40		250
Japan:		
Puleston urges commercial pressure on Japan by United States		57
Liddell-Hart, Basil Henry: See Hore-Belisha, Leslie		
Machinery (Heavy): Export of to Russia and Japan		79,108,122
a) Machinery, Metal-working: Possibility of diversion to airplane production: See Book 299, page 288		
Method of Waging Present War: Peculiarity of		127

Regraded Unclassified

Puleston Reports (Continued)

	Book	Page
Neutrality Patrol: Report of Squadron at Key West, Florida	298	62,63
Poland		92,96,100
Rist, Dr.; Ashton-Gwatkin: Conversations with		214,217,222
Ships:		
GRAF SPEE "episode"		1,48
Shipbuilding (Allied) situation		81
Standard Oil Company: Conversation with Sadler		110
State Department conversations		72,73,74,138, 197,201,255
a) Puleston endeavors to combat pessimism		
Submarines:		
Reported in Caribbean waters		46
Losses by - 3/1/40		160
Sweden:		
Surplus naval material available for		118,147
Crisis reported - 2/20/40		131
U.S.S.R.:		
Defensive fighting will bring out best in Russian soldiers		24
Radio propaganda		112
Vatican: Negotiations under way with von Ribbentrop - 3/11/40		193,202

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE January 2, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Recent Naval Events

The following items have been obtained from various naval officers; I believe they include the best available information to date.

1. The Graf Spee Episode.

The Exeter was escorting the Formose, French ship, and about daylight, December 13, both vessels were sighted by the Graf Spee, who was sighted at the same time by the Exeter, which made a smoke screen to conceal the Formose and maneuvered to engage the Graf Spee. At the same time, the Exeter summoned the Achilles and Ajax by radio.

The engagement began about 8:30, the Exeter was badly damaged, one turret being entirely disabled, and only one gun in the other two was in condition to fire.

The Achilles and Ajax joined soon after the battle commenced and attacked the Graf Spee on the unengaged flank. The Exeter held on until it became apparent that the Ajax and Achilles had the situation fairly well in hand, then the Exeter dropped astern to effect repairs.

About 10:30, the Ajax and Achilles decided to break off the action, keep in touch with the Graf Spee, and attack at night with torpedoes. In the afternoon, fearing from the

Regraded Unclassified

courses being steered that the Graf Spee might take refuge in neutral waters at Montevideo, the two light cruisers resumed the engagement and did such damage to the Graf Spee that she was forced to head in for Montevideo.

There were two actions of about two hours each in the forenoon and afternoon. The ranges were from fourteen thousand to about eight thousand yards. The battle was fought by the British cruisers in accordance with plans devised for the purpose of attacking one of the more heavily armed and armored German cruisers. It was carried out very successfully.

The Exeter arrived at the Falkland Islands four days after the action. As she steamed approximately a thousand miles, that would indicate a speed of about ten knots, so she could not have been very badly damaged, either in her engines or structure.

Comment: The foregoing explains the first official statement made in Berlin that the Graf Spee had beaten off and probably sunk a British cruiser in a fight with some British cruisers, for when the Exeter dropped astern and the Ajax and Achilles ceased firing, it would be natural for the captain of the Graf Spee to assume he had won; and the first news of the battle that the world received was from Berlin. Later in the afternoon when, according to British accounts, their cruisers renewed action, the Graf Spee must have been not only surprised but disappointed. The remaining events are in accord with the newspaper accounts.

Regraded Unclassified

The Graf Spee was running short of fuel but probably had enough ammunition left for a fight when she took refuge in Montevideo. As under the provisions of international law she could and did refuel in Montevideo but could only repair damage to her hull and not to her armament, her subsequent destruction must be credited to the damage done her by the British cruisers.

2. A "Queen Elizabeth" torpedoed.

One British battleship of the Queen Elizabeth class was torpedoed on December 28 by a German submarine west of Scotland. Thanks to the "blister" the damage done was slight and the battleship proceeded to a British port without much effort. This is an important naval incident, because it indicates that the battleships that have been reinforced by "blister" can stand at least one torpedo.

In this connection, it is understood that the British Admiralty believe that the Royal Oak would not have been sunk if she had not been at anchor. The torpedoes hit her practically in the same compartment. If she had been underway and had been hit in two or more different compartments, they believe she might have floated.

The Admiralty assumed all responsibility for the sinking of the Royal Oak and did not permit a naval inquiry to be held, thus exonerating the captain of the ship.

Regraded Unclassified

3. The Iron Duke.

Rumors that the Iron Duke, the demilitarized battleship, was sunk are incorrect. The Iron Duke is aground in Scapa Flow on a muddy bottom and is acting as a battery, barracks, and store ship in those waters.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

Copy

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 3, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Request for leave

With reference to my oral request for leave made yesterday, I should like to:

Depart Washington	5:20 P.M.	January 12
Return Washington	about noon	January 29

W. D. Puleston
Captain U.S.N., Retired

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 4, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

The following is based on conversations with members of the War Department and State Department.

1. The Finns have definitely defeated the Russians in the northern and central portions of Finland. The Russian losses reported in the papers are probably exaggerated.

In the Karelien Peninsula the Russian attacks on the Mannerheim Line do not indicate that the real attack has yet begun. Our army anticipate that it will take until January 15 before the Russians could mount a major attack.

2. The Russians grossly under-estimated the resistance the Finns would offer. The prestige of both the Soviet army and Soviet government are now involved, and both in the State Department and the War Department the opinion was expressed that the Soviet must use its full powers to crush Finland.

3. In spite of the successes of the Finns, the Finnish government has requested our State Department to act as an intermediary with the Soviet in negotiating a peace. State Department officials do not believe the Soviet government would listen to any peace appeals at the present time and have so advised the Finnish government.

Regraded Unclassified

4. The eventual outcome of the Soviet-Finnish struggle is a matter of conjecture, but it has already delayed all the Soviet plans, for the Soviet army expected to liquidate Finland within a week or at most a fortnight. Already the successful resistance of the Finns has encouraged the Rumanian government to stiffen its opposition to the Soviet demands.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 4, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Summary of European Situation at the End of the First Four Months of the War.

As the fourth month of the European war ends it is a convenient time to summarize the existing situation.

The Neutral Nations

Norway, Sweden, Denmark, Switzerland, Spain, Portugal, Italy, Turkey, Yugoslavia, Hungary, Rumania, Bulgaria, and Greece, in spite of their physical proximity to the belligerents, have not yet become involved in hostilities. For the time being, the area of hostilities is circumscribed.

The economic condition of most of the neutrals is bad and growing worse, but plunging into war would not improve their financial condition, and some of the neutrals, notably Italy and Spain, have an opportunity to strenghten their economic structure by protracting their neutrality and furnishing supplies to the belligerents.

If these European neutrals could act in concert, their combined military and economic resources would protect them from injury by either group of belligerents, but their conflicting interests, their political divisions, and their geographical separation nullify their influence.

Regraded Unclassified

The Scandinavian states in the past have been able to act together in defense of their neutral rights on the sea; at present they resent the British interference with their merchant ships, but their resentment of German submarine warfare and their fears of German and Russian success outweigh their resentment against British interference with their commerce. Their cabinets are in continuous communication, and it is quite possible that they would combine to resist an advance of Germany or Russia against Scandinavia.

The geographical position of Holland and Belgium may occasion their invasion by Germany; their common peril may cause them to take common action against an invader. Neither would voluntarily enter the war.

Portugal is an unacknowledged ally of Great Britain. Spain wants peace and when certain readjustments have been made she should be able to make substantial profits by increased trade with the belligerents. The Spanish government is engrossed with her domestic problems and probably realizes that Spain can improve the position resulting from her Civil War by remaining neutral. If she becomes involved in another civil war, Spain will count for little in the European struggle. In any event, the idea once entertained that Spain would become a useful ally of Germany and immobilize a large number of French troops can be dismissed.

Of the Balkan and Danubian states, Hungary and Bulgaria yearn to recover some territory from Rumania, but they can not hope to secure these gains without joining Germany or Russia, which would involve the risk of being absorbed into a Greater

Regraded Unclassified

Germany, if Germany wins, or being penalized again at the peace conference for being on the losing side. Rumania is also threatened by Russia, who wants Bessarabia, and Germany, who wants Rumania oil; she is held together by external pressures.

Rumania, Yugoslavia, Greece, and Turkey show more plainly each day that their chief desire is to keep clear of the conflagration; only the threat of dismemberment or invasion would bring these countries into the war. Provided Italy remains neutral, it will be feasible for France and England to assist Greece, Yugoslavia, or Turkey. If Turkey permits the Western Allies to enter the Black Sea, the allied navies can give considerable aid to Rumania.

In Italy may be found the solution to the European diplomatic struggle. If she joined Germany, her submarines, her aviation, and her geographical position would for a time seriously jeopardize the French and British communications in the central Mediterranean, and her army, stiffened by German leadership, would add to the responsibilities of the French army. Italy is vulnerable to French and British aviation and blockade, but her defeat would consume an unknown amount of the military resources of Britain and France and do little harm to Germany. It is therefore essential that France and England placate Italy.

Mussolini is aware of his nuisance value; he knows what he wants and may be expected to drive the best bargain he can

Regraded Unclassified

with England and France for Italy. Mussolini can justify Italy's neutrality after repeated promises to assist Berlin by citing the action of Hitler in concluding a treaty with Stalin, when Hitler knew that Mussolini and the majority of the Italian people are sincerely opposed to communism.

As long as Italy remains neutral, Mussolini can assume the leadership of the neutral Danubian and Balkan states, which will add to his prestige, but the moment Italy joins either side, Mussolini would become the junior partner among the belligerent leaders.

If Italy remains neutral, Italian merchants and traders can profit by trafficking with Germany, England, and France, and the Italian government will save the difference in the cost of remaining mobilized and the cost of waging war. Mussolini is aware of the financial difficulties confronting Italy; he showed skill in financing the Ethiopian War, and he will not overlook the economic advantages of remaining neutral.

Another important factor in the European war is the influence of the Pope as the spiritual leader of the Catholic people. Many of the Catholics already have suffered miserably on account of the war. Pius XII is well versed in European politics and regards the Soviet ideology as the negation of Christianity. His strong anti-communistic feeling at one time led him into friendly relations with Hitler when Hitler posed as the arch-enemy of communism, but Hitler's invasion of Catholic Poland has definitely aligned the Pope.

Regraded Unclassified

with the Western Powers. The political prestige of the Pope has been increased by the dispatch of Mr. Taylor as a representative of President Roosevelt.

Mussolini and the King of Italy are of the same mind as the Pope concerning Stalin and communism. These three leaders would have the enthusiastic support of the Italian people in an anti-comminterm platform. If the Italian nation was stronger militarily, it is possible that these three leaders could unite the Balkan and Danubian states under Italian hegemony and make it impolitic for either Germany or Russia to advance further into the Balkans. But the military record of Italy during the World War will not give assurance to the smaller nations that she could protect them either against Germany, France, or Great Britain; Italy's usefulness is also lessened by her dispute with Turkey over the Dodecanese Islands, but Great Britain could bridge this gap.

The United States is the only neutral whose potential military strength is great enough to sway the decisions of the belligerents. While Europe knows the desire of our people to keep out of the war, Europe knows that an overwhelming majority of Americans hate nazism and communism and will do everything short of war to overthrow them. At present the United States can only affect the diplomatic decisions of Europe indirectly, but her potential influence is enormous and will be considered by every European chancellery in determining its policy.

Regraded Unclassified

The Belligerent Nations

The Hitler-Stalin agreement in the first instance was an improvisation on Hitler's part to meet the unexpected situation caused by Chamberlain's publicly proclaimed promise to go to war for the independence of Poland. Hitler doubted that England and France would fulfil their pledge and was ready, if he could secure his Polish conquests without bringing on war with England and France, to turn against the Soviet.

The fidelity of France and England to their promises made it necessary for Hitler to continue his treaty with Stalin, who improved his bargain by insisting upon a free hand in Lithuania, Latvia, Esthonia, and Finland. Definite indication of the hollowness of the agreement between Stalin and Hitler is evidenced by the well authenticated accounts of friction between Soviet and German troops during the partition of Poland.

Both Hitler and Stalin realize their present dependence on each other, and they are seeking a satisfactory basis of understanding by dividing eastern Europe between them. In their joint conferences they encourage themselves with the grandiose idea that together they can overthrow the British Empire and provide ample booty for Russia and Germany. Their glowing hopes of the future enable them to postpone quarrels over the distribution of present gains.

Neither one trusts the other. Stalin believes he can retain the whip hand by controlling the supplies to Germany.

Regraded Unclassified

Hitler is confident that he can dominate the alliance with the superior German army. Both of them realize that they have a formidable domestic opposition that must be continuously suppressed.

In such a complicated situation anything can happen. Short range prediction is particularly difficult because an accident, a political assasination, a natural death in a dictatorship may change the entire scene. But there are certain fundamental factors in the situation that will persevere and which Europe will have to reckon with eventually.

First of all is the large German population and second the immense extent of Russia and the enormous number of Russians. Even a long war will not reduce the German or Russian population very much; and their high birth rate will quickly replenish losses. Europe will have to reckon with these masses of people unless it is able and willing to indulge in wholesale extermination.

There is a proposed solution that has been given wide circulation in the United States which involves (1) the displacement of Hitler, (2) the German government to be undertaken by the German army, (3) which will eject the Russians from Europe and satisfy the German need for expansion by moving into Russia. There are too many "if"s in this solution, and even if successful it would only afford temporary relief to western Europe, for the Germans, having made themselves secure on the land and the eastern front, would turn

Regraded Unclassified

west and confront France and England with a still more formidable army and air force.

This solution protects western Europe from Eurasian Russia, but it would be left at the mercy of an Eurasian Germany.

France and England kept Russia out of the Balkans by assisting Turkey in the Crimean War; England, with the diplomatic assistance of Austria, forced Russia to withdraw from the outskirts of Adrianople in 1878. Western Europe in the past has been able to oppose the advance of Russia without the aid of Prussia or Germany and probably can do so in the future.

Modern Germany has been a more dangerous menace to western Europe than Russia, whose national inefficiency under any form of government will always present some vulnerable point to attack. Western Europe, until the French women are willing to have as many babies as the German women, will have to use foreign soldiers to make up for the French numerical inferiority. Russia can supply this manpower and is the European nation that can be a counter-weight to the German manpower.

To put the matter in another way, western Europe will need a strong Russia as a counterpoise to Germany if Germany is to be left strong after the present war. That this balance between Germany and Russia is necessary was shown by the arrogance of Germany and Austria towards France and Russia in the years from 1905 to 1910 after the weakness of Russia had been exposed by the defeat inflicted upon her by Japan.

Regraded Unclassified

The War At Sea

The Western Powers have greater superiority on the surface of the sea than they had in the World War, their naval personnel has on the whole proved itself at least as efficient as the German, and their naval operations have been carried out vigorously and boldly. Their naval building program will more than compensate for their losses in men-of-war, and their naval superiority on the surface of the sea is practically assured.

The measures taken by the Allied Powers to protect their merchant and naval vessels from torpedo attack by German submarines have been very effective, reducing their losses to bearable proportions.

Protective measures against mines laid by submarines and planes were instituted vigorously as soon as the menace appeared. Although it is too early to speak with assurance, it appears that the menace of the German mine is being overcome.

German airplane attacks on men-of-war have been repulsed with only minor damage. Similar attacks on merchantmen and trawlers have been sporadically successful, but their results do not justify the use of planes for that objective.

In their attacks on ships, the Germans have employed both torpedoes and mines that are exploded by magnetic fuses. The Allies now know the method of operation of this fuse and will be better able to combat these weapons.

Regraded Unclassified

Summarizing, it is conservative to say that to date Allied seapower has met all of the German threats. It remains to consider the last threat, massed attacks by air on Allied, mainly British, men-of-war and merchantmen.

The British fleet has shown itself capable of evading or repelling all German bombing planes. Even small naval detachments including only light cruisers and destroyers have fought off German bombing planes in the North Sea. These samples of air-naval combat indicate that, without incurring unbearable losses, the British fleet can maintain the long range blockade of German and intercept goods going from or destined to Germany.

In addition, British submarines and small craft can maintain themselves in the North Sea where they will act both as sentries and advance guards against German planes attempting attacks on naval, military, air, or industrial establishments in the United Kingdom.

The only direct threat to Great Britain still available to Germany and of which we have no measure is the massed air attacks on installations in the United Kingdom. Germany claims that by outbuilding England and France she still is increasing her air superiority. This is quite possible and should not be under-estimated, but there is nothing in the air operations in the Spanish Civil War or to date in the present war to support the belief that Germany can win this war by her probable superiority in the air.

Regraded Unclassified

The tactics she would employ are known, the counter-measures are being prepared, and while it is conceivsble that Germany's air-force may be relatively stronger in the spring of 1940, the British defensive preparations are certain to be stronger. If this war resolves itself into an attack on civilian populations under the guise of attacking military objectives, I believe the British and French are in a position to exact an eye for an eye and that the morale of the British and French civilians would outstay that of the Germans.

The War On Land

The successful resistance of the Finns is the most unexpected event of the war and may have very important results. The "imponderables" in war, what Napoleon called the moral factors, frequently have an influence entirely out of proportion to their material weight.

The struggle in Finland, if prolonged, will put the friendship of Germany and Russia to a severe strain, delay their operations in the Balkans, excite further neutral indignation against Stalin and Hitler, and may draw Norway and Sweden in on the side of France and England. This would be hard on Sweden, but Norway could resist, and a Scandinavian front might prove the same open sore to Germany and Russia that the Spanish front was for Napoleon in 1807-12.

If the Finnish campaign is localized, it is difficult to see how the Finns can hold the Mannerheim Line indefinitely.

Regraded Unclassified

But as long as Russia is occupied there, she can not assist Germany by sending supplies, so that under any circumstances a prolongation of the Finnish campaign is harmful to Stalin and Hitler.

Every six months Hitler has had something to boast about to encourage the German people, and he will have to offer them a trophy by March or April. I think he will try his aviation against England in March or April, and if that fails he will have a go at the Western Front.

Prior to either of these operations he may attempt something in the Balkans. If he does this, he will only involve more forces in minor theatres and make the eventual success of France and Britain more certain. To win this war Germany must defeat England and France and break the blockade, otherwise she will be strangled by seapower despite the supplies she might get from Russia.

The defeat of Germany may be accomplished more quickly than in the last war, for the economic blockade of Germany is being carried out more systematically and ruthlessly than during 1914-1917. It will affect Germany in a shorter time, and Germany's own efforts to break the blockade by sinking neutral merchantmen will decrease tonnage available for Scandinavian and Baltic sea traffic, to that extent reducing the tonnage that might be used to supply some of the German needs.

Regraded Unclassified

France and England

For a variety of reasons France and England were extremely slow in drawing together to oppose Hitler from 1933-1938. But this deliberate approach convinced the vast majority of French and British people, including the majority of the South Africans, that war with Hitler was forced upon them. Neutral opinion was also gained by Prime Minister Chamberlain, who more than once showed the real desire of Great Britain for peace. These delays enabled the two governments to effect a union of military and naval effort rarely seen in an alliance. While there is some irreducible friction between any Allies, France and England are working together more sympathetically and efficiently than in the World War; there is none of the distrust between them that exists between Germany and Russia, and neither government has gotten out of step with its own people.

Their joint military and naval operations have not been spectacular, but they have been sound. Although their military policy has been very circumspect, what it lacks in headline appeal it makes up in real achievements; and they have avoided the costly side shows like the Dardanelles Expedition. At the same time, the British and French fleets have taken the initiative at every opportunity on the sea.

Neither government has been taunted into making public its peace program, but each has concentrated on winning the war before making the peace. In one respect their policy has

Regraded Unclassified

erred: they are trying to wage war cheaply. War is essentially violence and should be waged violently with all the resources available. It would be much cheaper for the Allies to buy all the military supplies they need quickly and make this a short war than to attempt to keep their military budgets within certain financial limits and drag the war on longer than necessary. By attempting to wage war economically they also accept an unnecessary military risk, for Germany's only weapon yet untried is massed aviation, and both France and England should buy every plane and every anti-aircraft weapon that the United States can supply, so that they can surely overcome the German aviation threat in the spring and summer. When they do this they definitely will have won the war.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 5, 1940

TO Secretary Morgenthau

FROM Captain Puleston

The following are Mr. Vernadsky's reports, Numbers 9, 10, 12, 13, and 14, which I think you will find interesting.

W. D. Puleston,
Captain, U.S.N., Retired.

Enclosures returned --
filed in W.D.P's files.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE January 5, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Estimated production of planes.

Great Britain,	per month	1,000
France,	" "	450
Germany,	" "	2,000

Admiral Anderson says these are the best estimates he can get but that he himself is skeptical of the total number and thinks all these numbers should be reduced.

Comment: I personally believe that the production of planes in all three countries has been considerably over-estimated and would reduce these figures by 25%, which would make:

Great Britain,	per month	750
France,	" "	350 (approximately)
Germany,	" "	1,500

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 9, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Situation in Finland

1. I discussed the situation in Finland with Colonel McCabe. Briefly, he believes that the Russian army can overcome the resistance of Finland if they are willing to expend enough men. He placed one limitation on that statement. There is a remote possibility that the Russian army, due to its poorly trained officers, is so inefficient that even a limited offensive is beyond the capacities of its command and staff. He reminded me again of the information he gave me several months ago that the German army held the Russian army in extreme contempt and felt quite equal to ejecting the Russians from Poland at any time they desire.

I am not quite as convinced of the German ability to eject the Russians as is Colonel McCabe. On the offensive the Russians are notoriously inefficient, but on the defensive the Russian army has frequently surprised the experts by the resistance it offers. Fighting to defend European Russia from the Germans would afford the Russians their best chance to develop the powers of the Russian soldiers.

2. Colonel McCabe told me that the members of the crew of the German steamship Columbus were very keen to return to

Regraded Unclassified

Germany when they were first interned in New York City. Their desire to return to Germany has steadily decreased, and already most of them want to stay in the United States.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 9, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Resignation Of Hore-Belisha

Many suppositions have been made concerning the reasons for Chamberlain demanding the resignation of Hore-Belisha. I think the real reason is that Hore-Belisha has accepted the doctrines advanced by Liddell Hart and that neither the British army leaders or the British naval leaders subscribe to these views. If my assumption is correct, Chamberlain had no choice but to get rid of Hore-Belisha or find army or naval officers that would attempt to carry on in accordance with Liddell Hart's views.

Fundamentally, Liddell Hart believes in a war of limited liability. He thought war was too serious a business to be controlled by military strategists.

His first preference was to secure the British Empire by a system of collective security, that is, a league of nations. If that failed and Great Britain was forced to go to war, their main weapon should be economic pressure, to include the subsidizing and military provisioning of allies and the dispatch of comparatively small expeditionary forces to strike at the enemy's vulnerable extremities or to cement

Regraded Unclassified

any promising collection of allied forces."

Liddell Hart based his views on the conviction that the defensive is the stronger form of war. The fallacy in his theory is that Great Britain can not be sure that Germany will be content to wage a limited war. If Germany wages unlimited war, England must either fight to a finish or go down, and that contingency Liddell Hart leaves entirely out of his calculations.

The importance of Liddell Hart's views lies solely in the fact that he impressed them on Hore-Belisha to such a degree that in a book published late in 1939 Liddell Hart listed seven pages of his suggestions that had been adopted by the War Office from midsummer, 1937, to midsummer, 1939. Whether he is right or not, the probability is that his extreme views on war and the adoption of them by Hore-Belisha is the real cause of the upset in the British Cabinet.

No war that I know anything about has ever been won following the ideas advanced by Liddell Hart, so I think that on the whole it is clear gain for Great Britain to get rid of Hore-Belisha, and this in spite of the fact that he has done many things, notably forcing super-annuated officers to retire, to improve the actual efficiency of the British army.

I discussed this resignation with Colonel McCabe, and he agreed substantially with the foregoing statements.

The resignation of Hore-Belisha does not mean that the British army will resort to an immediate offensive, but it

Regraded Unclassified

does mean that the British army in France will be increased and will be free to assume the offensive when the Army High Command decides it necessary or desirable.

The French High Command have been very insistent that the British send more soldiers to France. This decision will therefore please the French. It will also discourage any invasion of Holland and Belgium by Germany, for the Germans will have to dispose of these British troops as well as the Dutch and Belgian armies before they can hope to establish air and submarine bases in the Low Countries, thus making it more difficult for German air attacks to succeed against either the British fleet or the installations in the United Kingdom.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE January 10, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: General information gathered in the Army Military Intelligence Department

I spent the forenoon of January 9 discussing the European military situation with Colonel McCabe, Colonel McGruder, Colonel Rayner, and Major Whitehead. Some of their more important observations are submitted in this letter.

Holland and Belgium

1. The Germans were upon the point of invading Holland immediately prior to the meeting between the Queen of Holland and the King of Belgium. At that time the German ambassador to Belgium was told by the King that if the Germans violated the neutrality of Holland, Belgium would invite the French and British troops to occupy Belgium and that the Belgians would assist England and France in the defense of Holland.

2. At the time the Germans had assembled enough divisions of troops to have occupied Holland and were seeking to persuade Belgium to remain neutral. Since that time the Dutch authorities have done all they could to improve their military position. But the Dutch army is so small and so poorly trained that it could offer resistance only in the central part of Holland. It is impossible for the Netherlands government to improve their army quickly, but they are making a strenuous

Regraded Unclassified

effort to protect themselves, and there is now practically an agreement that Belgium will assist at once, and the British and French armies are in a position to give immediate assistance and probably could intervene in Holland before the Germans could overrun it.

3. For this reason the Army are uncertain whether or not the Germans will risk the much talked of invasion of the Low Countries in the spring in order to bring their air fields nearer to the United Kingdom.

4. Aircraft operations to date have involved such heavy losses, particularly in bombing planes, that none of the belligerents are yet willing to indulge in the so-called mass attacks for they realize the danger of weakening their aviation very quickly in such attacks. There has been an insistence by the army authorities that aviation be reserved for uses in conjunction with the land forces, rather than on bombing attacks on industrial towns.

France and England

5. The French army is growing steadily in strength and efficiency. The French High Command do not yet consider many of their soldiers sufficiently trained for mobile warfare and are determined not to make the mistake of resorting to attacks until their young soldiers are more seasoned. The French feel sufficiently reassured about Italy and Spain to utilize to the full their army against Germany. Theyhave organized the whole chain of command, their theater of operations, and the theater of the interior of France on this basic assumption.

Regraded Unclassified

(The French have retained and partly organized 180,000 Spanish Loyalist soldiers who were interned in France after the collapse of the Loyalist government to attack Spain in case the Spanish government should get ugly. The French High Command refer to this as their ace-in-the-hole against Spain.)

6. The French High Command is concerned about their future aviation and have allotted anti-aircraft batteries and attack planes to protect their aircraft factories in France against possible enemy air raids. They are seeking to obtain a superiority in the air and have extended their training operations for pilots to French Algeria in order to take advantage of the better winter conditions.

7. The French are determined not to suffer more casualties in the land fighting than the British and have insisted that the British increase their soldiers in France, reminding England of the much greater losses in manpower suffered by France during the World War than by Great Britain. The French authorities openly state that they will not risk the loss of as many French soldiers as they did in the World War.

8. Our Army officers believe that the French possess the finest army in the world, being superior to the Germans in their High Command, their staff officers, and their regimental and company officers. But they agree with the French Command that it will be better for France to season her soldiers before exposing them to mobile warfare. The French Staff believe

Regraded Unclassified

that time is on their side and that with the assistance of Great Britain they can win this war against Germany without too great a loss of manpower. The Germans also think that, for the present, time is on their side and that in this war of nerves rather than of guns the German authorities can hold their people together longer than the British or French. The fact that Germany and France hold these opinions is the reason for their acquiescence in the present stalemate on the Western Front.

Comment: The navy and merchant marine of Great Britain are bearing the brunt of this war under existing conditions. Germany probably will try to increase the pressure on the United Kingdom. It would be wise if the British government should seek to increase the intensity of fighting ashore and thereby reduce the time the British navy and merchant marine will be subject to German air and submarine attacks. I would not be surprised if the impetus to intensify the war in Europe arose in the United Kingdom.

9. Both in France and in England the problem of the command of the air force has arisen, and the army commanders have insisted that the air force assigned to the army areas be placed under their immediate command and not be left subject to the control of an air force commander in Paris or London. The French army has agreed to the assignment of much of the combat aviation to the defence of aircraft factories in France, but they have insisted that aviation operating with

Regraded Unclassified

the army must be under the command of the army commander. The British army in France has within the past forty-eight hours been given command of all the British air forces in France.

10. The British navy is taking the same attitude, and it is insisting that aircraft assigned to the fleet become an integral part of the fleet and that the aviation personnel remain habitually with the fleet so that it can operate effectively with other units of the fleet.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE January 10, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Finnish Situation

Conclusion: The conquest of Finland by Russia would be fraught with incalculable results, not only for Finland but for Great Britain and France, and possibly the United States.

1. The undisputed possession by Russia of Finland would expose the Swedish iron mines to capture by the Russians and open up the road to the Russians to the ice-free Norwegian seaport of Narvik.

2. Germany either would have to guarantee the independence of Sweden against her ally or occupy Sweden to prevent the capture of the Swedish iron mines by Russia. It would be difficult for Germany to restrain the Russian advance on Narvik, because of the German dependence on Russia for essential raw materials.

3. A natural solution would be for Germany to join Russia in a joint invasion of Norway and Sweden, Russia to take the northern part of the Scandinavian peninsula and Germany the southern.

4. Such occupation of Scandinavia by Germany and Russia would (a) break the allied sea blockade, (b) unloose

Regraded Unclassified

German surface raiders on Allied commerce, and (c) establish submarine bases in southern Norway. The entire complexion of the war would be changed with literally incalculable results but with certain prolongation of the war and consequent increased chances of the United States becoming involved.

If Russia can be kept out of Finland, Germany probably will be content to stay out of Scandinavia; but if Russia should be successful in the northern and central part of Finland, it would be dangerous for Germany to remain out of Sweden. Once involved in Sweden she would be led step by step through Norway to the Atlantic Ocean, unless blocked by Allied armies.

The French could spare few soldiers for a joint expeditionary force in Norway. England could only find trained soldiers for such an expedition by withdrawing them from France. The German and Russian navies together could command the Baltic Sea and by mining the approaches to the Baltic could prevent the entrance of French or English ships.

5. If the Russians can be kept out of Finland, Germany will be under little temptation to intervene in Scandinavia, and the area of the war will be correspondingly circumscribed.

6. If with outside assistance Finland should prolong her resistance, it will further damage the prestige of Russia and encourage the resistance of other neutral states, notably Rumania, Turkey, and Persia, to possible Russian demands. It will also discourage Bulgaria from making trouble in the Balkans.

Regraded Unclassified

7. Nowhere in the world is there a better terrain and climate for a defensive war than in Finland, and the Finns have an intimate knowledge of their defensive positions, personal initiative, and personal courage, that combined make them superb guerilla warriors.

8. The Finns lack both numbers and equipment. They are already being reinforced by recruits from Finns who are living abroad, from adventurous, liberty-loving volunteers whose indignation has been aroused by the brutal invasion of the Soviets. It is quite possible that the Finns can obtain enough volunteers to man the Mannerheim Line and have a surplus to operate against Russian armies invading central and northern Finland.

9. The really urgent need of the Finns is for modern military equipment. This can be supplied most quickly from the United States, because all European nations require the full output of their munition factories. To buy this equipment in the United States, the Finns will need a loan without any restrictions, and they will need this loan at once.

10. Almost as great as the actual assistance, this loan would increase the morale of the Finns, already high on account of their recent military successes, encourage them to persevere in their defense until the spring thaws, which will give them another respite from the Russian attacks. In this way, immediate assistance would enable the Finns to prolong their resistance, probably throughout the calendar year 1940, and in that

Regraded Unclassified

time much could happen that would possibly preserve the independence of Finland indefinitely.

11. An unrestricted American loan to Finland promptly made would not only help Finland but would encourage every small neutral nation in Europe to resist the economic and military aggressions of Russia and Germany. Whereas any considerable delay in the loan or restrictions on its use will correspondingly discourage them and lead them to conclude that the United States government, while denouncing aggressor nations, is unwilling even to give financial assistance to embattled nations who resist the aggressors. Uncle Sam will be regarded in Europe as a man of big words and small deeds.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Far Eastern Situation.

The following is based mainly on a convereation with Dr. Hornbeck, of the State Department.

1. There is a definite unrest in Japan which the Japanese people generally credit to the maladministration of the government, particularly in the interior. The real cause of this is not maladministration but the economic pressure of the war on Japan and the Japanese people.

2. The State Department's advices indicate that during the recent Japanese invasion of southwestern China the Chinese were able before retreating to destroy practically all of their military stores. While it was very unfortunate that the Chinese had to destroy these stores, it was fortunate that they were able to prevent them from falling into the hands of the Japanese.

3. The credits China has received from the United States have been of vital assistance to her. It is very necessary to continue this assistance now, for the Chinese can not expect to obtain as much help from Russia now that Russia is engaged in Europe.

4. The next step we can take to assist China is to lay

Regraded Unclassified

prohibitive duties on Japanese imports into the United States, in retaliation for restrictions that they have placed on our trade in China. Legislation that would permit such action is in existence already. If Japanese imports to the United States are shut off, Japan will be unable to purchase many exports from the United States, for she can not obtain credit here. This prohibition would also reduce Japanese foreign exchange resources and restrict her purchases of war materials from other countries. Thus without declaring an embargo sufficient pressure can be put on Japan to slow her down in China.

If this measure fails to bring sufficient pressure on Japan, it would be possible then to obtain embargo legislation, although opposition could be expected to any embargo on the export of cotton.

5. If both of these measures failed to halt Japan's advance into China and Japan succeeds in overthrowing Chiang Kai-shek, unless Russia intervenes, it would be vitally necessary for the United States to intervene, not only for the sake of China but to prevent Japan from becoming all-powerful in the Far East.

6. Dr. Hornbeck is more optimistic than I am concerning the ability of Russia to render effective assistance to China. Dr. Hornbeck may be correct. It is quite possible that the Russian failure in Finland was due to an underestimate of the Finnish powers of resistance, and it is probable that Russia's army in Siberia is more efficient than Russia's army based on Leningrad, which undertook the offensive in Finland.

Regraded Unclassified

7. Summarizing, the successive measures to be taken to maintain our position in the Far East are:

(a) Help China with credits, (b) restrict Japanese imports into the United States, (c) embargo Japanese imports into and exports from the United States.

If these measures fail and the opposition of Russia is unable to prevent the absorption of China by Japan, it will be necessary for the United States to interpose actively with all her naval strength.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

41

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE January 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

The following is based on a conversation with Mr. Moffat, of the State Department.

1. Germany is rather pleased than otherwise with the Russian reverses in Finland. Germany still is seeking a solution that will not compel her to choose between Russia and Italy. We may accordingly expect Germany to be very chary of any help she gives Russia in the conquest of Finland.

Comment: Germany still is so dependent upon Russia for supplies that Russia can put a certain pressure on Germany to assist.

2. Reports from Germany indicate that Germany is not yet suffering from any lack of foods except fats, and there are many young Germans seen on the streets of Berlin in civilian clothes, which indicates that there is not yet any shortage of manpower.

3. Yugoslavia is extremely suspicious of the recent entente between Italy and Hungary. The Yugoslav government suspects that Italy is attempting to establish a Latin bloc in the Balkans, which might include the Croatians, who form a

Regraded Unclassified

large part of the Yugoslav state.

Italy still is negotiating with France and England and still insisting that she be paid in advance for any assistance she renders.

Comment: The French apparently feel very positively that Italy will not join Germany, for they have denuded their Italian frontier of troops.

4. England has increased the assistance she has been giving Turkey since the earthquake and correspondingly increased the ties with that country.

5. Mr. Moffat did not rule out the possibility that Russia and Germany still are contemplating unlimited war with a view to the overthrowing of the British Empire.

Comment: My own view is that German authorities will feel their way, meeting each situation that arises as best they can. If they gain certain advantages over Great Britain, they certainly will make every effort to defeat her completely. This decision will be reached only after certain trials of the strength of her aviation against the British fleet and anti-aircraft defenses of the United Kingdom. To date there is nothing to indicate that aviation will be a sufficiently powerful weapon to accomplish the downfall of the British Empire. Nor do the efforts of the submarines lend any support to the idea that Germany can shut off the necessary supplies to the United Kingdom.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential **INTER OFFICE COMMUNICATION**

DATE January 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Resignation of Hore-Belisha
(Supplementing a previous report)

1. Reports reaching the State Department indicate that the resignation of Hore-Belisha arose over a fundamental difference of opinion between him and the High Command of the British army. No information was received about the actual question that caused the difference of opinion.

2. There were minor causes of friction. Although reputedly energetic, it is reported that Hore-Belisha was irregular in his office hours, frequently not getting to the War Office until noon, thereby holding up the dispatch of important business.

It is reported that Hore-Belisha needlessly antagonized his Cabinet colleagues, and when the crisis arose not a one of them went to his support.

3. Through Finnish sources it is further reported that Hore-Belisha had opposed extension of British assistance to Finland.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

2r

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 12, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: A Loan to Finland

I had a conversation with Mr. Henry Breckenridge, a long-time friend, who is in Washington urging his friends in Congress to authorize a quick loan to Finland. He is a very close friend of Senator Byrd and said I might tell you that Senator Byrd and the bloc of so-called economy senators are in favor of the loan and will support it in every way possible. Mr. Breckenridge was convinced that the sooner the bill could be brought to a vote the surer its passage would be.

(Mr. Breckenridge also told me that he had been down in Washington working with this same group of senators during the repeal the Neutrality Act.)

W D Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

45

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 12, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Far Eastern Situation

1. The press stated that the Japanese Government was on the point of resigning. This agrees with the prediction of Dr. Hornbeck, who thinks that the incoming Government will be no better able to meet the situation than the one now departing.

2. Mr. Chen was in this morning and said he thought the new Japanese Government would either pursue the same course in China or possibly adopt a more vigorous program in the hope of securing a victory over China. He was as confident as ever that the Chinese would not succumb to the Japanese offensive.

3. One newspaper account from Tokyo stated that the Japanese Government was very anxious to get the Chinese puppet government installed before January 26 in order to be able to lay the blame for some of the restrictions on American trade on this Japanese creation.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau

FROM A. M. Kamarck,
Assistant to Captain Puleston.

Subject: German Submarines in Western Hemisphere Waters.

Coast Guard Intelligence reports that it has received information from a reliable source that four German submarines, said to be the S-51, S-53, S-64, and S-63, and a tender are en route to Caribbean waters.

Comment: I personally am a little skeptical of this report. The class letter for German submarines is U rather than S. If these are really German submarines U-51, U-53, U-64, and U-63, the voyage would be possible for the first three but not for the U-63 which is a small coastal type of around 250 tons. The authenticity of this report will not be proved until a sinking occurs.

A. M. Kamarck

A. M. Kamarck

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 18, 1940

TO Secretary Morgenthau

FROM A. M. Kamarck,
Assistant to Captain Puleston.

Subject: The threatened German Invasion of Belgium and Holland.

(The following is based on conversations with members of the Military Intelligence Department of the Army.)

The most likely explanation for the scare of the last few days over a threatened German invasion of Holland and Belgium is that this is merely an incident in the "war of nerves". Germany is thus able to maintain pressure on the Allied morale, to retain the initiative, and to keep the Allies guessing. This evaluation is based on the fact that the information which called forth the recent semi-mobilization of Belgium was all too evidently allowed to leak out by Germany.

The German army has been in a position to invade Holland since November 12, as Captain Puleston discussed in his January 10th memorandum. Our army, therefore, feels that if the Germans do decide to move in this direction they can strike swiftly without telegraphing their blow ahead of time (as was done in this case).

In addition to jangling Allied nerves, a succession of scares like this one gives the advantage of ultimately relaxing the vigilance of the opposite side so that a quick thrust can succeed.

A. M. Kamarck

A. M. Kamarck

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE January 25, 1940

TO Secretary Morgenthau

FROM A. M. Kamarck

Subject: German Press Treatment of the Sinking of the Admiral Graf Spee.

Captain Puleston thought that an account of how the Nazi press treated the sinking of the Graf Spee might be of interest. Translations of several articles follow:

December 15, Berliner Boersen-Zeitung.

THE GERMAN ARMORED SHIP UNINJURED, ENGLAND KEEPS ITS LOSSES SECRET

It is the general opinion in Montevideo that the two English cruisers, which are now like the "Admiral Graf Spee" in the territorial waters of Uruguay, have suffered great losses in men. The commanders of the British cruisers and the informed British officials in Uruguay, however, are keeping the losses secret. The whole Uruguayan press takes notice of the sea fight between the "Admiral Graf Spee" and the three English cruisers. The sea battle is described under giant headlines such as one seldom sees in Uruguayan newspapers. The newspapers maintain that two battles took place on Wednesday, one after another, and that the newest heavy cruiser of the British navy, "Exeter", had to leave the field of battle incapable of further action. The papers confirm the heavy damage done to the two light cruisers "Ajax" and "Achilles". The explan-

Regraded Unclassified

ation is brought forth by the press that the English shot poison gas shells and that the dead and wounded on the "Graf Spee" are to be ascribed to poison gas.

The first glance at the armored ship "Admiral Graf Spee" shows that not a single trace of battle is to be seen. On deck one sees the usual watch. Commanding bridge, battle control tower, ship's hull are all unharmed. Thousands in the crowd could witness for themselves how false was the announcement (spread from a certain source) which spoke of serious damage to the German armored ship. The "Admiral Graf Spee" lies only a few hundred meters from the mole. There are no external signs of the sea battle which had ended only a few hours before.

Significantly farther from the shore at Montevideo, but also inside of the Uruguayan territorial waters, one perceives the silhouettes of two British cruisers which are surrounded by several commercial boats bringing help. The crowds gathered at the harbor discuss eagerly the sea battle, in which the main subject is the heroic attack of a single German ship against three English cruisers, and which has evidently made the strongest impression on the masses.

The press of Montevideo brings out the bad orientation of the British Admiralty which announced that the "Admiral Scheer" was fighting against three cruisers while it was really the "Admiral Graf Spee" which put the cruiser "Exeter" out of the fight and heavily damaged the "Ajax" and "Achilles".

Regraded Unclassified

The government of Uruguay has placed itself at the service of the help given to the casualties of the battle. The burial of the German dead will take place on Friday in Montevideo in a solemn ceremony with the participation of an official representative of Uruguay. Complete silence is still being preserved over the many British victims of the sea battle.

December 16, The Voelkischer Beobachter printed a radio picture from Montevideo of the Graf Spee and pointed out that several shell holes were visible on the combat tower.

December 18, Official Release.

"ADMIRAL GRAF SPEE" DESTROYED
BLOWN UP BY ITS OWN CREW

The Uruguayan Government refused to allow sufficient time to the "Admiral Graf Spee" to restore its seaworthiness. Under these circumstances, the Commander decided to destroy the ship by blowing it up outside of Uruguayan territorial waters.

December 19, Voelkischer Beobachter.

"ADMIRAL GRAF SPEE" SUNK BY
ORDER OF THE FUEHRER

The armored ship "Admiral Graf Spee" had cruised for over three months in the South Atlantic and it is known that a warship after a long stay in these waters needs a thorough overhauling in order to remain fully seaworthy. To add to this,

Regraded Unclassified

the ship had suffered damages which it was not possible to repair within a few days in a sharp fight with three English cruisers, in the course of which it had put the largest out of action. When the government of Uruguay forced the ship to leave the harbor, the certain consequences of this action could only be the destruction of the "Graf Spee" by the far superior British sea power which had in the meantime been concentrated before the mouth of the La Plata. Under these circumstances the destruction of the ship by its own crew was the only way out.

As far as the battle against the superior British power is concerned, the military contributor of the "New York Times wrote that there could be no other end than a British victory, since the German ship, because of a lack of fuel and perhaps even of munitions, unquestionably found itself at a disadvantage. In spite of this, it had inflicted very heavy damages on the British, although it had to divide its fire among three enemies.

"Graf Spee" has completely fulfilled its mission of sinking hostile commercial tonnage and of diverting the battle strength of the enemy from European waters.

The British fleet was not able to hinder the break through into world waters of the German commerce destroyer. It located the "Graf Spee" only after months of hunting and had finally to send a very heavy concentration of the British battle fleet into the South Atlantic. Only through the concentration of an immensely superior power was it finally able to come to

Regraded Unclassified

the point that one of the German commerce destroyers was destroyed. Only one who is already very much ashamed of his lack of success in the sea war will make a victory of this -- a victory, to be sure, that no one with any expert knowledge would recognize.

A. M. Kamarck

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE January 31, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

Yesterday I had a conversation with Colonel John Magruder, of Military Intelligence. His statements are based on reports received from Mr. Steinhardt, our Ambassador in Russia. I do not know whether you have already received this information.

1. The Russian Army has suffered more severely than the Finnish reports indicate. Some of the Russian divisions in reserve en route to the front have had heavy casualties due to the cold weather before they even came in contact with the Finnish Army.

2. The Russians are now employing about seventeen divisions of soldiers (250,000 to 350,000 men). About three of these divisions are in the Petsamo region in the extreme north. The remainder are in central and southern Finland, with the bulk of them in southern Finland facing the Mannerheim Line.

3. The hospitals in Leningrad and Moscow are filled with casualties. The overflow of wounded have been sent to the outlying cities; in one of these cities of about forty thousand people, near Moscow, there was no fuel or food for the hospital containing two thousand patients. The attendants and convalescents rioted for three days before supplies were finally sent them. During these riots government authorities made no

Regraded Unclassified

effort to suppress the rioters. It is also reliably reported that riots have occurred in a few other cities of Russia.

4. Colonel Magruder said it was too early to draw any conclusion from these sporadic riots, but they did indicate extreme dissatisfaction in Soviet Russia.

5. It is believed that Germany will undertake to mediate between Russia and Finland. Finland, which a short time ago was asking our State Department to mediate, is now reported to be reluctant to make peace with Russia.

6. The effect of the Finnish campaign on the relations between Russia and Germany is still unpredictable. I hesitate to believe that the Soviet army is so inefficient as these reports would indicate. Assuming that the report is correct and that the Stalin regime is threatened by internal trouble, Hitler will have to go to the rescue of Stalin in order to obtain any supplies from the Soviet.

The Army believe that this would ultimately work out to the benefit of Germany, as it would enable Germany to march into the Ukraine and put Germans in charge of the transportation system instead of just directing the movements of the Russians.

I question this prediction. In 1917 the Germans attempted just such an intervention in Russia on behalf of the Soviet. The net result of their efforts to obtain supplies was almost zero.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE January 31, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Importance of the Caucasus Oil.

1. During the past week two of our observers, one Russian, one German called my attention to the importance of the oil in the Baku area of the Caucasus. It is significant that the thought simultaneously occurred to both a Russian and to a German. The idea is that the Russian oil available to Germany must come from this area. Obviously Russia can not transfer oil to Germany without first producing it.

2. If there are dissensions in Russia, it might be possible for France and England, with Turkish assistance, to set up an anti-Stalin regime in the Caucasus province. It might even be possible to incite Turkey to recover this province, which was wrested from her in a former war with Russia, and which Turkey vainly endeavored to regain during the World War.

3. Field Marshal Weygand has an Allied army in Syria. Weygand is one of the best French Marshals, and although this Allied force is small, it is supposedly well-equipped and mobile and therefore prepared to intervene in any part of the Near East.

4. I believe that such a move would be feasible in the event of any serious dissensions in Russia. Such a move would be an effective reply to a German movement into the Ukraine.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE January 31, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Far Eastern Situation

Yesterday I had a long conversation with Mr. Chen, who brought me a copy of the agreement between Japan and the Chinese Puppet Government. We canvassed the entire Far Eastern situation.

1. Mr. Chen was very optimistic, saying that the bridges would be rebuilt as soon as the Japanese had bombed them and that they could not prevent the traffic from Indo-China. He also thought the Chinese army would hold their own against the Japanese. He did not think the Chinese could retake Canton or any other seaports on account of the Japanese navy; I agree with him about that.

2. In the press there were two items of interest. First, the Japanese report that the negotiations with Russia over the Manchukuo boundary have failed. I believe this indicates that the Japanese believe the Soviet is so fully involved in Europe that it can not assert itself in the Far East. The other item is the scarcity of coal in Japan, which has seriously crippled the Japanese industries, as it followed a dry season that left the water power of Japan in a very inefficient state.

Regraded Unclassified

3. In my own opinion, now is the time for the United States to put commercial pressure on Japan. The involvement of Russia in Europe gives Japan another breathing spell, and it may be sufficient for her to overcome her present difficulties. If we add to these difficulties even very slightly, it may be enough to throw the balance against Japan and allow China to reassert itself. If we let Japan establish herself in China, we are putting in the Japanese the power to make our situation in the Far East extremely difficult if not impossible.

We should no longer defer action, for a hands-off or a go-easy policy will actually make us a potential ally of Japan by supplying her with the essential materials for waging war.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

1. Yesterday I continued my conversation with Colonel Magruder. He told me of a report from our Naval Attache in Belgium, based on an hitherto "unimpeachable source", that France and England were planning to send an expeditionary force to Murmansk. Efforts are being made to confirm or disprove this report.

Comment: Such an expeditionary force is feasible in the early spring. It would have the following advantages:

a. Deny that area to Russian and German submarines or raiders.

b. Stiffen the resistance of the Finns without violating the neutrality of Norway or Sweden.

c. Afford an air base for the Allied Air Force.

d. Tend to draw Italy to the side of the Allies.

Such an operation would absorb a considerable amount of military resources and, unless carefully organized, might lead to a serious reverse.

Other reports from Finland indicate that the Russians are making a renewed effort to crush Finland before the spring thaw. The reported reluctance of the Finnish government

Regraded Unclassified

to accept mediation with Russia in the face of these renewed Russian attacks may be due to its knowledge of the reported Murmansk expedition.

The present Chief of the Imperial General Staff, General Ironside, commanded the British troops at Arkangel in 1918-1919. He is familiar with the area and presumably would make sure that if undertaken the expeditionary force would be properly equipped and of sufficient strength to carry out its mission.

2. The Russian air attacks have been directed towards military objectives, including dock facilities, railway facilities, and Finnish Army Headquarters. These attacks have undoubtedly disarranged and impaired the Finnish troop movements.

It is also reported that General Blucher has been recalled from Siberia to take command in place of Voroshilov. Blucher is reported to be the best Russian general.

3. There can be no doubt that at the present time the Finnish situation is very critical. Any help that the United States can render should be given at once.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Aircraft Industry of the United States

Mr. John Lee Pratt, a retired official of the General Motors Corporation, who served on the War Industries Board gave me the following estimate on the aircraft industry of the United States.

1. The neck of the bottle is the production of engines of a thousand horsepower and upwards. These engines can be built by three concerns, The United Aircraft (Pratt and Whitney), Hartford, Connecticut; Curtis Wright, Patterson, New Jersey; and a new company formed by the General Motors, Allison Engine Company, Indianapolis, Indiana, which built between three hundred and five hundred of these engines during the past year.

2. Mr. Pratt estimates the capacity of these three companies for a thousand or more horsepower engines to be:

January 1, 1940 ..... 9 to 12 thousand per annum

December 1, 1940 ..... 20 to 24 thousand per annum

April 1, 1941 ..... 30 to 35 thousand per annum

3. He anticipated that during the period of stepping up production there would be a certain amount of confusion in the industry. Within four or five months this confusion would be

Regraded Unclassified

overcome and the engines would be better. For this reason he suggested that it would be better for the Army and Navy to defer accepting deliveries during this period of transition as they would get better products. He has personally made this recommendation to the War and Navy Departments. He said the Navy Department appeared to be willing to delay deliveries, but that General Arnold, Chief of Air, and General Wesson, Chief of Ordnance, objected to the delay.

4. He also added that this would enable more deliveries to be made to Finland, which he said was sorely in need of the engines. Mr. Pratt made no effort to conceal his interest in giving aid to Finland and giving it promptly, but he based his suggestion primarily on the fact that the United States Government would get better engines five months from now than they would now; and if, in the meanwhile, an emergency arose, the United States still could commandeer these engines.

5. I have the utmost confidence in the integrity and sincerity of Mr. Pratt.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Copy to Captain H. E. Collins

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Neutrality Patrol Squadron at Key West

During my recent leave I visited Key West, the headquarters of Neutrality Patrol Squadron No. 5, and discussed the whole set-up and organization with Captain Carpenter, who commands the Key West Patrol.

The Key West Patrol controls the entrances and exits to the Gulf of Mexico, the Straits of Florida, and the western end of the Bahama Channels. It connects with Patrol Squadron No. 6 and Patrol Squadron No. 4.

The surface and air craft keep their area under observation and develop any suspicious vessels that enter their area. After contact is made with a suspicious vessel, it is maintained, using searchlights if necessary, until it is evident that no unneutral use of territorial waters of the United States will be made.

The Army and the Coast Guard are cooperating with the Navy in this duty. The accompanying chart indicates the areas covered.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

RESTRICTED

UNITED STATES FLEET,
ATLANTIC SQUADRON,
KEY WEST PATROL,
U.S.S. LEA, Flagship.

Operation Order
No. 1-40.

Key West, Florida,
1 January, 1940.

TASK ORGANIZATION

(a) KEY WEST BASED SHIPS

LEA	- Lt.Cdr. F.W. Slaven (2598).
DESTROYER DIVISION SIXTY-FOUR	- Comdr. L.K. Swenson (657).
TWIGGS (F)	- Comdr. L.K. Swenson (657).
WICKES	- Lt.Cdr. C.J. Stuart (2012).
EVANS	- Lt.Cdr. C. Moore (1613).
PHILIP	- Lt.Cdr. E.F. Crowe (2312).
SCHENCK	Lt. T. TONSETH (2685)

(b) KEY WEST BASED AIRCRAFT

PATRON 53 - 9 VP	- Lt.Cdr. A.P. Storrs, 3rd (1745).
PATRON 31 - 3 VP	- Lt.Cdr. J.B. Voit (2216).
GANNET	- Lieut. J.P. Monroe (3202).

1. (a) Commander Atlantic Squadron Operation Order Number ONE DASH FORTY. Public Resolution Number FIFTY-FOUR, SEVENTY-SIXTH Congress.

(b) Annex BAKER to Commander Atlantic Squadron Operation Order Number ONE DASH FORTY defines AREA FIVE as follows: CAPE CANAVERAL East to Latitude TWO EIGHT dash THREE ZERO, Longitude SEVEN SEVEN dash ZERO ZERO; to RUM CAY (bearing ONE FIVE SEVEN dash THREE THREE SEVEN); to within three miles of NUENTAS, CUBA (bearing ZERO FOUR SIX dash TWO TWO SIX); along Northern coast of CUBA outside of CUBAN territorial limits past CAPE SAN ANTONIO to Latitude TWO ZERO dash FIVE ZERO, Longitude EIGHT FOUR dash ONE FIVE (Bearing ONE FOUR FIVE dash THREE TWO FIVE); West to Latitude TWO ZERO dash FIVE ZERO, Longitude EIGHT SIX dash FOUR TWO; to Latitude TWO TWO dash FIVE FIVE, Longitude EIGHT SEVEN dash ZERO ZERO (bearing ONE SEVEN ONE dash THREE FIVE ONE); to LEMON BAY Latitude TWO SIX dash FIVE EIGHT, Longitude EIGHT TWO dash TWO TWO (bearing ZERO FOUR SIX dash TWO TWO SIX); then down WESTERN COAST of FLORIDA around CAPE SABLE and up the EASTERN COAST of FLORIDA to CAPE CANAVERAL.

Regraded Unclassified

RESTRICTED

Operation Order
No. 1-40.

1 January, 1940.

2. (a) This force will observe conditions, report information and take necessary action, all in connection with the enforcement of the neutrality of the UNITED STATES in AREA FIVE, by employing KEY WEST Based forces for observation, search, development of contacts and trailing, and by cooperating with all UNITED STATES Departments and Independent Offices, in order to enforce neutrality.

3. (a) KEY WEST BASED SHIPS patrol area assigned, develop contacts, search, trail and conduct operations as directed.

(1) Cover approach to the GULF OF MEXICO from the CARIBBEAN by maintaining one destroyer on patrol in YUCATAN CHANNEL.

(2) Cover approach to GULF OF MEXICO from Eastward and the Northern and Western approaches to OLD BAHAMA CHANNEL by maintaining one destroyer on patrol in STRAITS OF FLORIDA.

(3) Maintain one destroyer ready to get underway on two hours notice.

(b) KEY WEST BASED AIRCRAFT make daily patrols in AREA FIVE during daylight, weather permitting, to terminate not later than ONE and ONE HALF hours before darkness. Two planes patrol AREA ZED daily, two planes patrol AREAS XRAY and YOKE on even and odd days respectively. Maintain two planes in standby status.

(x) (1) In general, victor prep will be employed for observation and search, destroyers patrolling centrally in areas or sub-areas prepared to fully develop air contacts.

(2) In general, contact once made with a suspicious vessel, must be maintained using searchlights if necessary until such craft indicates by location, direction of movement and action no probable logistic or other unneutral use of the territorial waters of the UNITED STATES.

Regraded Unclassified

RESTRICTED

Operation Order
No. 1-40.

1 January, 1940.

(3) Furnish prompt and accurate information to task force and task group commanders, Chief of Naval Operations, Commander Atlantic Squadron and others concerned.

(4) Report presence of foreign war vessels sighted at sea to district commandant. Maintain close cooperation other task forces and task groups and Coast Guard operating in adjacent or overlapping areas, interchanging information with them as necessary to develop and maintain contact.

(5) Surface ships interview shipping as necessary to develop information.

(6) Do not enter foreign territorial waters without prior arrangements as prescribed, except for reasons of stress and weather. (Full instructions relative diplomatic arrangements in this regard have been disseminated). Avoid "hovering" foreign ports.

(7) When an airplane engaged in the neutrality patrol approaches a vessel to establish its identity, the aircraft shall approach to one side of the vessel at comparatively low altitude and on a parallel course in order that the ship concerned may be afforded ample opportunity to establish the identity of the aircraft prior to such subsequent evolutions as may be necessary in obtaining the necessary information of the ship under surveillance. At no time shall the airplane fly directly over the vessel being inspected.

(8) All ships unmistakably establish identity as U. S. Men-of-War by day and night, illuminating colors during darkness. Aircraft use special markings for neutrality patrol established by Department.

(9) Safety our ships and aircraft and personnel paramount under present circumstances. Full consideration will be given existing and impending weather conditions, ships and planes returning to base or seeking shelter when necessary.

Regraded Unclassified

RESTRICTED

Operation Order
No. 1-40.

1 January, 1940.

(10) Gun battery will be maintained in a condition of immediate readiness.

(11) This operation order effective ONE JANUARY ONE NINE FOUR ZERO.

4. (a) NAVAL STATION, KEY WEST, FLORIDA, is assigned as the Main Base. Other bases to be used by individual ships will be designated if and when such other bases are required and become available.

(b) Maintain fuel and dry provisions at NINETY-FIVE per cent full load capacity when in port.

(c) Fuel oil, aviation fuel and repair facilities available NAVAL STATION, KEY WEST. Dry provisions available after TEN January.

5. (a) Communications normal. Communications in accordance with Annex CAST to Commander Atlantic Squadron Operation Order Number ONE dash FORTY, and Annex AFIRM to Commander Key West Patrol Operation Order Number ONE dash FORTY.

(b) Commander Key West Patrol in IEA.

Arthur S. Carpender,
Captain,
Commander Key West Patrol.

ANNEX.

A. - Communication Plan.

Distribution.

Opnav	(2).	ComMidAtPat	(2).
Cincus	(2).	ComWestGulfPat	(2).
Comatron	(2).	ComCaribPat	(2).
Comairscofor	(2).	ComStrikingGroup	(2).
Comsperon	(2).	ComReserveDDGroup	(2).
ComNewEngPat	(2).	Com 1, 3, 4, 5, 7, 10, 15	(2)

Regraded Unclassified

RESTRICTED.

Operation Order
No. 1-40.

1 January, 1940.

Comdt. USCG Wash.DC.	(2)
CO NavSta Key West	(2)
Comdt NavSta Newport	(2)
Comdesdiv 64	(2)
Comdesdiv 65	(10)
Compatron 53	(2)
CO LEA	(2)
CO TWIGGS	(2)
CO WICKES	(2)
CO EVANS	(2)
CO PHILIP	(2)
CO SCHENCK	(2)
CO GANNET	(2)

Authentication:

John R. Leeds

JOHN R. LEEDS,
Lieutenant (jg),
Flag Secretary.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Agreement Signed December 30, 1939, Between Wang Ching Wei, Head of the new Central Puppet Government in China, and Japan.

I. Terms of the Agreement:

A. The Agreement makes certain that the new Central Government shall be properly guided in Japan's interest.

(1) Japanese advisors are to be appointed to the new Central Government.

(2) Chinese foreign relations are to be conducted on the basis of mutual cooperation with Japan.

(3) China is to conclude an "Anti-Communist" Alliance with Japan.

B. Special clauses provide for direct Japanese control over practically all of the territory Japanese troops now occupy.

(1) Manchukuo is recognized as independent of China.

(2) Mongolia is to be governed by an autonomous Japanese puppet government and garrisoned by Japanese troops.

(3) North China (Hopei, Shansi, Shantung, and part of Honan) is to be governed by a special North China Political Council with Japanese advisors and staff members. Japanese troops are to garrison strategic points in this area.

Regraded Unclassified

(4) The lower Yangtse Valley is to be a zone of strongest Sino-Japanese economic solidarity. Japan shall station troops and warships at specially designated points (including Shanghai) and will have the right to supervise all means of transportation and communication in this area.

(5) South China Coast.

(a) Amoy is to be a special administrative area.

(b) In certain designated islands (among these, Hainan) Japan is to have a paramount position. Japan will have the right to station troops and warships at these islands.

C. Japan is given economic dominance in China.

(1) China shall adopt tariff and customs policies that will promote trade with Japan and Manchukuo.

(2) Japan will assist in formulating China's financial and economic policy.

(3) China is to cooperate with Japan and Manchukuo in developing her industries.

(4) China shall grant Japan special privileges and facilities to develop and utilize natural resources, especially in North China and Mongolia, but also outside of these areas.

(5) China shall facilitate the supply of raw materials to Japan and Manchukuo.

(6) Japan will actively participate in the development of China's communications and transportation.

II. Comments.

The agreement between the new puppet government and Japan merely gives a mask of legality to the present Japanese conquests in China. These Chinese provinces, virtually

Regraded Unclassified

annexed by Japan, once they are fully developed as a source of raw materials -- particularly cotton, coal and iron ore -- will make Japan almost invulnerable. Her most important reliance on foreign sources then will be in petroleum, of which there are few known reserves in China. By uniting the raw material producing areas of China with their millions of potential customers to the rapidly developing heavy industries of the home country, Japan will be well on her way to becoming an industrial power comparable only to the United States.

W. D. Puleston,
Captain, U.S.N., Retired

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: United States Exports

The accompanying charts tend to the conclusion that a certain amount of United States exports are slipping through the blockade to Germany. In September and October, 1939, Germany probably received as much or more from us as she did in the same months in 1938. Since then, the volume has probably decreased to about one-half to two-thirds of peace-time trade.

Not all of the increase in our exports to Sweden, Norway, and the Netherlands can be ascribed to transshipments to Germany, of course. However, it is noteworthy that our exports to Scandinavia have increased much more than our exports to any other part of the world. (For example, exports to Norway since the war began are running from 100 percent to 200 percent higher than in 1938.) Our total exports to the Netherlands and Belgium normally include commodities which are later transshipped to Germany. It is significant, then, that while our exports to Belgium have decreased since the war began, our exports to the Netherlands have increased.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 5, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

On Friday, February 2, I had quite a long conversation with Judge R. W. Moore, Counselor for the State Department. I have been on confidential terms with Judge Moore for several years, and we canvassed the foreign situation thoroughly. The following are some of the points.

In answer to Judge Moore's question, I stated that I thought the proposed embargo on Japan would be useful, that it would only grant to the President powers that many chiefs of government already possess. I told him I believed it was vital to American interests not to permit China to be dominated by Japan, that China had resisted more effectively than most of us believe, but that I feared that she was reaching the end of her resistance, and that it was necessary to put some restraint on Japan as well as to continue the assistance to China.

In answer to a question from the Judge, I said that I believed the situation in the Far East was more urgent than the situation in Europe, and that we could serve both our own interests in the Far East and our interests in Europe by applying this pressure to Japan.

The Judge was pessimistic about the outlook in Europe. I told him that I though the British and French had met all the German threats to date; and that if they would only supply themselves with American aviation, they could undoubtedly meet the German air threat in the spring.

The Judge was apparently depressed at the slowness of action in Congress in regard to both the reciprocal trade treaties and the loan to Finland. He told me he had spent two days explaining the necessity for expeditious action in these matters.

The Judge invited me to come again whenever it was convenient.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 5, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

On Friday, February 2, I canvassed the European situation with Mr. James C. Dunn with whom I was closely associated as Director of Naval Intelligence. I gained a distinct impression that he was pessimistic about the European situation. He thought the British and French were taking success for granted.

I pointed out to him that the British and French had met the German submarine threat, the surface raider threat, the mine menace, and were now taking vigorous counter measures against German airplanes attacking the British shipping in their coastal waters. I agreed that they had been slow in building up their aviation but told him that I could see no lack of vigor in their naval warfare.

I purposely tried to counteract Mr. Dunn's pessimistic view as I had done Judge Moore's, because I had learned that the British Military Attache inquired from our Military Intelligence Department whether the pessimism in administrative circles was the result of estimates of the situation made in the War Department.

Nothing would give the Germans more satisfaction than the knowledge that our government thought they had a good chance to win this war. I am afraid that some of the testimony given by Admiral Stark before the House Naval Affairs Committee could be interpreted to mean that the Navy Department would not be surprised if the Germans won.

As I have previously reported to you, in my judgment the Allies have successfully met every German threat. My only misgiving is occasioned by their slowness in providing themselves with American planes.

W. D. Puleston.
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 5, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Far Eastern Situation

On Friday, February 2, I discussed the Far Eastern situation with Dr. Hornbeck. He again suggested that help be extended to China. I suggested that the time had come to hamper Japan about as much as to help China, that I thought Chinese authorities were meeting a lot of hard knocks and might well consider it to their interest to find some method of living with Japan. If they did, I was convinced that American interests in the Far East would be at the mercy of the Japanese in five years, and that we had better take some measures now than to increase our difficulties by further procrastination.

Dr. Hornbeck seemed surprised at the discouragement of the Chinese. I told him I was surprised that they had continued a seemingly hopeless fight when all we give them were kind words and some financial help.

I tried to make plain to Dr. Hornbeck that I was urging my ideas on him because I was convinced that the United States interests in the Far East were at stake.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 6, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Far Eastern Situation

In the past few days, I have discussed the Far Eastern situation with responsible people in the State, War, and Navy Department. The following is based on these conversations and information gained in other directions.

1. The recent resignation of Mr. Saito from the Japanese Diet is important, because he is a leading member of the Minseito party, one of the two major political parties in Japan.

Saito is a member of the gentry of Japan. His family were able to educate him at Harvard University. He is known as a scholar and a lecturer in the United States and England. In addition, his proved patriotism in the past and his family connections make it impossible for the Japanese army to dismiss his charges as those of an unpatriotic agitator.

In addition, Saito is believed to have reason to know that his views were entertained by many prominent Japanese civilian leaders.

2. The shortage of coal in Japan has resulted in a serious curtailment of industry in the heart of industrial Japan with the resulting unemployment of labor. This is in spite of all efforts of their controlled economy to supply fuel for their industry.

3. Reports are now coming in about the last battle between the Japanese and Russians along the Manchukuo-Siberian frontier that

Regraded Unclassified

occurred in the neighborhood of Mancheuli three months ago. These reports indicate that the Russians won a very decisive battle destroying about three of the best Japanese divisions.

4. The Russian army that inflicted this defeat was handled skillfully and had a decided air superiority over the Japanese, indicating that the Russian-Siberian army is much more efficient than the Russian army in Finland.

5. The Chinese army, however, has not been able to resist the Japanese army. And there is little indications that it will be able to do so in the next two or three years. Accordingly, the best way to help China is to put pressure on Japan.

6. The simplest and most effective way of putting pressure on Japan is to fortify Guam. Under the present circumstances, however much Japan might resist such action, she would not dare to do anything about it. With Guam fortified, our military and naval position would be unassailable.

7. Even if we do not fortify Guam, so long as the bulk of our naval force is concentrated in the Pacific, we can put economic pressure on Japan either by applying higher tariff duties, cutting off her exports to the United States or by a complete embargo on Japanese exports and imports. Either measure would bring the Japanese Government to its senses.

Regraded Unclassified

8. If we follow a "wait and see" policy, the Japanese army will continue in China and may be able to sustain the new puppet Chinese government. Japan today occupies every necessary stragetic position in China and all of the Chinese sea ports. In spite of the determination of Chiang Kai-shek and the will to resist of the Chinese people, the Chinese army is so helpless that at most it can only annoy the Japanese army. The Japanese are aware of their military superiority, and their initiation of the puppet government in China indicates that they are content with their present holdings and are now entering the second phase of attempting to reconcile the Chinese people. They will not entirely succeed, but they may easily be able to maintain sufficient order to allow the Japanese industralists to exploit Chinese resources. If they succeed in doing so, they can overcome their present economic crisis and begin a major program of permanent exploitation.

9. In conclusion, if the United States acts now, it has a comparatively easy problem to arrest the Japanese aggression in the Far East. If the United States hesitates, it will be providing trouble for itself in the future.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 6, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Situation in the Balkans

The recent meeting of the Balkan powers, Yugoslavia, Rumania, and Greece with Turkey, may have important consequence. Turkey is understood to have put considerable pressure on Bulgaria to withhold her demands on Rumania until after the war. Hungary, according to information reaching our State Department, has assured Italy that she will not press her claims for Transylvania against Rumania until after the war.

These decisions should prevent the spread of the war to the Balkan states at least for the present. Berlin and Paris both claim to be pleased with the action of the Balkan states; Germany, because she will continue to get supplies from the Danubian states; Paris and also London, because it stops the advance of either Russia or Germany into the Balkans.

In my opinion, it is to the advantage of the western powers to preserve the peace in the Near East. The western powers can win this war if they can meet the German air threat if and when it develops in the spring or summer.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

Confidential

DUPLICATE

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Export of Heavy Machinery from the United States to Russia and Japan.

1. I consulted Admiral Stark, Chief of Naval Operations, General Gasser, Assistant Chief of Staff, Colonel Burns, of the Joint Munitions Board, and Major Soderholm.

2. The Navy might be able to use the machinery for boring the forgings of eighteen-inch guns. Admiral Stark thought off-hand that $15 million was an exorbitant price. However, he is going into the subject more thoroughly and will inform you. The War Department does not use eighteen-inch guns, but it is interested in the machinery for making anti-aircraft guns.

3. There is no law prohibiting the export of machinery. The only effective way to prevent shipments of machinery now will be a moral embargo.

4. The Navy and the Army are aware of the heavy exportations of metal-working machinery to Japan and Russia. Both departments will furnish you with any information they have and will keep the information current in the future. Nevertheless, I think your plan of having General Watson speak to the President would regularize the procedure.

Regraded Unclassified

5. The War Department is in close touch with all heavy industries in the United States. (Parenthetically, the Commerce Department is also, and I am already in touch with Mr. Lind, who heads that Division in the Department of Commerce.) The Navy Department is only interested in companies who deal with the Navy. War and Navy Departments are working harmoniously with Captain Collins, in the Procurement Division.

6. Admiral Stark thought that the machinery for manufacturing eighteen-inch guns would be of little immediate use to Russia, on account of the time necessary to place it in operation. But both War and Navy Departments were aware of the enormous assistance that Russia and Japan were getting from their imported American machinery. Major Soderholm, who has specialized in "heavy machinery" stated that Japan could not have waged war in China except with machinery for munitions bought in the United States. At the present time Japan is more dependent than ever on American machinery, because machinery from Germany is not available.

7. I was impressed by the cordial reception I received and the willingness of both War and Navy Departments to cooperate with you in this undertaking.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 10, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Situation of the Allied Shipbuilding Industry.

Conclusions: The Allies are not yet launching sufficient tonnage to make good their losses. However, if the present rate of sinkings does not increase, the Allies should soon be holding their own.

1. The Allied deficit, comparing launchings to losses, has averaged at least 50,000 gross tons a month, or a minimum of 250,000-300,000 tons for the first five months of the war.

Allied shipping losses are running around 120,000 gross tons a month, or around 1,500,000 gross tons a year. Total losses to January 31 were about 620,000 gross tons or 2.6 percent of the total Allied tonnage of 24,000,000 gross tons.

Launchings of commercial ships have probably averaged rather less than 70,000 tons a month during the war. At the beginning of the war, British ship yards had under construction one million tons of merchant shipping, but about two-thirds of this had been laid down in the preceeding six months.

2. The Allies have not yet begun to utilize their entire physical capacity in shipbuilding and are not likely to do so, at the earliest, before the latter part of 1940.

Regraded Unclassified

Practically the entire burden of building merchantmen rests upon the United Kingdom: France is concentrating almost entirely upon naval tonnage. The capacity of the British yards normally operating is two million commercial tons and a half a million naval tons. This capacity could be greatly increased by reopening shipyards which have been closed down and by building more intensively. At the present time, construction is at the rate of one and one-half million tons a year (or equal to the present rate of losses). Therefore, launchings shortly will be coming abreast of losses, if the rate of losses does not rise.

Construction has not yet been stepped up to three shifts. Work continues only from dawn to dark. The thirty-eight ship yards closed down during peace have still not been reopened, (except in the case of one or two for repair work). Eight of these have been preserved in a condition where they could be put into production on a moment's notice. The construction of naval tonnage has been allowed to encroach moderately on the facilities for commercial shipping construction.

3. The British have not taken drastic steps up to the present time to expand greatly the building of commercial ships for two reasons.

(a) The British do not feel that the losses of shipping have created an emergency situation which will be difficult to meet.

(b) The supply of skilled labor in the shipbuilding industry and in the engineering trades which make ship machinery

Regraded Unclassified

and special ship materials is limited. This is not an insuperable obstacle since skilled labor can be diluted and, in the latter case, ship machinery and materials can be imported. Present indications are that it will take the British about a year to increase sharply their present rate of building. The action of the Government in placing merchant ship construction under the Admiralty on February 1 may herald an effective attack upon this problem.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 15, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Russian Aid to China

According to reports from our Consul in Rangoon, the Soviet Union is still shipping war materials to China, and incidentally is now practically the only country that is. A report mailed January 10 states that the Chinese were expecting two shiploads of war material to arrive at Rangoon from Russia.

This information indicates how highly important Russia regards the matter of preserving the existence of a Chinese nation independent of Japan.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE February 16, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Supply Routes to the Free China

Summary: The Japanese have taken advantage of the European War to begin a program designed to cut the last remaining supply routes to Free China -- roads leading from the possessions of European powers (French Indo-China, Burma, Russian Turkestan). The Japanese have met with considerable success so far: by crippling the supply routes from Indo-China, they have put out of commission routes on which in recent months at least one-third of Chinese imports have been transported. Gasoline stocks are being re-routed from Hong Kong to Rangoon. The Burma-Yunnan highway on which main dependence must now be placed can not as yet replace the loss in capacity of the Indo-China routes. Burmese government has indicated its friendly disposition by reducing rates on railways and refunding custom duties and port charges.

I. Burma: Burma is now the most important entrance for supplies to China from the Western World.

A. The Burma-Yunnan Highway.

The present volume of freight carried over the highway is woefully inadequate. Drastic measures should be taken immediately to improve the road and increase transport facilities on the road.

Regraded Unclassified

The Burma-Yunnan highway is the bottleneck in the transportation of supplies through Burma. The volume of freight carried on the two feeders to this highway, the Rangoon-Lashio Railroad and the Rangoon-Bhamo waterway, can be easily and greatly increased.

About 4,500 tons of freight were transported to China on this highway in December, the heaviest shipment made in any month up to this time. This is to be compared with the 13,000 tons a month capacity of the Dong Dang-Nanning Road which the Japanese cut in November and which, therefore, no longer is available.

In January American aircraft parts arrived on the S. S. Exporter for the Chinese factory at Leiwing; munitions from Russia and Germany also arrived.

The Chinese Government's immediate goal is to reach a monthly average of 6,000 tons. A truck has a capacity of 2 tons; to ship 6,000 tons per month would require 100 truck loads per day. The Chinese Government is having difficulties in reaching this volume partly because the Burma Government had not given it permission to use Chinese Government trucks in Burma.

A part of the large accumulation of around 200,000 tons of supplies at Haiphong, Indo-China, is being reshipped to Rangoon. Several thousand tons of Chinese Government supplies at Hong Kong are en route to Rangoon. A number

Regraded Unclassified

of ships with freight from the United States and war materials from Russia are also using Rangoon as a transhipment center to China. In addition, the oil companies are now planning to use Rangoon as their main port of supply to Free China. All of this makes necessary a rapid increase in the capacity of the Burma-Yunnan highway if an enormous congestion of freight at Rangoon is not to result.

B. Feeders.

1. The Rangoon-Lashio Railroad connects with the highway to Yunnan at Lashio. The maximum capacity of this railroad is estimated to be around 25,000 tons a month. Only 5,000 tons were shipped for China over it in December.

2. The Rangoon-Bhamo Waterway (Irrawady River) is connected by a 100 mile road in poor condition with the Burma-Yunnan highway at a point 105 miles north of the rail-head, Lashio. There is a saving of $2.50 per ton in handling and port charges on the water route. This waterway has been very little used, has great potential carrying capacity, but the Chinese authorities hesitate to transfer freight from the Government-owned Burma railway for fear of giving offense.

II. Indo-China: Indo-China has now become a secondary supply route for China. The now limited capacity of the routes leading into China could be fully occupied merely in diminishing

Regraded Unclassified

the present accumulation of freight at Haiphong without handling new supplies. This is now recognized and some of the stores at Haiphong are being reshipped to Rangoon.

A. Dong Dang-Nanning road. Capacity was around 13,000 tons a month. The capture of Nanning by Japanese in November stopped this route of supply.

B. Haiphong-Yunnan Railroad. Capacity is about 12,000 tons a month. This railroad is within range of Japanese bombers and can no longer be counted upon as a major supply route. Bombings on January 5 and February 1 put the railroad out of use for weeks. While transhipment across the breaks is possible, it reduced capacity to a maximum of 6,000 tons a month.

C. Caobang Road. Maximum capacity when fully completed will be about 3,000 tons a month. This road has not yet been completed and probably will not be fully utilized until April. It will be subject to Japanese bombing and, therefore, will only be capable of being used at night.

III. Russia-China Road: Very little information is available about this road. It is reported that around 12,000 tons of war materials and gasoline is transported to China monthly by this highway. The accuracy of this figure cannot be vouched for, however.

Regraded Unclassified

Attempts are being made by the Japanese to cut this route, also, by repeated bombings of Lanchow, an important town along the way.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE February 16, 1940

TO Secretary Morgenthau

FROM Captain Puleston

If you have the time, it would be worth-while to read these three translations from the National Zeitung, published at Basel, Switzerland. I am impressed by the objectivity of the reporting by a trained European correspondent. It also agrees with other reports indicating that the Russian Army expected and prepared for German resistance in Poland, that the Nazi-Soviet antagonism still continues and consequently any cooperation between the two countries will be transitory and caused only by external pressure.

According to the reporter, Russia has not yet decided how to govern the occupied territory. The absence of any plan of government throws doubt on the suggestion that Russia is embarking on a program of conquest.

Under the Soviet Government, the traditional inability of Russians to carry on a successful offensive campaign has been accentuated. The Soviet Army are better as propagandists than as fighters. Their morale has been built around a defense of their own territories and the spread of communism rather than the usual combat ideas inculcated in other armies.

Regraded Unclassified

Secretary Morgenthau - 2

These articles shed light on the difference between the performances of Russian soldiers in Finland and Russian soldiers acting on the defensive against the Japanese in Siberia.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

NATIONAL ZEITUNG, JANUARY 23, 1940

THE WAR IN POLAND (Three Months of the Soviet Regime in the West Ukraine)
(From our former Warsaw correspondent.)
Bucharest.

The extraordinary unfavorable development of the economic situation, which the occupation authorities not only did not work against but since they even hastened it, was the main reason for the growing dissatisfaction of the population of the occupied territory. Added to this was the complete planlessness of the social measures taken, which plainly bore the stamp of local initiative. The newly elected legislature of the West Ukraine in Lemberg had decided, that banks, enterprises and land should be socialized, but no one concerned himself to see that the carrying out of this decree should be on unified and reasonable lines. In several villages, it happened that the possessions of the great landed proprietors were simply taken away and divided among the small farmers who did not know what to do with their new possessions because they lacked the implements for the cultivation of their fields and the fodder for the cattle. Elsewhere they sought to create out of the large estates a kolhoz type of collective. Elsewhere they left to large landed proprietors a portion of their land. And when elsewhere they went to confiscate and to divide up the great possessions of the Church, then it happened repeatedly that the pious peasants aroused by their pastors prevented any

Regraded Unclassified

touching of the church property. The consequences are that a great part of the fields are not cultivated, that the great cattle herds have been split up and planlessly slaughtered, and that finally in the whole economic life of the occupied territory a dangerous vacuum ensued, in which the old regime was displaced and still no new one placed in its stead.

If one speaks to the Russians about this from every angle unsatisfactory condition, then one receives the stereotyped answer: They had not come in order to force any kind of new order upon the population of the new Soviet territory; the population should create for itself its conformable institutions and should only become accustomed to see in the Soviet Union a "big brother", who thinks and acts for their good. But this answer convinces nobody and generally the impression prevails that Moscow itself does not know how far the newly won territory should be changed into the Soviet system; that is, in other words, that Moscow itself is doubtful of the justice and the fitness of the Soviet system in several spheres, as for example in small-scale production and in the agricultural sphere.

The growing dissatisfaction in all circles of the population strengthened quickly an outspoken anti-Soviet propaganda, the sources of which were not evident, but whose effects could be plainly traced as well among Jewish as among the Ukrainian population.

Regraded Unclassified

Much pointed to the conclusion that the center of the Ukrainian-Nationalist propaganda, which naturally is directed against the Soviet Union is situated in the German-occupied Polish territory and that from there the leaflets were smuggled over, which one found in various spots of the occupied territory, and which said, "Ukrainians, be ready. Hitler will free you, reckoning will be had with the Jews".

Neither the growing dissatisfaction nor the growing anti-Soviet propaganda could shake the occupation authorities out of their complete passivity -- at least up to the time I left the West Ukraine, that is in early December. One simply let things run their course, one did nothing to alleviate need, nothing to stabilize prices, nothing to dampen speculation, nothing to counteract the propaganda. Also the "Purge", on which conversation repeatedly turned, did not come. The few Polish functionaries, mayors, police chiefs, large land-owners, stewards, who with the invasion of the Russians had been imprisoned and brought to the Soviet Union returned -- contrary to the general impression that they there had been immediately shot -- to their homes after a few days or weeks and live there quietly again. Of the extreme Ukrainian Nationalists, who their whole life, mostly for German pay, had worked for the secession of the Soviet Ukraine from the Soviet Union, several were taken prisoner, one part fled in due time to Germany, the greatest number were allowed to remain in freedom.

Regraded Unclassified

A benevolent observer could call this a "humane occupation". But it worked out not humanely but planlessly, it led not to general satisfaction but to general dissatisfaction, and it created after the passage of three months time, not a new order but a ruleless medley, a condition of dangerous flux.

Regraded Unclassified

NATIONAL ZEITUNG, JANUARY 25, 1940

THE WAR IN POLAND. Conversations with Soviet Russians.
(From our former Warsaw Correspondent)

The occupation of Poland by the Red Army was covered for the Soldiers by the doctrine of giving help to an oppressed proletariat; in this case it was the oppressed Ukrainians and White Russians to whose help the Red Army came in their struggle against their "Polish capitalistic oppressors". The occupation of west Poland was also depicted by many officers more or less plainly as a kind of victory over Germany; after the breakdown of the Polish military resistance and after the flight of the Polish government, there resulted the danger that Hitler would occupy all Poland and penetrate to the boundaries of the Soviet Union; this the Soviet Union could not permit for the sake of her security and especially on account of the danger of the formation by Hitler of a Ukraine-Irredenta in west Poland. It is known that in one of Molotov's speeches similar lines of thought were distinctly expressed.

This already touches on the question which repeatedly formed the main theme in all my conversations with the Soviet Russians: How did the political turn which the Soviet Union had made in its pact with Germany and through her whole conduct in the war with Germany depict itself in the heads of the Soviet Russians. The answer expressed completely our conviction expressed previously that it appeared hard if not impossible to bring the Russian soldiers and perhaps

Regraded Unclassified

the Russian population out of the political doctrines in which they had been educated and in which they firmly believed. No Russian soldier or officer with whom I spoke on this subject, showed even the slightest sympathy for Hitler and his regime, not a one had anything to say in defense of Hitler or German fascism. Each one like all the others explained with the greatest confidence that standing by German Fascism was necessary and it was only a question of a short time and that the pact between Moscow and Berlin was only a maneuver that was intended for and devoted precisely to strengthen the revolutionary forces in Germany and to hasten the Communist Revolution in the Reich. The possibility of Russian help for Germany, be it through the sending of troops, be it through the delivery of raw materials, was generally denied as completely absurd and out of the question. News about the German waging of war in Poland, about the bombing of open cities by the Germans was heard with the same revulsion as the news of the German terror in the German occupied Polish territories -- about which to be sure it is to be noticed, that the Russians learned these things by word of mouth, for the Soviet press consciously silenced in the last months all news which could sharpen opinion against Germany. On the other hand, the Pact with Berlin had in no way led to a stopping of the poster and film propaganda against Hitlerism: The first posters which were brought after the occupation into the villages and cities

Regraded Unclassified

of the west Ukraine were anti-German posters, one depicted a German worker who was shaking off his oppressor, a SS man with a swastika arm band; while another showed a group of emaciated German workers who -- separated by a barbed wire fence -- beckoned to a Russian worker, and over them stood the words of "Red Front" in giant red letters. Also among the films which were brought into the Russian occupied territory were many outspoken anti-German, anti-Fascist films.

In the meantime Moscow also appeared not to have the plan or the desire to prepare by propaganda the citizenry and the soldiers for a future common march with Germany. For even if one believes propaganda in the dictator countries capable of much, to convince the present Soviet Russian population of the idea of the necessity of more than tactical and transitory working together of communism and National Socialism appears, at least for the moment and for any definite time, unsolvable.

If one questions then further a soldier or officer of the Red Army who has given expression to his undiminished hostility against the Hitler regime and has explained why the pact between Moscow and Berlin represents no weakening of the fundamental anti-fascist politics of the Soviet Union, and I have done this time and again, why then does the Soviet Union not only stand aside from a war against the Hitler Fascism but even more or less distinctly express its sympathy for Germany,

Regraded Unclassified

then one hears repeatedly with stereotyped uniformity that the English capitalism is fundamentally even worse and for Russia even more dangerous than German Fascism. It is hard to depict how firmly the dislike of England sits in the heads of the Soviet Russians, and to be sure, not only since yesterday, but for years and decades, and how easily therefore the Soviet propaganda directed above all against England uses this dislike and stirs it up. Also the reason for this dislike is stereotyped. It makes use of as the most important argument, Spain and Czechoslovakia, which England delivered to Hitler, and it returns constantly to the events of September, 1938. At that time the Soviet Union was determined to hasten to the help of Czechoslovakia, had ready extraordinarily strong masses of troops on the Polish frontier -- this was confirmed, moreover, by the inhabitants of Busiatyn who observed the advance of the Russians to the frontier and their preparations for the crossing of the frontier -- and the Soviet Union would have fought on the side of the western powers against Hitler in fulfillment of her duties under her alliance. France and England, however, had declined this help and sought at Munich to win Hitler for a common campaign against the Soviet Union. For this reason England could not count on the help of Russia in its war against Germany. For the rest the neutral position of the Soviet Union in the present war expressed her answer to the question: War or Peace.

Regraded Unclassified

NATIONAL ZEITUNG, January 24, 1940

THE WAR IN POLAND. Conversations with Soviet Russians (from our former Warsaw correspondent). Bucharest.

Three times in the course of my eleven and a half weeks stay in the West Ukraine I saw important contingents of the Red Army go by me in close formation, besides countless large and small isolated transports, which at first almost daily, later at longer intervals, went by coming from Russia or returning to Russia: The first time with the invasion of the Soviet troops in the days from the 17th to the 21st of September when an unbroken stream of exclusively motorized troops and cavalry poured out of the Soviet Ukraine over the border towards Poland; the second time in the last days of September, when further exceedingly strong but no longer thoroughly motorized troops crossed the Soviet boundary at Husiatyn; the third time, when in the first days of October suddenly strong troop formations, motorized and not motorized, were transported back to Russia. Each time the march past lasted several days almost uninterruptedly and each time was the purely visual impression uncommonly strong: Just as if mounted on a ribbon, hundreds of tanks, hundreds of trucks, hundreds of tractors closely following one another rolled by the eyes of the spectator, an army which was no longer composed of human beings but of machines, in which there was no more route step but only a slow unceasing roll of wheels. The air

Regraded Unclassified

droned with the noise of motors, the earth shook under the weight of the machines; the streets, plowed up with the treads of tractors and tanks, transformed themselves into a deep mass of mud and clay; whatever stood in the way, mile stones, whole rows of trees, the corner of a house, was swept away, streets that had tunnels under them broke the whole way across under the unaccustomed weight. If one reflects that obviously at the same time on a dozen other highways which lead out of the Soviet Union, similar strong contingents of troops were in motion, that in addition there were five railroad lines crossing the Soviet-Polish frontier for the use of transporting troops, and if one does not assume that the Soviet Union set such uncommonly strong masses of troops and materials for a comparatively simple military undertaking, then one must get the impression that Moscow reckoned with the possibility of serious complications in the occupation of West Poland, and that is with the possibility of an explanation with the German Army.

It is hard to say something on the worth of the Red Army on the basis of such visual impressions. For even the conviction that an army is widely motorized, and is equipped with an immense mass of light and heavy artillery, of tanks of various types and sizes, of means of transport for troops and munitions, still says nothing about the combat value of this army, which with the occupation of the West Ukraine

Regraded Unclassified

experienced no serious test. For the judgment of the inner strength of the Red Army appear nevertheless two other observations more important: The one that the Red Army appears in important measure to a degree never known before as a political army, as an army which regards itself and its stated tasks in the first place from a political perspective, which has been schooled, yes, drilled in wholly fixed doctrines.

With this stands in close connection a second observation which I could make repeatedly in my many hours of conversation with the soldiers and officers of the Red Army: Conformable to the up-to-now political doctrine of the Soviet Union the Red Army lacks throughout that pure military spirit of war and attack that is typical of the professional soldiers of other states. It is a pacifistic army through and through, an army which to the defense of its own territory or perhaps to that what one calls in Moscow the "liberation of oppressed nations" can be available, but for any other project, especially in a pure war of agression or conquest must refuse forcefully.

The consequences which ensue out of this fundamental tendency of the Red Army are evident: First, that it is uncommonly difficult, if not impossible, suddenly or in a short period to replace for this army of millions of completely rigid and one-sidedly educated political soldiers other goals than the familiar political goals; or that such a transportation must lead to heavy internal crisis. Second, that this army lacks

Regraded Unclassified

in a definite political situation that which is more important or is at least as important as material superiority and complete equipment -- the spirit of combat and attack.

The pacifistic spirit of the Red Army showed itself most distinctly in the days of the Finnish crisis, which I passed, until several days after the beginning of hostilities, in Russian occupied territory. Naturally, the Russians followed the course of negotiations with the greatest of attention, but no one, not a single one of the many soldiers and officers, with whom I spoke about this subject, believed in even the most remote possibility of an armed conflict. Everyone was convinced that Finland finally would be agreeable to the Russian conditions, and if one asked what would happen if Finland nevertheless declined, then the answer came almost always: "Even then will there be found a peaceful solution." Then, when after the breaking off of the Finnish-Soviet negotiations there appeared in the Russian papers the first sharp expressions against Finland, which really left no more doubt as to the true plans of Moscow, they found a weak echo in the Red Army. And when I finally heard the news on the London radio of the Russian attack on Finland and of the first bombardment of Helsinki and related it to several Russian soldiers -- the beginning of hostilities was first announced on the Moscow radio 24 hours later -- I encountered a general disbelief. When on the next day Moscow also announced that the campaign against Finland

Regraded Unclassified

had begun, there ruled among the Russian soldiers a feeling of depression rather than a martial spirit, and even the political education which was begun immediately among the soldiers could do nothing to alter it. Only when the first news of victory came in from the front did the feeling improve and one could hear from each Russian soldier with whom he conversed that the complete downfall of Finland was only a question of a few days. The story was generally believed that immediately a "revolutionary government" and a "Red Army" had formed, and that it really concerned a struggle of "the oppressed Finnish proletariat" against its "capitalistic oppressor" in which the Red Army had to fulfill the task of helping the rightful Finnish government against the "White Rebels"; for this exposition expresses the doctrine in which the Red Army is schooled, and which avoids every war of conquest fundamentally and unconditionally. "We fight only to defend the Soviet Union when it is attacked or for an oppressed proletariat which calls to us to come to help." One can easily imagine what effect on the masses of the Soviet Russian population and the Army the news of the difficulties of the Finnish campaign and of the heroic resistance of the Finns will cause which strikes down the "White Rebel Government" lie, if this news reaches the Russian population.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE February 17, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Miscellaneous Information Gathered from Dr. R.

1. The censorship in Germany is carried out partly by the German Army and partly by the German Government, which explains the lack of uniformity in the press releases.

2. The Germans and Russians have achieved a triangular system of exchange of goods in the Baltic area. In exchange for German manufactured goods the Esthonians and Latvians forward food to the Russian forces in Finland. Russia repays Germany with oil and gasoline.

3. The Germans still are exporting artillery and munitions of war to Holland. The artillery exported is reported to be modern field pieces and the Krupp agents in Holland stated that they were prepared to supply Holland with the latest model artillery.

4. He had heard that the German Consul General in San Francisco, Fritz Wiedemann, who was a captain in the company in which Hitler served as a corporal during the World War, stated recently that the leaders of the German Army had persuaded Hitler not to invade Holland and Belgium in December. The Consul General asserted that sooner or later Hitler would impose his will on the Army as he had always done before, and the German Army would march into Holland and Belgium.

Regraded Unclassified

5. In spite of the brutal treatment inflicted on Catholics in Poland, Dr. R. believed that the Pope, whom he knew in Germany, was still working for a Fascist peace. He said the Pope was more interested in politics than religion, was thoroughly Italian in his outlook, and would be guided in his policy by his innate belief in the maintenance of authority and the status quo.

6. Dr. R. believed the best policy for the French and British would be to occupy Petsamo and the Murmansk area and give direct assistance to Finland; if possible they should furnish the Finns sufficient reinforcements to threaten Leningrad, and thus detain the Soviet forces to meet this menace. Such a program would prevent the Soviet from supplying foodstuffs and oil to Germany.

He did not believe that Germany would attack Sweden and that further operations of Russia in Finland would put increasingly severe strain on the relations between Germany and Russia, and also increase the tension between the German Army, who still are reluctant to attack the Scandinavians, and the Nazi Party, who have no sympathy with the Scandinavians.

7. The Germans wish to preserve peace in Sweden in order that their supplies of iron ore may be insured. Already the supplies of ore from Sweden are being reduced, due to Swedish resentment of the invasion of Finland. Sabotage by Swedish workers is taking place in the mining and transportation of iron ore destined for Germany, while the Swedish authorities deliberately delay deliveries to Germany as long as they dare.

Regraded Unclassified

8. He believed the British and French should make every endeavor to capture or destroy the oil wells around Baku in the Caucasus. He said the oil wells there were concentrated in a small area and were very vulnerable. (Mr. Sadler, Vice-President of the Standard Oil Company of New Jersey, confirmed this description of the Baku oil wells.)

9. Dr. R. said that letters from Germany mailed at the frontier received by him and his friends indicated a low state of morale and a general feeling of pessimism about the outcome of the war for Germany. This does not agree with all the reports we have received from Germany but confirms the views of Mr. Heath that the German people did not envisage an eventual victory.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Export of Machinery to Russia and Japan.

I had a long conversation with Rear Admiral Furlong on the question of preventing the export of machinery for making munitions of war to Japan and Russia. The following is based upon this conversation.

Conclusion: Both the War and Navy Departments are prepared to cooperate fully in an effort to prevent the further export of munition-making machinery to Japan and Russia. They realize that an enormous quantity of this material has already been exported. They can only assist by purchasing the machinery themselves and for this they will probably need additional appropriations.

1. The Russians have already been supplied with lathes capable of turning out an eighteen-inch gun. To stop the export of this last one would only be like closing the door after the horse was out. The Navy does not need an eighteen-inch lathe but could install an additional one in the Charleston, West Virginia plant. It might require a new building; in any event it would require an increase in the present appropriation.

2. Captain Collins is getting more specific information about the $15 million worth of machinery about to be exported.

Regraded Unclassified

Admiral Furlong would like to see this list and see what items he could use. He has been aware for a long time of the export of munition-making machines, but there was no law against it. Further, during a period of peace, both the Navy and Army are generally in favor of building up the munition-making industry in the United States and favor their export, because the domestic demand for the machines is not sufficient in time of peace to keep the industry operating. The Navy Department under ordinary circumstances only objects to the export of the latest models of arms and ammunition.

3. Rear Admiral Furlong is going to have his inspectors in the field ascertain the foreign orders now on hand in American factories. He will furnish this information directly to Captain Collins, with whom he has already been working through the Chief of the Bureau of Supplies and Accounts, Rear Admiral Spear.

4. I was told by the Army expert on heavy machinery, Major Soderholm, and Colonel MacMorland, Secretary of the Clearance Committee of the Joint Munitions Board, that they were already furnishing Captain Collins any information along these lines that he requested.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Conversation with Mr. Sadler.

1. On Wednesday, February 11, I had a conversation with Mr. Sadler, of the Standard Oil Company of New Jersey. He confirmed orally what he had already told us in a letter, that the German Government paid all balances due his company and that so far as he could see the German Government still possessed sufficient foreign credits. He was unable to explain how the Germans secured this foreign exchange, but he was very firm that they were not yet suffering from any lack of foreign credits.

2. He believed the severe winter had seriously handicapped the German efforts to obtain supplies from Russia and Rumania and suggested that control of the Black Sea by the British and French Navies would effectually cut off Russian oil at the source, the Baku oil wells. He was still of the opinion that Rumania might be preserved by the conflicting pressures being brought to bear upon her. The products of his company in Rumania were being more and more controlled and disposed of by the Rumanian Government.

3. Mr. Sadler is regularly supplying us with figures on exports of oil to Germany. There has been a reduction in the supply sent from Rumania to Germany since the beginning of the

Regraded Unclassified

war.

4. Mr. Sadler reiterated his willingness to supply the Treasury Department with any information his company obtained.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The latest development in German Radio Propaganda to the German People.

1. The German radio broadcasts are now emphasizing the so-called plutocratic tendency in Great Britain and France. They contrast the inequalities between the higher and lower classes in Great Britain and the equality of all Germans in Germany; the broadcasts emphasize that in England it is possible for the wealthy to obtain better food and clothes than the poor can obtain, whereas in Germany from the highest to the lowest they are rationed alike.

2. The Russians are following a similar line of propaganda in dwelling upon the plutocracy that dominates the capitalistic nations of France and England. This is the nearest together that the German and Russian radio broadcasts have come.

3. I also heard in New York from one of our observers that the negroes in the United States were now being canvassed by Soviet propagandists with the theory that they would be held down under a capitalist system like that of Britain and France and would be given greater privileges by the success of the Soviet.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Conversation with Mr. Edward Riley

I gathered the following information on Wednesday, February 14, from conversation with Mr. Riley, Assistant General Manager, Export Division, General Motors Corporation.

1. Overtures from Goering to the President came through Mr. Mooney of General Motors, and a high official of the Texas Oil Company. The proposed basis of peace involves the retention by Germany of "The Corridor", all former German provinces assigned to Poland by the Versailles Treaty, and the Sudetenland, the reconstitution of a small Polish state, and the constitution of a Czech State and a Slovak State.

In addition, a recognition of German economic rights in the Near East would be included, with some trade concessions in British and French colonies and the possible restoration of some German colonies.

2. I am convinced that such terms, which do not provide for the elimination of Hitler, are entirely unacceptable to the British and French Governments. Hitler is supposed to be aware of Goering's peace offer; on the other hand, there is some reason to believe that Goering would not be displeased if some accident happened to Hitler.

Regraded Unclassified

3. Mr. Riley agreed with my suggestion that Hitler had treated several elements in the German population so brutally that there could be no peaceful transition of the German Government from Hitler to any other authority. If Hitler goes, there is bound to be an overwhelming demand for revenge upon those close to Hitler who acquiesced, if they did not encourage, these repressive measures.

4. Advocates of this program believe that an orderly purge, that is, a legalized massacre, of the inner circle of Hitlerites could be accomplished without deranging the whole of Germany; they depend upon the German army to control the domestic situation while this retribution was being accomplished.

5. All of these developments are conjectural. On the other hand, an accident to Hitler may precipitate some such situation at any moment, and it is a wise provision to contemplate the possibilities in such an eventuality.

(Comment: For some reason, somebody in the State Department gave an account of Goering's peace proposals to the International News Service representative in Washington. It was only published in the first edition of the Daily Mirror last week in New York, and I am told it did not appear in any other paper or in any subsequent edition of The Mirror. It is no secret that the German Government have made overtures for peace through various channels. The most important inference

Regraded Unclassified

from this fact is that the German Government does not anticipate a successful conclusion of the war.)

6. Mr. Riley threw some light on the methods of the British purchasing agents in the United States. He said that the General Motors Corporation has been acting as a purchasing agent for some British representatives in the United States. As such, they were to buy a closed-up plant of the Reo Automobile Company, in order to obtain machine tools. They informed the General Motors that one of their group of purchasing agents had reported that the Reo factory was not for sale. From a different source it was learned that the Reo factory was for sale and they wished General Motors to act for them.

Mr. Riley commented that this was not an isolated case; that the various departments of the British Government were not well coordinated. Frequently one agency of the British Government would be making purchases of the same materials as another and without common knowledge.

W. D. Puleston

W. D. Puleston
Captain, U.S.N., Retired

Regraded Unclassified

(4)

116

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE February 19, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Conversation with Group of Observers in New Haven.

1. On Monday night, February 12, I spent the evening discussing the European situation with Mr. George Vernadsky, naturalized Russian-American, Professor Hajo Holborn, naturalized German-American, Professor Wolfers, naturalized German-American, and Mr. Eugene Davidson, Yale University professor; at times Professor Borchard, international law expert, joined in the discussion.

2. There was general agreement that the German population was already feeling the effects of the war but not to the extent of making any peace. They practically all believed that the German Government was anxious to make a negotiated peace but not yet ready to offer terms that would be acceptable to France and England. They all agreed that the elimination of Hitler and Hitlerism was an essential requirement of the French and British governments.

3. Comment: I am convinced that there is a definite and almost permanent cleavage between three important groups in Germany; first, the Nazi Party, headed by Hess; second, the German Air Force, headed by Goering; and third, the German Army, headed by its Officer Corps. Only Hitler has been able to keep

Regraded Unclassified

these three groups working together in time of peace. In time of war it is the fear of the German Army that success by the enemy will result in another partition of Germany that will keep them fighting for Hitler. On the side of the Allies, France is determined, if successful, to divide Germany. Great Britain would be content to leave Germany a strong nation but reduced to its former boundaries.

In view of these various factors, I am convinced that there is no chance of a negotiated peace in Europe at the present time and under the existing circumstances.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

DUPLICATE

INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Surplus Naval Material Available for Sweden.

1. During my discussion with Admiral Furlong, Chief of the Bureau of Ordnance, he supplied me with the enclosed list of ordnance material that can be declared a surplus.

2. The legal procedure would be for the Navy to declare the surplus and the Army arrange for its sale. If this could be sold to Sweden and any or all of it passed along by Sweden to Finland, it would be the quickest way for us to provide the Finns with munitions of war.

3. I also learned that the Army and Navy had already made it possible for Finland to obtain some T.N.T. in this country.

4. The prices for these articles are in some cases almost nominal, and in all cases they are very reasonable, as this material can not be used to advantage by the United States Navy.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

February 7, 1940

1. The Bureau of Ordnance of the Navy can declare surplus the following:

35,000 U.S. Rifles, Cal. 30, Model 1903 (Springfield)

2,500 Lewis Machine Guns, ground type (need a little overhaul)

3,000 Lewis Machine Guns for aircraft, could be altered for ground use or used as is in winter. Guns in excellent condition.

18,000 Spare barrels for above.

30,000 Magazines for above.

1,993 Browning automatic rifles, require little overhaul.

321 18" torpedoes, less war heads. We will give designs of war head which can be made commercially. These torpedoes could be used in coastal motor boats. Range 1000 to 4000 yds. Speed - 30 kts.

12,000 Mark IV contact mines and anchors in good condition, old type, not loaded.

500 Smith and Wesson .38 cal. revolvers.

5,000 A.P. 12" projectiles.

100 3"/23 field guns with carriages.

600 3"/50 guns with naval pedestal mounts, 15° elevation; could be used on fixed emplacements or on board vessels, but not adaptable to anti-aircraft fire.

Range, 7500 yds. at 15° elevation

RANGE	ELEV.
12000	18°
14500	18°

400 4"/50 cal. naval guns with pedestal mounts 18° elevation, fixed emplacements as on shore or on board ship but not adaptable to A.A. fire.

W. R. FURLONG,
Chief of Bureau of Ordnance.

ALB

Regraded Unclassified

Confidential

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Probable Effect of Mass German Air Attacks on Great Britain, and on the British Fleet in the Spring and Summer of 1940.

1. I have discussed this question with various naval officers, including Rear Admiral Towers, Chief of Bureau of Aeronautics, Rear Admiral Furlong, Chief of Bureau of Ordnance, Rear Admiral Walter S. Anderson, Chief of Naval Intelligence; with General Arnold, Chief of the Army Aviation, Colonel McCabe, Chief of Military Intelligence, Colonel Magruder, of Military Intelligence, and Major Whitehead, of the Air Corps. The following is my own opinion, formed on the basis of these conversations.

2. We may expect some very heavy attacks by German aviation, beginning in the spring or early summer. They will do considerable but not vital damage to the British merchantmen and less damage to the British Navy. We may also expect attacks on British shipbuilding yards on the east coast and the terminal facilities at ports such as London and Liverpool. These attacks may be preceded by attacks on British air fields and British aviation factories in an effort to reduce the attacks by the British Air Force.

3. In the event that British shore establishments are attacked, we can expect reprisal attacks against the German

Regraded Unclassified

industrial cities along the Rhine Valley where the bulk of German heavy industries is located. The industrial establishments in Germany, England, and France are protected by anti-aircraft guns and there will be heavy losses of airplanes if these attacks are carried through. In all probability, the German present superiority in air will not be sufficient to enable them to do vital damage to either the British fleet and merchantmen or to shore establishments.

4. I do not wish to quote any one of the officers previously mentioned as my authority, because no two of them held identical views. They varied from the view of General Arnold that aviation would do tremendous, perhaps vital, damage to that of Admiral Anderson, who thought the damage that German aviation would do would be inconsiderable. All of these officers were frank enough to say that they were giving opinions about the future and a new weapon and that they might be in error. They all agreed that a heavy bomb would do tremendous damage, that it was hard to hit a moving target, like a ship, but easy to hit a fixed, large target, like the city of London. They nearly all anticipated that the German planes would endeavor to attack England under cover of darkness to reduce their losses. Such a procedure would also materially reduce the accuracy of the bomb dropping.

W. D. Puleston

W. D. Puleston
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Export of Machinery to Russia and Japan.

Figures from the Department of Commerce indicate that we exported metal-working machinery as follows:

	1938	1939
Russia	$ 35,000,000	$ 18,000,000
Japan	24,000,000	25,000,000

Comment: Russia can now buy from Germany, subject to the limitation of poor transportation. Japan, however, can not obtain metal-working machinery from Germany now. Therefore, the effect of an embargo upon exports to Japan by the United States would be immediately effective.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

During your absence memoranda on the following subjects have been prepared for you. I suggest you take them in the following order:

1. Exports of metal-working machinery to Japan and Russia.
2. Probable development of air attacks against England.
3. Situation in Finland.
4. Possible negotiations for peace in Europe.
5. Situation in the Far East.
6. Situation in occupied Poland, desirable to fill out your background of the war.
7. Miscellaneous data gathered by Dr. R.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

The attached are comments by Dr. Riezler on these articles. I have given them verbatim as I do not entirely agree but want you to have his views exactly as he has given them.

W. D. Puleston

W. D. Puleston
Captain, U.S.N., Retired.

Regraded Unclassified

Russia in Occupied Poland.

The articles "Der Krieg in Polen" in the Baseler National Zeitung No. 36, 38, 40 (January 23-25) are certainly trustworthy as to facts and psychological feeling within the Russian Army and the occupied territory. They give a very interesting picture and convincing for everybody who knows something about the Russian mentality.

The only thing I feel doubtful about is the conclusion the author seems to suggest.

1. It may be difficult but perhaps not impossible to conciliate the Russian soldier with the idea of a cooperation with Germany. The Germans -- Dr. Ley and the S. S. -- have begun to change their phraseology towards a kind of bolshevisme. They pretend to fight against capitalisme. The Russiansman use that, if they want. It is easy for them to put all emphasis on the democratic brand of capitalisme -- and to interpret the internal policy of Germany of expropriation of the bourgeois class and so on. Moreover -- feelings within the Russian people have not the practical importance as such feelings would have in democratic countries. All observers, coming from democracies overrate their importance.

2. The disorder and lack of concentrated action in the occupied territories may have no consequences at all. These territories are not highly developed -- the Russians may be quite clever in letting things develop themselves, without much Russian interference. The social order (peasants and land ownerships) and so on has to desintegrate by the natural antagonisms between the classes, are the Russians think it wise to introduce their elaborate pattern. The Russians are not fanatics of order, as are Swiss and German observers.

Nobody can predict whether Stalin honestly wants economic cooperation with Germany or not -- whether he will face and overcome the difficulty which are bound to arise, if German interference on a larger scale tries to organise the Russian production and transportation. It may be but is by no means sure, that such an attempt will create an opposition against Stalin or strengthen an opposition which may exist. In any case -- cooperation on a large scale is difficult and will only produce results after a rather long time. As things are in this static war, long run expectations matter a great deal.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Allied and Neutral Ship Losses.

1. The Germans are carrying on a more intensive campaign against neutral shipping.

The curve of neutral ship losses shows an upward trend since the beginning of the war. There is a definite tendency for each new peak and low to be higher than the preceeding, and as a result, neutral losses last week set a new high.

2. A more sustained campaign is being carried on against British shipping.

The curve of British ship losses has been tending to straighten out. While the peaks are remaining at about the same level, the lows have been ascending. This is due to the use by the Germans of a combination of weapons (torpedo, mine, and bombs) which enables them to keep constant pressure on British shipping.

3. Due to the two factors just outlined, the Germans sank more tonnage in the second week of the month of February than in any earlier week of the war.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

DUPLICATE

INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Peculiarity of Method of Waging Present War.

1. The remark is often heard that this is a phoney war. It is a peculiar war; the peculiarity arises from the fact that Great Britain is endeavoring to wage war economically and to preserve, perhaps increase, her markets for the post-war period. France acquiesces largely because the French High Command does not wish to engage in heavy land operations until the British manpower in France is approximately equal to the French manpower. Both England and France complacently assume that time is on their side. Time is on their side only if they make vigorous use of all of their resources and are prepared to make full use of their army and aviation as well as naval forces.

2. Great Britain is endeavoring to maintain her usual over-seas markets, thus she is still trying to supply Argentina with coal and get her usual amount of Argentine wheat. This is a perfectly prodigal way to use merchantships in war time.

3. You are already aware of the dilatoriness with which Great Britain has made purchases in this country. If to this fault she adds the even greater one of endeavoring to carry on over-seas trade as usual, she will seriously jeopardize her

Regraded Unclassified

prospects of victory. Her coal that she is now sending to Argentina should be diverted to Italy to drive out the coal Italy usually receives from Germany. Great Britain made this same mistake during the last war and for months the most popular sign was "Business as usual".

4. Businessmen in the United States have been extremely considerate of British and French needs. They have not charged exorbitant prices and have submitted to the inevitable dislocation of trade that comes from war. On the other hand, the British are clinging tenaciously to markets like that of the coal for Argentina, which could be easily supplied by American coal, and Canada has enough wheat and can supply it over a shorter route than Argentina.

5. The longer this war is prolonged, the more unpredictable its result and the greater the possibility of our being drawn into it. As the price of our benevolent neutrality, we should insist that the British and French concentrate their entire efforts on waging the war.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

(3)

129

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Situation in Finland

1. During the past fortnight the Russians have occupied the forward ~~arrangements~~ positions of the Mannerheim Line. The question now is whether they will have momentum enough remaining to crash through.

Our Military Intelligence is divided in its opinion, but they all admit the possibility of a crash through in the near future and all agree that unless outside aid is received by Finland the Soviet Government will overcome the Finnish resistance.

2. The next question is: What states will offer assistance to Finland? There is a rumor this morning that the Swedish Government may be forced by the action of the Swedish Army to intervene. (See memorandum attached)

3. As terrible as the situation in Finland and Scandinavia will become in case the war spreads in that direction, I think it would ultimately be to the advantage of Britain and France, and consequently to us, if Sweden and Norway could be engaged on the side of the Allies. I have given my reason for this before.

4. I passed along to the State Department the contents of the message I received regarding Sweden, and the European Division confirmed the fact that there had been indications of

Regraded Unclassified

a split in the Government and a split between the Cabinet and the King, as I indicated in the memorandum.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

131

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Reported Crisis in Sweden.

1. The following was obtained through Mr. Ellery Stone, President of Postal Telegraph Company, in New York. Mr. Stone reports that this was received from a source reliable in the past:

There is a crisis developing in Sweden over the question of giving assistance to Finland. The Army chiefs all favor military intervention. This may result in the abdication of King Gustav V, with the accession of the Crown Prince and a new Cabinet. It may be a willing abdication on the part of the King.

2. Comment: I passed this information along to Mr. Hickerson, of the European Division of the State Department, who is Acting Chief in the absence of Mr. Pierrepont Moffat. He commented that they had information indicating a cleavage between the Cabinet and King Gustav over the wisdom of his recent announcement. The present government in Sweden does not yet dare to take the Swedish public into its full confidence regarding the German attitude towards Sweden. Apparently the German Government gave a stern warning to the Swedish Government to stay out of the Russo-Finnish war.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

132

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Events during your absence.

During your absence the following important developments occurred:

1. The military situation of the Finns deteriorated badly, but it is not yet beyond saving.

2. The situation of the exports of metal-working machinery to Japan and Russia has been investigated. An embargo on such machinery to Russia is probably too late to be effective. An embargo against Japan would be effective.

3. Our experts here believe there will be mass air attacks against England in the late spring, early summer, or summer. The bulk of the opinion is that these attacks will occasion severe but not vital losses to the United Kingdom.

4. The best opinion is that there is no possibility of a negotiated peace at the present time.

5. The situation of Japan, both at home and in China, has not improved.

6. The situation in occupied Poland indicates that Germany and Russia can not cooperate.

Memoranda concerning these developments are prepared and can be read at your convenience.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential **INTER OFFICE COMMUNICATION**

DATE February 21, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Situation in Finland

In a natural indignation at the possible over-running of Finland by Russia, there is danger of loosing sight of some important facts:

1. The resistance of the Finns has already greatly exceeded the anticipations of disinterested observers and reduced and postponed the sending of supplies from Russia to Germany.

2. It has put a strain on the relations between Germany and Italy; it has increased the internal cleavages in Germany.

3. It has also consolidated neutral opinion against the Soviet and to a slightly lesser degree against Germany.

4. Finnish resistance has also increased the possibility of bringing Sweden and Norway in on the side of France and Great Britain. Their accession to the Allies would extend the area of war and increase the suffering of civilians, yet it might easily shorten the war in Europe and tend to bring about a more durable peace.

All of these are permanent gains to the Allies, regardless of the outcome in Finland.

Insofar as Russia is concerned, a definite victory over Finland will render her more independent of Germany; and if the various reports are true that the Soviet authorities are giving grudging assistance to Germany now when they need her assistance, it is most unlikely that they will give her greater assistance when they no longer need her aid and advice.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 21, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Situation in the Near East.

Conclusion: I think the position of Britain and France in the Near East has been definitely strengthened. Nevertheless, they should continue to strengthen their position militarily and diplomatically in the Near East and give Turkey plenty of time to mobilize before attempting any offensive in that area. They should dispatch any surplus strength to the aid of Finland and employ every diplomatic effort to gain the Scandinavian states to their side.

1. The arrival of the Anzacs, probably about 25,000 strong, in Egypt and the action of Turkey in giving her government power to mobilize are the outstanding occurrences in the Near East. England and France now have a force conservatively estimated at 250,000 good soldiers in Syria and Egypt.

2. Turkey, while clinging to peace, is now aware that Russia is her only real menace. Neither France nor England desires any more Turkish provinces and they are entirely satisfied to leave the Dardanelles and Constantinople under Turkish control. Simultaneously, the Mohammedan bloc of states, Turkey, Persia, Arabia, and Afghanistan, have drawn towards France and Britain on account of their apprehensions of possible Russian advances in their areas.

Regraded Unclassified

3. At the same time, the latent sympathy of Bulgaria for Russia has been more manifest. In Yugoslavia, the Serbian part of the population, about one-third, would be drawn towards Russia in the event of hostilities. The reactions of the other Balkan states would depend on circumstances. Almost any combination could occur in the Balkan Peninsula if hostilities broke out. But with the present Allied force in the Near East, Turkey probably actively engaged on their side, and the Mohammedan bloc definitely anti-Russian, Britain and France could almost certainly withstand any ambitious undertaking by Germany and Russia.

4. The internal conditions in Turkey make it impossible to mobilize quickly. It will be two or three months before the Turkish Army now commencing to mobilize could be effective. I think it would be wise for the Allies to preserve the peace in the Balkans and the Near East in the near future and concentrate any surplus forces at their disposal in the Scandinavian area.

To date the British have hesitated to declare war on Russia. Their reason is obvious: Russia could unloose her submarines at Vladivostok on British trade in the Far East and create trouble in Afghanistan and Persia and some dissatisfaction in India. While it is not particularly heroic, it is a sensible policy for the British Government to hesitate to increase their enemies.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 23, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: War Materials Received by China through Burma, January, 1940

1. Russia still is the main source of war materials for China. In January, however, the first installment of the shipment of American airplanes and parts to China began to arrive in Rangoon.

Imports for China Received in Rangoon, January, 1940

Source	Nature of Shipment	Amount (U.S. $)
U.S.S.R.	Fuses, shells, machine gun parts, cartridges	$ 950,000
Belgium	Cartridges, pistols	700,000
U.S.A.	Aircraft and parts	450,000
		$ 2,100,000

2. Pressure could be brought upon France and England to permit the shipment of Chinese commodities to Russia through Burma and Indo-China. Due to the refusal of the British and French authorities in these two colonies to release Chinese commodities destined for Russia, and due to Russia's fear of greater involvement due to the Finnish war, Russia is showing increasing reluctance to ship war materials to China.

3. The benefit the Soviet Union would derive from these

Regraded Unclassified

Chinese goods is very small compared to the crippling damage that will be done to China if the flow of munitions from Russia should cease. (It is reported that the French are even attempting to prevent the shipment of tungsten to the United States on the grounds that it may leak through to Germany.)

Comment: The advantages of putting impediments in the way of Japan are clearly indicated by the benefits that the Soviet Union are now receiving from their Chinese association. China must give some return if she accepts assistance from Russia. On the other hand, if pressure were put on Japan it would automatically relieve Japanese pressure on China and render it unnecessary for China to accept assistance from the Soviet. In some ways the Soviet is a greater threat to the integrity of the Chinese Empire than is Japan.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 23, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Attitude of State Department Towards the Far Eastern Situation

1. I reviewed the situation in the Far East with Dr. Hornbeck on Wednesday, February 21. His attitude was substantially the same as in my last talk with him on February 2.

2. He did not think that the situation in the Far East was critical. I demurred a little and expressed my apprehensions that the condition in China was becoming increasingly worse and might become unbearable even by the Chinese.

3. We then canvassed the possibilities of American action. He continued to place the emphasis on aid to China; I suggested some impediments to Japan.

He is strong for resisting any overtures by Japan but still thinks that we should exhaust the possibilities of helping China.

4. The most encouraging factor, in my opinion, is that the State Department does not contemplate accepting any compromise with Japan at the present time and is ready to contemplate, first, restricting her imports into the United States, and second, embargoing all trade.

Regraded Unclassified

5. The most concrete suggestion by Dr. Hornbeck was to place a prohibitive duty on the import of raw silk into the United States. Raw silk constitutes two-thirds of the value of United States imports from Japan, and its relative importance has been increasing. In 1937, 51 per cent of our total imports from Japan was raw silk; in 1938, 63.5 per cent; and in 1939, 66 per cent.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE February 23, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Centralization of China's Highway Transportation System

Summary:

Acting on the recommendation of Mr. Sheehan, the Chinese Government chartered on November 28, 1939 the China Transport Company to centralize all civil highway transportation in China. This proposed company is to include the Foo Shing Trading Corporation organization. Among other important provisions in its charter, the China Transport Company has the power, subject to approval of the National Government, to contract foreign loans. The detailed charter has only now been transmitted to us and an outline of it follows.

I. The Provisions of the Charter of the China Transport Company

A. General Description

1. It is a special charter company of the National Government chartered for an initial period of 30 years.

2. Total authorized and paid in capital shall be $50,000,000.

B. Powers

1. Transport

a. The company may operate highway, rail, water, and air transport services throughout China.

b. It may manufacture or assemble all necessary equipment and supplies.

Regraded Unclassified

c. It may invest in securities of other transport companies.

2. Other

a. It may contract foreign loans with the approval of the National Government.

C. Organization

1. Financial -- The Ministry of Communications is to subscribe to half of the capital stock. The balance may be subscribed by other Chinese Government or commercial institutions.

2. Control -- The Board of Directors shall consist of 7-11 directors. Three to five of these are to be chosen by the Ministry of Communications, the rest by the other shareholders. The Managing Director will be an ex-officio member.

3. Managing -- The Board of Directors will appoint a Managing Director.

II. Other Material Details

A. The China Transport Company was formed on the direct recommendation of Mr. Sheehan, primarily to coordinate highway transportation even though it was given wide powers over other methods of transportation.

B. The Foo Shing Trading Corporation is to be included in the China Transport Company although this was against the inclinations of the director of Foo Shing, Mr. Groff.

C. The Southwest Transportation Company, the Chinese Government's semi-military trucking organization

Regraded Unclassified

is not to be included in the new company.

D. One of the main motives behind the formation of this new company is the belief of Chinese Government officials that if they can convince the United States Treasury that significant progress is being made in developing a good transportation system, the Export-Import Bank may be disposed to grant further credits.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 24, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Hitler's indecision

For some months the German Government has limited its war efforts to sporadic attacks with its aviation and submarines upon British shipping. It has been inactive on the Western Front and it has remained practically neutral in the war between Russia and Finland. Such inaction is contrary to pre-1914 German war doctrine. This inaction is due to Hitler's indecision.

We have a report from Mr. Heath indicating that some minor officials of the German Government are doubtful of ultimate victory for Germany. A study of the German press by some of our observers indicates that:

(a) Hitler can not make up his mind,

(b) The German generals oppose the inauguration of an offensive in the West,

(c) German hopes are concentrated on the preparations of their naval and air forces for an offensive against Great Britain.

It is possible that the German naval and air chiefs are vain enough to believe that they alone can overcome the British resistance. It was a similar mistaken estimate by the German

Regraded Unclassified

Admiralty in 1916 that led to unrestricted submarine warfare by the Germans and our entrance into the World War.

As the German Army leaders obviously do not want to start an offensive on the Western Front, it would be natural for them to encourage Hitler to believe that the German submarines and aviation could win the war on the sea and in the air, and thus put the responsibility for any failure on the Navy and Air Force.

Hitler's temperament would have led him to stake the decision on a sudden onslaught in the west, but the Army has so far succeeded in holding him back. Indications are that the German Army leaders still have considerable influence over Hitler and will insist that a naval and air offensive be undertaken before an attack is made against the Maginot Line in France.

We also know that the German aviation will not be prepared for mass bombing attacks over England until Germany constructs enough fighting planes to accompany and protect the bombers. This necessity will probably cause the postponement of serious attacks until early summer or mid-summer.

Comment: Sooner or later Germany will have to have recourse to her major weapon, which is her army, if she really hopes to win this war. Reports from London indicate that military opinion in England is now verging to the view that the Germans will make an attack on the Maginot Line rather than attempt to come through Holland and Belgium. The reason given

Regraded Unclassified

is that Holland and Belgium are alert and the British and French are prepared and willing to go to their assistance. The Germans are therefore convinced that they have as good a chance of cracking the Maginot Line as of a successful war of maneuver in the Low Countries. Further, the Germans believe a break through the Maginot Line would have a greater effect on the morale of the French people.

This war will not be settled decisively unless Germany can break the Allied blockade or the British and French either defeat or be defeated by the Germans in the main theatre of operations on the Western Front. Successes in Scandinavia or the Near East are only important as they affect the main decision between France and England and Germany.

W. D. Puleston,
Captain, U. S. N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Movements of the son of Mr. H. H. Kung.

I learned today that the subject left the Philippines for the United States about one month ago, probably under an assumed name. He may have gone on a cliper, in which case he probably is already in the United States. The exact date of his departure could not be learned.

His sister has not been in the Philippines.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

DUPLICATE

INTER OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Surplus Articles from the Bureau of Ordnance, Navy Department.
Reference attached: Previous Memorandum on same subject dated February 19, 1940.

1. I had a further discussion with Rear Admiral Furlong. Negotiations have not yet been concluded for the sale of the surplus ordnance material to Sweden. Rear Admiral Wijkmark, Royal Swedish Navy, is representing the Swedish Government. Negotiations probably will continue today. To indicate the bargains offered the Swedes, the following prices are typical:

	Unit Cost Price	Unit Selling Price
Springfield Rifle, .30 Caliber	$ 48.00	$20.00
Lewis Machine Guns	200.00	50.00
Spare Barrels	6.00	3.00
18-inch Torpedoes, less warheads	3,000.00 5,000.00	1,500.00
Contact Mines and Anchors in good condition--old type	374.00	35.00

Other articles are in proportion.

2. In addition to offering the old type mines which are very efficient, the Navy offered to make the newest of mines

Regraded Unclassified

available after manufacture. Ammunition of all kinds is scarce, but the Navy offered to defer its own deliveries in order to assist Sweden.

(Comment: There can be no doubt that the Navy has gone full length to help Sweden on the assumption that this material being made available for Sweden will enable Sweden to pass along these or corresponding supplies to Finland. The real question remaining is how to make sure that supplies furnished to Sweden will reach Finland. This is beyond the province of the Navy Department.)

3. Sweden has a well-developed munitions industry and manufactures an excellent anti-aircraft gun known as Bofor's 1¾-inch caliber. Admiral Furlong is very anxious to get one of these for experiment and has asked Admiral Wijkmark to obtain one for him. I suggested that we might be able to help him.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Reports received regarding the European Situation.

Herewith are four reports that I think you should read at your convenience. I could summarize them, but I think they are important enough for you to read in full. They are:

A -- Report from Dr. Riezler emphasizing the importance of Baku oil and the possibility that Germany might be defeated in Russia.

B -- Report from Professor Holborn with comments by Mr. Davidson. The important part of this is the description of internal conditions in Germany.

C -- Mr. Davidson's report giving reasons why Britain and France should develop the Balkan front rather than Scandinavia.

D -- A report by Mr. Behn, President of International Telephone and Telegraph, on the general European situation. When I was Director of Naval Intelligence, Mr. Behn kept me advised of developments in Spain. In almost every case his predictions came true. He has many European contacts, has a talent for international affairs, and knows Europe thoroughly. The range of his reflections is very wide, and I do not altogether agree; but I think you should have his views as he states them. Incidentally, Mr. Page, Vice-President of International Telephone and Telegraph, is the son of Walter Hines Page.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Enclosures returned:
filed in W.D.P. files.

Regraded Unclassified

Report A --- (copy)

All news from the Kaukasia frontier have to be taken most seriously:

The British seem slowly to realize that Germany might be possibly defeated in Russia -- by a breakdown of Russia.

Russia depends entirely on oil for all kind of military and civil transports -- even tractors for harvest. Without oil Russia is helpless. She needs about 25 million tons. 18 of these are coming from Baku. The rest from some other places, (Ural, north of Kaukasus, north of Afghanistan), which are not easy to increase their output, (needing a couple of years -- three to five years). The best of them have been ruined by the Russians themselves, by too much hurry in increasing the output and spoiling the gas pressure.

The British seem to have some difficulties in getting the agreement of Turkey to a air-raid of Baku. The Turks very reasonably hesitate to agree. A border incident may be arranged. Some Tzarist Russians seem to be in Syria for helping in bringing about a local Russian attack.

No doubt about the effect of a destruction of Baku. An air-raid would be very efficient -- all being oily wood in a relatively narrow area.

The destruction would hit Germany directly -- supply of Baku oil via Batum and the Danube River, and indirectly by agonizing Russia.

Regraded Unclassified

Moreover, the Allies seem to be decided to "change" the international law in order to prevent the use of Norwegian waters by Germany. They try to do it with Norway half-agreeing for the sake of public opinion in this country.

The war is becoming a war about oil and iron ore.

I could get but not check the data about the Russian oil demand and output. They ought to be checked.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 27, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Further Information about David (Ling Kai) Kung.

It is now known that subject left Manila by clipper on January 31. He was accompanied by one female, Sigie Weih, age 29, and one male, Wu Fang Chih, age 30. Subject does not use the name David now; instead he uses his Chinese name, Ling Kai.

David probably is either in Honolulu or in the United States by now. If the Navy Department gets any further information, they will pass it along to us.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 29, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Personal Conjecture:

There is a report in the papers that Germany will offer to mediate between Russia and Finland. I believe this is apt to happen because it would be entirely to Germany's advantage. It would:

A. Relieve the strain between the representatives of the Prussian Army, led by von der Goltz, who favor the Finns, and the German Government.

B. Stop the advance of Russia into Scandinavia, which threatens Germany's position in the Baltic.

C. Remove the apprehensions of not being able to obtain Swedish iron ore for Germany.

D. Gain the favor of the smaller neutral nations, Denmark, Norway, Sweden.

E. Add to the prestige of Hitler.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE March 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Situation in the Far East.

1. An airmail letter dated February 8 indicates that the Japanese are having some success to the north and northeast of Nanning, despite the stubborn Chinese resistance. The American Consul at Hanoi comments that the Japanese are turning northeastward because they anticipate that the Caobang road is now closed.

Of even more significance would be the advance of the Japanese into Hunan province, which would shut off supplies from Chungking to the guerrilla bands operating in the occupied terrotory in the Honan and Hupeh provinces. It has been the effort of Japan to organize these rich provinces, but they have so far been prevented by the incursions of the Chinese guerrillas.

2. In a letter to Senator Schwellenbach, in today's paper, Admiral Yarnell expressed his apprehensions about the present situation in the Far East. In his fears I heartily concur. If the United States lets Japan consolidate her position in China, the next generation of Americans will pay for our inactivity.

Regraded Unclassified

3. One step we can take now is the imposition of the discriminatory ship charges made possible by the abrogation of Japanese-American trade treaty and the imposition of a high tariff duty on imports of raw silk. The Japan-North America carrying trade makes up around 50 per cent of the total value of all Japanese overseas shipping operations. This furnishes a fruitful supply of foreign exchange to Japan so greatly needed under the present emergency conditions. Similarly, imports of raw silk by the United States provide about two-thirds of Japan's receipts of dollar exchange.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

Accompanying map removed

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Situation in Finland

1. The Russians have definitely broken through the Mannerheim Line. The accompanying map shows the extent of their penetration.

2. At the present rate of progress of the Russians the Finns will soon have to abandon the rest of the Mannerheim Line and their positions northeast of Lake Ladoga and fall back to their second defensive line running north from the coast of the Gulf of Finland to Lake Selma (approximately located on the accompanying map).

3. This second Finnish defensive line is not as strong as the Mannerheim Line. How long the Finns will be able to hold it is uncertain and largely depends upon the amount of man-power available. The fact that the Finns have not launched any counter-attacks augurs ill for their cause.

4. If the Finns can hold out another four weeks, the coming of the thaws should give their army a breathing spell of a month to six weeks, or to about the middle of May or the first of June.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Situation in Europe

The following are extracts from reports from our three observers.

1. The German broadcasts exhort the neutrals to an "active neutrality", apparently trying to frighten the Scandinavian countries. Goebbels used the expression once used by Bismarck that "peoples had to pay ultimately for the windows shattered by their press". The Berlin radio denounced as a new British lie the statement that Hitler was going to present a new peace offer. America is mirrored in the press as a paradise of plutocrats and a supporter of the Franco-British cause.

A new turn has been given to the broadcasts by quoting from Governor Frank, of occupied Poland, who "considered the present military government the home of the Poles and would not try a policy of Germanization". Polish laws were kept intact and Poles were represented in the administration of Poland. Many Polish schools have been reopened. The important thing here is that in this part of Poland the millions of Poles living in the provinces annexed to Germany are going to be settled.

Regraded Unclassified

When this is done, the Germans will state that the British war aims are foolish, since "the Russian parts of Poland could not be restored, nor those annexed by Germany and now settled by Germans from the Baltic, Italy, and Russia." But they would re-establish the remnant of Poland into which would be crowded the refugees from the other portions.

2. One of our observers was able to read letters sent by Mr. Fritz Thyssen, which contained the following statements: In the Reichstag meeting of September 1, 1939, a hundred members were absent. Their places were taken by Nazi officials. This indicates the considerable opposition that existed within the Nazi Party at the beginning of the war.

Von Ribbentrop received Ciano about the middle of August in Fuschl, Austria, in a beautiful house that had belonged to an Austrian baron who had died in a concentration camp a little while before. The house had been given to Von Ribbentrop by Hitler.

Comment: The statement so often made that the Nazi officials are a glorified bunch of gangsters is borne out by this statement, which is in accord with several others that I have seen.

3. Another of our observers states that foreign radios are widely listened to in Germany despite the heaviest punishment. The Allied propaganda is not very effective since it avoids precise statements about the war and peace aims.

Regraded Unclassified

The Russians and the Germans depend on steel made in the United States for developing new oil fields, and it is reported that the Russians are now trying to import quantities of this steel from San Francisco.

4. The third observer reports that northern Russia would be less susceptible to a revolution than south Russia where the anti-Bolshevik tradition is still latent and might be revived by a drive of the Allies in the Black Sea area. The Don and the Kuban Cossacks might rise against the Moscow government. This observer doubts whether Turkey would be willing to take the risk of a war with Russia. I think myself that Turkey would prefer to remain neutral.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 1, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Situation in Europe at the end of Six Months of War.

1. Diplomatic Field

Great Britain and France have succeeded in keeping Spain and Italy neutral. This is no small victory, because it was freely predicted that both of these countries would join Hitler. Great Britain and France have not only kept Turkey neutral but probably have gained her adhesion to their side.

In the Low Countries they have succeeded in drawing Belgium and Holland together and by diplomatic and military conversations have provided for quick assistance in case either Holland or Belgium is invaded by Germany.

Among the Scandinavian states, Sweden is definitely less pro-German and Norway probably as pro-British as during the last war. Denmark dares not express any feeling.

On the whole, in the diplomatic field, the position of Great Britain and France is distinctly better than it was on September 3, 1939.

2. At Sea

The German merchant marine has been swept from the oceans except in a few instances of fugitives still trying to sneak home via the Norwegian fiords. Over half of these attempting

Regraded Unclassified

to return to Germany have been lost. The German merchant ships are still able to operate in the Baltic Sea but in no other waters.

The British merchant marine is practically immune to attack except in the waters around the United Kingdom and Ireland. The convoy system has definitely reduced British losses from submarines to a bearable proportion. The mine menace apparently has been met. The attacks by aircraft along the coastal routes of the east coast of England have been too recently inaugurated to determine the effectiveness of aircraft. But it is hardly probable that it will be effective.

The most surprising development has been the huge losses of the neutrals, mainly Norway, Sweden, and Holland. The Germans may regret sinking this neutral tonnage, because some of it would have been employed in feeding and supplying Germany.

The British have lost approximately 700 thousand tons of merchant ships. According to Winston Churchill, their net loss is 200 thousand tons. This would indicate that by new conetruction, purchase, and capture of German ships, 500 thousand tons have been replaced. This net loss of merchantmen can be easily borne.

The British Navy has lost two capital ships, a battleship, and an aircraft carrier and had a battle cruiser and a battleship badly damaged. They have two new battleships completing in 1940 and three more to be finished in 1941. On balance their Navy is actually stronger, for the same proportion of new ships

Regraded Unclassified

obtains among the cruisers, destroyers, sloops, and minesweepers. At sea the British Navy is relatively stronger than it was in September, 1939.

3. On Land

The British have been steadily increasing their land forces. The losses have been inconsequential. The French have been hardening their Army, particularly the youngest classes of recruits.

The German Army did not need to increase its strength numerically. It doubtless has been training its officers, particularly in the staff and command duties. Its Officer Corps was decidely inferior to the French and British in quality, due to the recent reestablishment of the German Army. On the point of training of the Officer Corps the German Army is probably better than it was in 1939 but still below the general average of British and French officers.

4. In the Air

The British and French have been adding to their planes. The Germans claim that they have actually added more, and this may be true. It is hard to believe that the Germans have added very extensively to the number of their pilots unless they have deliberately lowered the quality. The Germans had been engaged in a maximum development of air power for about three years. They had selected their pilots and probably had taken the great bulk of the best material. The French and British had not gone into quantity production of pilots, so it is very probable that they are nearer equality in pilots than they were in September.

Regraded Unclassified

Although slow in getting started, the British and French have more good pilot material than have the Germans and this may prove to be a decisive factor if the war is prolonged.

5. Relations Between the Opposing Groups.

During this six months, France and England have grown much closer together than they were in 1939. They have a united command in France under the French Commander in Chief, a united army in the Near East under the command of Field Marshal Weygand. They have an economic union; they have ironed out all their political differences. There is a closer union between France and England than they achieved during four years of the last war.

The relations existing between Germany and Russia are less well known. Outwardly they have put up a united front, but there are reports that indicate that this sudden union has not really been knitted together. It is certain that the invasion of Finland has put a strain upon the relations between the two governments, and it is no less certain that there is no real sympathy between the Russian and German peoples. Only the necessity of hanging together to meet the French and British war keeps Germany and Russia together.

In my own opinion, Germany has a war on the Western Front and an armed truce with Russia on the Eastern Front. If Russia overruns Finland, she will have secured herself from any attack via the Baltic by Germany. Her dependence on Germany will then be very slight, and if Russia should then turn towards the Balkans

Regraded Unclassified

Germany would have to acquiesce and perhaps join in the offensive to protect her own interests.

6. Internal Conditions of the Various Belligerents.

Except for a small group of pro-Nazi at one extremity and a small group of pro-Communists at the other extremity, all of England is united behind Chamberlain.

France is more united than it has been since the days of Clemenceau in 1918.

Less is known of the condition of Germany and Russia, but there are strong indications that a real cleavage exists between the German Army and the Nazi Party with Goering sitting on the side line with his aviation. Nevertheless, Germany will, for the present at least, present a unified front to England and France.

Still less is known of the sentiments of the Russian people towards their government, but there have been some indications of dissatisfaction with Stalin during the early days of the Finnish campaign with resulting riots.

Hitler is again threatening all manner of death and destruction to the United Kingdom. He was no less violent in the summer of 1938 and in the autumn of 1939. Relatively the United Kingdom is better able to resist today than it was before. The same statement is true of France, and if Hitler should extend the war into the Balkans or Scandinavia he would find the British and French relatively better prepared than they were in September, 1939.

Regraded Unclassified

It seems, therefore, that during the first six months of the war the Allies definitely have gained and Germany definitely has lost ground.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 2, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Effect on United States Trade of the Allies' Commercial Offensive against Germany.

Summary:

The effect of the trade and exchange regulations the Allies are adopting in the war with Germany is becoming more and more harmful to American trade and could be made to appear as measures in a commercial war against the United States. (These restrictions are in addition to discrimination in the internal British market against American products in favor of Empire goods and products from countries like Turkey, whose good-will they are seeking.)

(a) The British economic accord with France effectively promotes British exports as against the United States.

(b) The British dominions and colonies are frankly trying to choke off imports from the United States in order to increase imports from sterling countries.

(c) The purchasing policy of the Allies works in this same direction. By purchasing the entire exportable surplus of some of its colonies and dominions with sterling, England makes these countries dependent upon its generosity to provide them with dollar exchange to buy American products.

(d) The Allies are concluding bilateral clearing agreements which are designed to force an increase in Allied exports as a direct result of an increase in Allied imports.

Regraded Unclassified

An increase in Allied exports depends upon an increased surplus of merchandise available for export. This increased export surplus is entirely possible because of (a) the present character of the war, (b) full employment, (c) increase in the intensity and duration of labor, and (d) rationing and restricting of normal home consumption.

The discussion following is a mere outline of the situation. Mr. White could supply a more complete picture.

I. The British cabinet is repeatedly emphasizing that England must not only maintain its export markets but must increase them.

This "drive for new markets" 1/ must be differentiated from the economic warfare directed against Germany in the markets still open to her. This policy is directed against "Britain's most important competitors" 1/ who are neutral, not belligerent.

Admiral Sir Herbert Richmond (former chairman of the Committee for Imperial Defense) states that there are three great elements in the present war:

(1) the protection of the existing Allied trade

(2) the destruction of the enemy oceanic trade

(3) the extension of the Allied export trade.

1/ Reports of speech of R. S. Hudson, British Secretary of Overseas Trade, February 26, 1940.

Regraded Unclassified

II. The economic accord with France favors British exports against American.

On February 28, the French Government announced that all war licensing restrictions on imports from Great Britain, India and British island possessions were removed. Imports from the United States, of course, are still curbed by such regulations. Realistically, there is no doubt but that "the United States of Europe" is a slogan directed against the United States of America.

III. The excuse of the war is leading to rapid steps in the direction of the ideal of -- Ottawa -- Empire self-sufficiency.

A. Dominions

1. Australia. The import of a number of important commodities, in many cases originating in largest part in the United States, has been banned. Increase in the import of commodities not banned originating outside of sterling areas has been forbidden. In addition, due to monopsony buying by England, the availability of dollar exchange now depends upon how many dollars the English Government is willing to turn over to Australia.

Regraded Unclassified

2. New Zealand. Somewhat similar steps have been taken in New Zealand. In addition, in many cases, an import license for imports from a non-sterling area is not issued until the foreign exporter is willing to leave the money payment in the country for an indefinite period.

To supplement other measures an appeal is being made to patriotism. The Minister of Finance, for example, stated in a recent address:

"To the extent that we import foreign goods into this country, to that extent we are hindering England's prosecution of the war, for we deprive her of her overseas funds which are so much needed in the future. When we import from the United States we not only use up our supply of sterling pounds but we use up the English supply of dollar funds .... We should endeavor then to transfer as much of our purchases as we can to the United Kingdom. It will help her in peace and it will help her in war."

Regraded Unclassified

B. Colonies and other Empire countries.

1. Bermuda. Licenses for imports of essential goods from the usual neutral sources (i.e. the United States) into Bermuda are not being granted, if the commodities can be procured from sterling areas.

2. Egypt. Because the foreign exchange controls instituted by Egypt as a result of the war, importers from non-sterling areas have difficulties in securing foreign exchange.

C. United States Export figures already begin to point to the effectiveness of these discriminatory policies.

Net purchases by the sterling British countries from the United States in December, 1939, actually decreased as compared to December, 1938. United States exports to these countries in December, 1939, increased only 5.3 million dollars over December, 1938, whereas our imports from these countries increased by 28.1 million dollars in December, 1939, over December, 1938, resulting in a net decline of our export surplus to these countries of 22.8 million dollars.

IV. By monopoly buying of primary commodities, the Allies force the colonial producers in essence to build up sterling rather than dollar balances.

The British Government is buying the entire export surplus of primary commodities from certain countries.

Regraded Unclassified

For example, the entire wool export supply of Australia has been taken over by the British Government. Ordinarily a large part of the exports of wool by Australia comes to the United States and provides dollar exchange available for imports of American goods. The United Kingdom is now able to turn over part of its wool purchases to American buyers, and England, rather than Australia, secures the dollar exchange. Australia is therefore forced to ask the British Government to provide it with dollars to make essential purchases in the United States.

V. <u>The Allies are instituting a system of bilateral trade agreements which are designed to force an increase in exports as a direct result of increased imports.</u>

1. <u>Latin America</u>. Both England and France are already blocking the receipts of Argentina in sterling or francs. According to the French arrangement, for example, exports from Argentina to France are to be paid for in francs that are impounded in a special account. These francs Argentina can use only for buying French products, paying for interest due to French creditors or repurchasing Argentine obligations to France.

   Similar arrangements may soon be concluded with other Latin American countries it is reported.

Regraded Unclassified

2. Sweden. The Swedish system formally is somewhat different, but the results are the same. Since December 19, 1939, the Swedish Riksbank and the commercial banks have blocked the receipts from Swedish exports to England in a special account in London, the proceeds of which are available only for payments to the British Empire and Belgium, Brazil, and Egypt.

VI. It is easy to understand and even to sympathize with the efforts of Great Britain and France to husband and to employ efficiently their economic resources for war purposes. Nevertheless, it is short-sighted of them to institute measures that will injure the trade of the United States, for when such injury becomes evident to the American people, they will certainly resent it. The Western Allies can not afford to alienate American sympathy, which they today possess, and there are certain groups in the United States who would be happy to find some reason for creating resentment against Britain and France.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 5, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

Herewith a report of the views of Colonel Maguire, in Military Intelligence, on the problem of Germany. Colonel Maguire's views are almost exactly opposed to mine, so I think you ought to read them.

There can be no question of the sincerity of Colonel Maguire, who also is well informed about the German Army.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

COLONEL MAGUIRE'S ESTIMATE OF THE PRESENT POSITION OF GERMANY. (Colonel Maguire is the head of the German Section of Military Intelligence).

Colonel Maguire has a view diametrically opposite to the conclusion that the Allies have gained ground as compared to Germany in the last six months. He believes that Germany has gained, because the kind of war that has been waged is exactly the kind of war the Germans are content to wage now.

Time is on Germany's side. She can sit behind her West Wall indefinitely and develop Eastern Europe. This kind of war suits her, since she is waging a war of defense. She wanted Poland and took it and now is satisfied to stand pat.

Rumania is going to, and is now, giving Germany what she wants. Also, Russia is going to provide raw materials for Germany. Germany is going to reorganize Russia and secure what she wants from her. It is only a question of transportation for which only time is necessary, and that Germany is getting.

Germany will not attack the Maginot Line: she has no reason to. She would only attack if she had some new means of getting in a knock-out blow, and there is no reason to suppose that she has.

The German Air Force is one jump ahead of the Allies. The German production is probably less than two thousand planes a month, or rather goes as high as two thousand planes a month for the short period when the Air Force is being re-equipped with a new model. The bottle-neck is in securing pilots. Six thousand first-line planes may be a fair estimate of the actual situation.

Regraded Unclassified

Germany is the dominant partner in the German-Russian Pact. This is because Germany has one hundred divisions that are free to march to Moscow if necessary and could easily do so.

Germany will not be starved out in this war. In the last war she made the mistake of mobilizing agricultural workers so that the crop of 1915 was very short. After that, Germany could not catch up again. This time the same mistake was not made.

There is no necessity for Germany to secure new triumphs. She has everything she wants: dominance east of the Rhine. The Germans are not enthusiastic about the war, but they are solidly behind Hitler and the Army. No stock should be put in the idea that there is a probability of the Army's replacing Hitler in order to get peace. The Army knows what the French want: the carving up of Germany into little pieces; and this the German Army does not consider to be a pleasant prospect.

In conclusion, the German High Command is fully prepared to fight this war for fifteen years if necessary; and if the war continues as it is now, they will be even stronger then than now.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE March 6, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Miscellaneous Information on the European Situation.

1. I attended a lecture at the Army War College on aviation. The leading points made by the lecturer simply underscored facts already known:

a. Bombing planes need to be escorted and protected by fighting planes. As Germany did not have these planes available, she had to defer operation against England.

b. Fear of reprisals had more to do with the delay of attacks than lack of fighting planes.

c. The Germans appear to have better planes than the Allies.

d. American planes are as good and perhaps better than any other.

After the lecture I discussed the situation in Europe with General Peyton, President of the College. He did not believe that Germany could make any long range campaigns into the Balkans or into Russia on account of the difficulty of supply. With this I entirely agree. Map strategists nearly always forget that soldiers have to eat three times a day and guns have to be furnished with ammunition. General Peyton thought that the Allies would

Regraded Unclassified

win but believed Germany would give them a good hard fight before the war was over.

2. Speaking generally, older officers in the Army and Navy are largely inclined to believe that Germany will be defeated. It is only among the air branch and officers who have been stationed in Germany that they believe the German Army can break through and win a victory either against Russia or the Western Allies.

3. The seizure of Italian ships loaded with coal exported from Germany raises acutely the question of Anglo-Italian relations. England has on several occasions been very stupid in managing her relations with Italy, but it is difficult to believe that she would have made this test case unless she had some assurance that Italy would acquiesce.

A plausible supposition is that Germany was insisting that Italy accept this coal, while England was putting pressure on Italy to refuse the coal and accept coal from England. When Italy claimed she could no longer resist the pressure of Germany, Great Britain told her, "Accept it, then, and we will seize it, thus proving to Germany that it is an impossibility for you to accept delivery." If this hypothesis is correct, England probably will compensate Italy and dispose of the coal.

On the other hand, there is a distinct possibility that this is a serious dispute between the two states, for England can not back down, and Italy's prestige already is involved.

Regraded Unclassified

There is still a more remote possibility that, contemplating operations in the Balkans, Great Britain wants to put Italy to the test in a matter that does not involve the fate of a campaign and the lives of a lot of soldiers. If Italy gives way now, England will be justified in assuming that she can do about what she pleases with Italy.

4. Pure gossip. Mr. Frank Page, of International Telephone and Telegraph is in town. He has received reports from two bankers, one a Swiss and the other a German, that Germany will start an offensive on the Western Front within a month. The offensive will be mounted from Holland to Switzerland. The Maginot Line will be attacked and the submarines and aircraft will cooperate with attacks on British commerce and British industry. In short, it will be an all-out offensive on land, sea, and air.

The reasons given are almost as important as the prophecy. Germany, it is said, now realizes that she can not last longer than two years and her military machine is as strong as it will be during those two years.

The data given in our last report from Germany indicates that the Germans already are having to draw upon some of their reserve supplies of iron ore, feed grains, and perhaps petroleum.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 9, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Mr. Sheahan's Report

The accompanying report on the road system in China is based mainly on Mr. Sheahan's data and information obtained from him by me on March 6 and 7. He answered all my questions frankly and frequently volunteered collateral facts to amplify his answers. He impressed me as having a clear picture of the physical and political situation in Free China and a sensible idea of the transportation system China needed, with a clear-cut plan of operations. The only discrepancy noted in Mr. Sheehan's report from those received from other sources was in the amount of freight at Haiphong. Mr. Sheahan inventoried the freight consigned to China actually in the go-downs at Haiphong and only reported the freight actually consigned to China. The consular report was an estimate that included freight routed to Haiphong for speculation, including a consignment of motor vehicles.

Mr. Sheahan's reports of the road conditions vary. Some are in detail, made by Chinese engineers showing contours, drainage, and method of construction; others are the result of inspection made by him in a motor car and give only a running account of the road as seen from a car. I have no means of verifying these reports, but they impress me as being substantially correct.

Mr. Sheahan plainly felt that he had done a good job in China. I have no means of determining whether he did as well as he might have done or not. He was acting in an advisory capacity, and I do know that it is some

Regraded Unclassified

times difficult to get action out of Chinese officials.

Mr. Sheahan apparently had not fully digested all of his own data and certainly did not make a clear-cut presentation of the subject, and some features of his reports are apparently conflicting.

I still have his documents and will try to iron out these discrepancies; and if I can not, I will write him for further explanations.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 9, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Communication System in Free China.
(Two accompanying maps)

1. The transportation problem in Free China resulted from the occupation by Japan of practically all of the Chinese seaports and portions of her railway and road net. The problem confronting the Chinese Minister of Communications was to create an internal transportation system that could be connected with the three external routes still open to China. These were (1) the overland route to Russia, (2) the sea route via Haiphong in Indo-China, and (3) the water route via Rangoon in British Burma.

With route number one, Mr. Sheahan had practically nothing to do. His mission was to advise the Chinese Minister of Communications how to construct a road system and to organize and operate a motor transport system that would connect with the railway and river lines from French Indo-China and British Burma.

The problem was complicated by

(a) the mountainous terrain,

(b) the torrential summer rains,

(c) continuous Japanese hostilities which made it

Regraded Unclassified

necessary at times to operate the trucks mainly at night and to be ready at all times to shift traffic from one threatened roadway to another.

(d) pressure brought by Japan on the French government of Indo-China.

The plan recommended by Mr. Sheahan comprehended

(a) the construction and improvement of roads,

(b) the establishment of repair stations and supply stations,

(c) a system of traffic control using the already completed telephone system,

(d) a continuous addition to the trucks in operation, and

(e) training of truck operators, engineers, road builders, and mechanics to operate this system.

2. A. Construction of Road System.

The internal road system of Free China has been constructed by conscript Chinese labor, fed, clothed, and paid a small pittance by the Chinese Government. They have lacked the usual road building material and have had only the most primitive tools.

These roads have been constructed under war conditions with the construction gangs and operators of the trucks subject to bombing and machine-gunning by the Japanese aviators.

Regraded Unclassified

An example of the difficulties caused by the war is the cutting of the Dong Dang-Nanning road by the Japanese occupation of Nanning on November 23, 1939. The capacity of this route had increased from carrying less than 5,000 tons a month in the summer of 1939 to 18,000 tons in November. The Japanese occupation of Nanning completely blocked this route.

B. Roads Now in Operation.

(1) Connecting with the Russian road:

(a) Lanchow-Fenghsien-Paocheng-Chengtu-Lungchang-Chungking,

(b) Lanchow-Sian-Nanyang,

(c) Lanchow-Fenghsien-Nancheng-Laohohow

(2) Connecting with the route through Indo-China:

(a) Caobang-Hochih-Kweiyang-Chungking

(b) Caobang-Hochih-Liuchow-Changsha

(3) Connecting with the Burma highway and the railroad from Indo-China:

(a) Kunming-Lungchang and then branching off to Chengtu or Chungking

(b) Kunming-Kweiyang-Chungking

(c) Kunming-Kweiyang-Chungteh and then north to Laohokow-Nangyang or east to Changsha

Regraded Unclassified

The over-all mileage of this road system, (2) and (3), with which we are concerned, is estimated at 50,000 miles. These are all what we would call unsurfaced roads.

Stretches of the roads are subject to interruption in the summer rainy season, some by the heavy rains, others by the flooding of certain rivers. To meet this difficulty in the coming summer, road crews and equipment have been located at strategic points to minimize the duration of interruption.

It is obvious that a large part of the present road system would be economically unjustifiable if the natural routes into China were open.

C. Traffic on this Road System.

On February 1 there were approximately 13,000 trucks in Free China, only about 3,500 fit for service, others being repaired.

The traffic density compared with American standards is very slight and uneven. "Normal traffic" does not exist. Some of the roads are two-way, but these often have one-way stretches on account of land slides or narrow bridges. A few of the bridges are so narrow or weak that trucks cannot pass; cargo, in such cases, has to be broken and carried across the bridges by coolie and repacked on other trucks.

The traffic along the roads in the areas subject to bombing proceeds at <u>night</u>; the traffic along parts of the narrow Burma road can only proceed in daylight. Trucks proceed

Regraded Unclassified

singly, in small groups or in a motor cavalcade of 10 to 15 trucks.

At present on account of the Japanese occupation of Nanning the bulk of the trucks, 2,400, are operating on the Burma-Kunming-Laokay and Kunming-Chungking routes with only a small number of replacements, 40 to 50 trucks, lightly loaded, with their own gasoline, coming up from Haiphong to Caobang and then taking to the new, back roads connecting Caobang with Kweiyang and Chungking. These operate mainly at night. Those on the Burma stretches operate mainly in the day time.

Two round trips a month, barring accidents or refits, between Lashio and Kunming or Kunming and Chungking is about the best that can be expected at present.

A bird's-eye view of 24 hours operation on this road system would show activity at night on the Haiphong-Caobang route of about 20 cars. The remaining 2,400 operate as follows: Some night traffic on the two way sections from Kunming to Chungking. In the day traffic operates on the Kunming-Chungking and the Kunming-Burma sections. Mr. Sheahan hopes these routes will be safe for day and night operations soon; and that operations on them can go on 24 hours a day, using three drivers on each truck in relay, each of whom will drive 8 hours.

Regraded Unclassified

3. Railway and River Routes:

A. Burma

The Burmese Railway has always been able to deposit more freight at Lashio than the trucks were able to carry away. The Chinese cannot afford to antagonize the Burmese Government by not using the railroad. The situation is further complicated by internal Burmese conditions. The Burmese Government fearing revolt wants all stores of supplies -- particularly military -- to be under its control at the rail-head, Lashio, which is an isolated city well guarded by English soldiers.

The capacity of the Irrawaddy River would only be limited by the junks available, and it will always be a stand-by route if the Burma railway is put out of commission. Otherwise it probably will not be available.

B. Indo-China

The importance of River Rouge water route is that its head of navigation is only about 50 miles from the Yunnan tin mines. By using junks, which the Chinese are now building, it should offer an expeditious route for tin exports. The usefulness of this route is obvious.

The Indo-China railway parallels the River Rouge. The Indo-China Government would probably resent the diversion of any freight to the water route unless the railway is operating at capacity. The railway can deliver more freight at the

Regraded Unclassified

Indo-China border than can be transported by truck, mule team, and coolie at present. Therefore, the river routes normally will not be useful unless the railway is interrupted or the capacity of the Chinese transport system is much increased.

It is temporarily very useful to relieve the present congestion of freight in Haiphong accumulated by the excessive delivery of sea-borne freight, the occupation of Nanning, and the interruption of the railway by Japanese bombing and by landslides.

C. Estimated Capacity

The estimated total freight entering China by the Indo-China and Burma routes for February probably totaled about 10,000 tons a month. With the proper functioning of the transport system this can be easily stepped up to 30,000 tons a month. After the summer rainy season, in October, it should be possible to achieve 50,000 tons a month in each direction. This amount is a possible goal since in November (before the Japanese cut the Indo-China-Nanning road and bombed the French railroad) 30,000 tons were shipped to China through Indo-China alone. (Source: Consul's report)

Indo-China Routes:

(1) Haiphong-Kunming Railroad.

Maximum capacity by April should be 24,000 tons a month in either direction. The maximum transported in the past was 15,000 tons in December, 1939. (Source: Consular reports and Mr. Sheahan)

Regraded Unclassified

Due to bombings, it transported about 2,000 tons in January, 3,000 tons in February. With the improvement of the transshipment system across breaks, it should achieve at least 6,000 tons a month.

A new highway being built from Kunming to Laokay at Indo-China border, (ready in July according to the Chinese, September according to Mr. Sheahan) will make possible the full utilization of the railroad's capacity of 24,000 tons.

(2) Caobang Road.

This highway opened in January, 1939. It is a one way road and is being used as a route over which new trucks are driven into China. Its capacity is about 50 trucks a day. These trucks carry their own gasoline.

(3) River Rouge

This river is navigable into China. Its potential capacity is unlimited. It cannot, however, be used in the summer rainy season. The Chinese are now rapidly constructing junks to use on this river. For transport into the interior of China from the head of navigation, dependence will have to be placed on the new highway being built from Laokay to Kunming (mentioned in (1) above).

Regraded Unclassified

Burma Route.

5,000 tons were transported into China by this road in December. If sufficient cargo is landed at Rangoon, the road could carry 18,000 tons a month (according to Mr. Sheahan). There are enough trucks available for this volume.

The feeders for the road are the Burma Railroad with a capacity of 25,000 tons a month and the Irrawaddy River whose capacity is unlimited. (Source: Consular reports and Mr. Sheahan)

4. Recommendations, Future Development.

It is certain that Japan will continue to disrupt the Chinese supply system wherever possible. Kunming, the junction of the Burma-Indo-China-Chungking road system, is in easy bombing distance of Nanning. It should be protected by anti-aircraft guns. But most of all, the Japanese in Nanning should be continually harrassed by guerrillas in an effort to force their withdrawal.

The roads in rear of the Ichang defense line will not be improved because they might facilitate a Japanese advance on Chungking. This is a wise procedure.

Apparently, some Chinese officials are diverting railway cars at Haiphong to carry their own merchandise. Representations should be made to Chiang Kai-shek to stop this graft.

Regraded Unclassified

Some traces of oil were discovered in the northwest part of China. Efforts should be made to explore these possibilities and develop them if possible.

In spite of all of the difficulties, a great deal has been accomplished in road building and keeping the line of communications open to the outside world. We should encourage the Chinese to continue this development. Although they are very incompetent in some ways, they have shown an endurance and determination to succeed that is worthy of the highest praise.

Mr. Sheahan stated that in Free China material conditions were much better than in Japanese occupied China. We have other reports confirming this, which indicates that Chiang Kai-shek has been able to maintain a better standard of economic life in Free China than in enslaved China. If he continues to maintain this better standard, he will eventually force the evacuation of the Japanese.

According to Mr. Sheahan, the supply of gasoline in China is very low and the forwarding of gasoline over both the Burma and Indo-China routes should be given priority over every other commodity.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 9, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Possible Negotiations Between Russia and Finland

1. Newspaper reports indicate that mediation is now going on between Finland and Russia. Ostensibly Sweden is the motivating factor. Undoubtedly Sweden is acting as broker. I believe Germany is the main spring of this move. The old Prussian Army Corps has bitterly resented the invasion of Finland. They have kept pressure on Hitler to liquidate this war. Apparently he is about to succeed.

2. I am convinced that unless Britain and France immediately decide to give assistance to Finland, Finland will have to sign some sort of a treaty with Russia.

3. Early in the Finnish-Russian war the Finnish Ambassador asked the good offices of the United States. At that time our State Department thought mediation was hopeless. I believe Mr. Steinhardt is now assisting in these peace moves. And while it would be to the immediate advantage of Finland to sign up with Russia, I am unconvinced that Finland can depend upon Russia's word. In short, Finland may expect the Soviet to return at a more convenient time to finish up the job.

To refresh your memory, I enclose memorandum of February 29.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Peace Negotiations of Russia and Finland

Mr. Kamarck learned from Colonel Magruder that Mr. Steinhardt had reported to the State Department that the peace terms were entirely territorial and did not involve any political consequences.

There was a press report from Copenhagen saying that peace terms had been agreed upon and would be submitted to the Finnish Parliament.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Negotiations between Von Ribbentrop and the Vatican.

The following is quoted from a United Press report of March 9:

"Commenting on the fact that the Pontiff will grant a private audience to Ribbentrop, reliable quarters said that relations between the Nazis and Catholics have improved steadily since the Pope's election and that both wish to give expression to the improvement. It was expected that the Pope would discuss peace with Ribbentrop and that the German Foreign Minister would outline the German attitude to the Pope."

In connection with the negotiations now going on between Von Ribbentrop and the Vatican, the following is offered from Dr. Riezler, written on February 25 before these negotiations were announced:

"The Pope may not be overly hopeful for peace. But that is because he knows that the British refuse -- for the time being -- any idea of a compromise with Hitlerism. We may fairly assume that he (the Pope) would like such a compromise, he is not against Fascism. The Catholic Church made a very good bargain with Italian Fascism -- strengthening its position in Italy a good deal. The Pope likes dealing with governments, not with people and elections

Regraded Unclassified

and public opinions -- a deal with a more moderate Nazi Government for the sake of peace -- with some concessions to the Catholic Church for good service in mediating peace -- would be in his line.

"Being a Roman from a second-rate family and idolizing 'the old style of diplomacy', he (the Pope) has no democratic vein. The attitude of the Vatican concerning the atrocities in Poland is -- Polish influence in a minor question -- due to the Cardinal of Posen Thond and the 'General' of the Jesuits, Count Ledschoski.

"The Catholic Church in Germany is a wealthy machine, distributor of many good jobs (on the expense of the Government) and very formidable. The majority of the Bishops is rather cautious, the anti-Nazi attitude is left to the minor jobholders, who put up a good fight and are not at all content with their Bishops. The Pope is still more cautious than the Bishops.

"Moreover, there is Italy. The Vatican will always keep in line, not with every single action of Italian policy, but with its major interests and main goal of action."

Comment: I am inclined to agree with Dr. Riezler, and I do not think the Vatican will risk a rupture with Germany over the Catholics in Poland but will rather continue a somewhat opportunist line of negotiations.

I am more and more convinced that Dr. Riezler is extraordinarily accurate in his predictions of the actions of European officials whom he formerly knew.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

A flash has just been received from London that Prime Minister Chamberlain told the House of Commons that the British Government had informed Finland that it was prepared to send them all possible military assistance.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

From the same source as the report of this morning comes the following:

Copenhagen reports peace concluded between Russia and Finland. Moscow and Helsinki announcements imminent.

Comment: Apparently Chamberlain's overture came too late.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 11, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

I canvassed the situation today with Mr. Hickerson, Assistant to Mr. Pierrepont Moffat, who is now in Europe with Mr. Welles. The following are some of the points brought out.

1. Mr. Hickerson does not believe that the Germans will start an offensive on the Western Front this spring, largely because they are not yet feeling sufficient pressure from the Allied blockade. He makes one reservation: no one can predict what Hitler will do, and therefore it is always possible that the Germans will attack.

Apparently the State Department has been receiving the same rumors that we have about a possible German offensive and are still skeptical of the actual development.

Colonel Magruder, of Military Intelligence, told Mr. Kamarck this morning that he did not believe the Germans would attack the Maginot Line this spring. He qualified his statement as follows:

a. Hitler is unpredictable.

b. The political condition in Germany might be worse than we know.

c. The Germans might have a new gun capable of smashing the French defenses.

He did not believe the political situation was acute nor

Regraded Unclassified

that the Germans had a new weapon.

2. Mr. Hickerson does not believe that Germany or any other country can put any faith in Stalin, and while the settlement of the Finnish war would leave the Soviet Government in a position to help Germany, he does not think Germany will receive very much assistance from Russia.

3. He believes Italy will remain neutral and will not enter the war on either side unless and until it is apparent that that side is about to win. In that event, Italy would overwhelm the winning side with offers of assistance at a price.

4. He said Turkey had been receiving much assistance from England and France but would still remain neutral if possible. But if Russia goes into the Balkans, he was convinced Turkey would become alarmed and would allow the British and French to enter the Black Sea. He made the following reservations: Turkey would not move if Russia reoccupied Bessarabia, but if Russia goes farther into the Balkans Turkey would move. And if Russia offered to assist Bulgaria, he thought Turkey would not only open the Dardanelles to Britain and France but would request them to come to her assistance.

5. There is nothing very new about Mr. Hickerson's views, but they indicate that events in Finland have not altered the situation in the Balkans; except that they may free Russia to recover Bessarabia, which she probably could obtain without stirring up much opposition, for even Rumania might passively accept the reoccupation of Bessarabia.

Regraded Unclassified

6. Concerning the possibility of the negotiated peace, Mr. Hickerson would not rule out the possibility, provided Hitler was removed. He thought Goering would be more accommodating and might offer terms that would be acceptable to England and France. He qualified this statement, however, by stating that several British officials stated that one bunch of gangsters in Berlin was just as bad as another.

7. Unquestionably a peace between Russia and Finland now will be another feather in the cap of Hitler, will reduce the chances of internal discord in Germany, and will insure a supply of Swedish iron ore to Germany. These are important factors. Nevertheless, the basic problem remains the same -- can Germany depend upon Russia to supply food and raw materials? It has been assumed that Germany would get the Swedish iron ore, and the fact that she will now surely get it only negatively improves her situation.

There is one disadvantage to Germany of a Russo-Finnish peace that may prove to out-balance the advantages: Russia will have secured her position in the Baltic and to that extent will be more independent than ever of Germany. If Russia now turns southeastward and secures Bessarabia, she will have accomplished her original territorial objectives. She could then consolidate her position and give Germany as much or as little assistance as she liked.

It may be that Russia is going to act in good faith and supply Germany with food and raw materials that are still

Regraded Unclassified

needed, but I am very skeptical of any such good faith on the part of Russia.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 12, 1940

TO Secretary Morgenthau

FROM Captain Pulestom

Subject: Discussion with Mr. Dunn about European Situation

1. This forenoon I discussed the entire European situation with Mr. Dunn. I gathered that the State Department believes that there will be peace between Finland and Russia and that this will be a feather in the cap for Hitler and insure Germany a supply of Swedish iron ore.

Mr. Dunn did not rule out the possibility that the Finns might refuse the Russian demands, particularly in view of the aid offered by England and France. My own opinion is that Finland will accept the Russian demands. Even when Finland was apparently winning this war, she requested the good offices of the United States to mediate. The Finnish authorities know that they can not hope to defeat Russia, they realize the unwillingness of Sweden and Norway to take any risks in their behalf, and they can not afford to depend too heavily upon England and France.

Russia will be happy to get out of this adventure without any more losses. Her new positions will enable her to renew the war under more favorable conditions later, if she so desires. The two parties to the war both wishing peace will probably have no trouble in finding some solution.

Regraded Unclassified

2. Mr. Dunn did not think there was any basis for a peace between England and France on the one hand and Germany on the other. I gathered that Mr. Welles had been so informed in France and probably in England.

3. Mr. Dunn attached considerable importance to the visit of Von Ribbentrop to the Vatican. He thinks Von Ribbentrop has made definite offers that it will be difficult for the Vatican to refuse. Nevertheless, the Vatican let it be known that the interview was at the request of the German Ambassador in Rome and has allowed hostile comments to be made about the visit. Hitler is now the nominal head of the largest Catholic state in Europe. It will be difficult for the Vatican to refuse to deal with him, particularly as the Vatican has never differentiated between any formsof government and has dealt in the past with any government that does not impose upon Catholic citizens.

4. Mr. Dunn said that the State Department had impressed upon Dr. Rist and Mr. Ashton-Gwatkin the necessity for observing the neutral rights of Americans. He said the State Department would reserve all our legal rights in the questions that arise between the United States and the Allied powers. The State Department had also invited the attention of these representatives to the danger of offending American public opinion, which is now very friendly to the Allies. Tomorrow afternoon Messrs. Rist and Ashton-Gwatkin will confer again with the State Department on current controversies.

W. D. Puleston
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 12, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Situation in Russia

The following extracts are from translations of Russian papers made by Mrs. Tarantini, former secretary of Countess Tolstoy:

From **THE RED FLEET**, official organ of the Russian Navy:

"Unfortunately, the work of political commissars in the Red Fleet even now is not coordinated with the ships' code." (Probably Navy regulations.)

"Only when communists will be at the head of the technical work a real communisation of the Navy will be reached. At present the major part of the commanders are not members of the Communist Party. That is why they need an assistance of a political commissar. But the political commissar is at the same time a sailor or a commander of a lower rank and is subject to the commander of the ship in his routine work, although his chief (senior) in the political line. This creates disorganisation."

Somewhat similar criticisms are noted in the **RED STAR**, the organ of the People Commissariat of Defence. The editorials in the **RED STAR**, as well as many other articles, refer to the work of the communist organization in the Red Army and to the necessity of improving technical knowledge. These articles are contradictory.

Regraded Unclassified

They say that the Red Army is "the best army in the world", that "the most characteristic features of a red soldier are courage, intelligence, and readiness to sacrifice his life for the country", that "the political education of the Red Army has reached the highest level".

At the same time these articles admit "a disastrous lack of discipline, the need of thorough understanding of duties, a demoralising influence of political commissars, who in many instances fail to execute orders of military commandment."

Both the RED STAR and the RED FLEET complain that not only the regular soldiers and sailors but the officers of high rank and members of the communist committees have a very slight idea about the principles of the Party. They strongly recommend a study of a short history of the Communist Party.

The headquarters of the Leningrad Military District regularly deny the reports of the foreign press, stating that not a single plane has ever flown over Russian territory. There is a long article describing the brutality of the Finnish White Bandits and an article on the construction of U-boats in Germany.

The RED FLEET carried a quotation from the DAILY WORKER stating that the organization of students in Chicago approved unanimously a resolution condemning the drive of American reactionary groups to help Finland.

W. W. Tuleden

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 12, 1940

TO Secretary Morgenthau

FROM Captain Puleston

The following is from the same source as the information of yesterday:

"Moscow advises peace will be signed between Russia and Finland at 4:00 P.M. this afternoon." (Our time)

W. D. Puleston.
W. D. Puleston,
Captain, U.S.N., Retired.

P.S. Don't know how accurate this is!
W.P.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 14, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: News Flash from New York

Norway, Sweden, and Finland have just signed an alliance against any other power.

Comment: If this is true, it is probably the price Norway and Sweden paid Finland for bringing this war to an end.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

NOTE: This was received March 13, in late afternoon and published March 14 -- the flash was modified to a proposal by Finland for an alliance - subsequently confirmed.

Memorandum not shown to Secretary Morgenthau.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE March 14, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Military Situation in Europe

I went over the military situation with Colonel Magruder, of the Military Intelligence Department. The following are the high points:

1. He does not think the difference in air power between Germany and the Allies is sufficient to enable Germany to knock out the United Kingdom in the spring. The proportion of bombers shot down by fighting planes that succeeded in getting within 250 yards of the bombers was almost 50 per cent (16 out of 34). Out of the remaining eighteen, three or four were shot down.

Our Curtiss planes that have been supplied to the French have been so formidable that German aviators frankly do not like to fly over the French lines where they are apt to meet them.

(Comment: We are about to supply the French with an improved Curtiss.)

Germany could undoubtedly neutralize the port facilities of London, but the British and French bombers could do equal or greater damage to the industrial cities along the Rhine, where most of the German heavy industry is concentrated. Colonel Magruder

Regraded Unclassified

is definitely convinced that the Germans do not dare to initiate an all-out aviation war.

2. Military Intelligence war-gamed a problem based on the Germans going through Holland and Belgium and came to the conclusion that no good military officer would recommend such an attempt. He said it would be preferable for the Germans to attempt the Maginot Line, but he thought that would also be a failure.

3. Colonel Magruder thought the British and French were slowly (very slowly) closing the gap between their aviation and German aviation. While he thought the Germans could hold out a good long time, he did not see how they could defeat Great Britain and France.

4. With these leading thoughts I entirely agree. Hitler and Stalin are able to do many things in eastern Europe and to threaten many of the smaller powers that are their neighbors; but Germany and Russia together can not overcome France and England.

5. Colonel Magruder does not think there is a basis for a peace between Great Britain, France, and Germany. Various factors have temporarily increased the prestige of Germany; that is simply one of the fortunes of war. But in the essential factors -- army, navy, and aviation -- the balance is still on the side of France and England.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 14, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

1. The Germans and Russians are celebrating their triumph over Finland; public opinion in England and France is definitely depressed. Yet on sober calculation England and France have relatively gained in strength and Germany has lost because the Finnish War occurred. The Russo-Finnish peace can only be construed as assisting Germany in a negative sense: the peace put an end to a situation which was sapping Russia's ability to sell supplies to Germany and which carried a potential threat to Germany's iron ore supplies.

A more important event passed unnoticed in the tumult in the press regarding Russia's triumph. Almost simultaneously with the conclusion of the Finnish war, Italy accepted in principle the British seizure of German exports. This is a real triumph for the British government, for Italy is the strongest European neutral. Italy's tacit acceptance of British confiscation of all goods of German origin in neutral ships means that all other European neutrals will accept it. This is a triumph of British sea-power and diplomacy which will enable the Allies to exercise their command of the sea ruthlessly and will increase the pressure on Germany.

Regraded Unclassified

The Allies can not boast of this great victory without mortifying Mussolini, but their triumph is not only a great one but it indicates that Mussolini, who is very well informed, doubts the ability of Hitler to win.

2. The terms of peace expose Finland to eventual destruction by Russia, but the stout resistance put up by the Finns has convinced the Russians that it is better for them to negotiate than to fight with Finland.

3. Russia's real gain is her strengthened position in the Baltic against a possible German advance. The construction of Russian fortifications on the peninsula and island of Hango, while galling to the pride of Finland, only adds one more to the numerous avenues of invasion into Finland from Russia. The Russian fortifications on Hango will deny the Germans access to the Gulf of Finland. Therefore, Russia today is definitely more independent of Germany than she has been before. And if Russia takes advantage of her war experience to improve the tactical training and leadership of her army, she will still further strengthen her position in the Russo-German association. That is to say, Germany has postponed but has not averted a showdown on the question of whether the firm is Stalin and Hitler or Hitler and Stalin.

4. Russia will accept German assistance in reorganizing her transportation and improving her industrial system, and

Regraded Unclassified

will pay for these services with supplies. But the Soviet officials will maintain control of Soviet railways and industries; and while the Soviet Army can not be compared in quality with the German Army, it is numerically much greater and can put up a stubborn, and I believe a successful, opposition to any invasion of Soviet territory.

Stalin knows that the German-Russian association is a marriage of convenience, and he knows that a German advance into the Balkans would be harmful to Russian interests. Stalin is not going to yield Germany any advantages in the Balkans.

5. The eventual decision of Italy will not be affected by the Russo-Finnish peace but by events in the Mediterranean or Balkans. If Germany moves into the Balkans, Russia will march on a parallel column to the eastward of her, and Italy will be thrown into the arms of England and France. Turkey is already signed up with England and France and can be depended upon to oppose the advance of Russia.

6. If Germany marks time and depends upon supplies from Russia and the Balkans, the relative military strength of France and England will continue to improve. In the autumn of 1940 or the spring of 1941, French and British aviation should be approximately equal to the German aviation. The British army in France is now 330,000 men. In another six months England could lay down a million men in France.

Regraded Unclassified

7. The German attacks on British shipping already made justify British and French bombings of the industrial cities in the Rhineland. By the autumn of 1940 or the spring of 1941 the industrial cities of France and England should be ready to resist fairly well any German bombing attacks. The French and British can then attack German munition industries and strategic railways and probably force Germany to attack the Maginot Line. If Germany does attack in the west, she will find an indifferent, and possibly treacherous, ally in Russia. The British and French have resisted the temptation to indulge in premature offensives and have steadily built up their strength. Their strategy has been slow and sound if not brilliant. They should be able at the proper time to put enough pressure on Germany to force her to take the offensive.

8. The British and French know that they can not get a reasonable peace from Germany today. Further, if Hitler signed a treaty, they know they could not depend on him to carry out its provisions. The governments of both England and France know that the war must go on or they must live in Europe on Hitler's terms. The people of England and France realize the situation and, at present at least, are prepared for the necessary sacrifices.

9. So far as the finances are concerned, every study of the resources of the British and French Empires indicates that

Regraded Unclassified

they can sustain the war for an almost indefinite time, certainly much longer than Germany. There is nothing in the German attacks on Allied merchantmen to indicate that they can reduce supplies to a point where the Allies would have to negotiate a peace.

10. The big unknown in the problem is aviation. The only way that Germany can win a quick victory would be by destroying British railway terminals and enough British merchantmen so that the United Kingdom could not be supplied. The possibility of the German aviation being able to do this is so remote that it is scarcely necessary to consider it.

11. England has always gone about war-making in a deliberate and often in an inefficient manner. She will probably make many mistakes and will unquestionably irritate us with some of the measures she uses to put economic pressure on Germany. It is undoubtedly to the interests of this country for England and France to win this war, and there is nothing in the military, naval, or aviation situation that on sober analysis indicates anything but an Allied victory. To realize how well France and England have gotten on with this war it is only necessary to compare developments since September, 1939, with the first six months of the 1914-1918 war and to note the number of mistakes France and England made then which they have avoided in 1939-1940.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 15, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Conversation with Dr. Rist

Dr. Rist is leaving this afternoon for New York, so immediately after my conference with Mr. Ashton-Gwatkin I went to see Dr. Rist.

I was immediately impressed with Dr. Rist's intelligence. He gave me a distinct impression of having a superior mentality. Mr. Ashton-Gwatkin is a highly intelligent man, but I felt that Dr. Rist was at least one rung higher.

He was very frank in his demeanor and answers. He came directly to the point and raised the identical question -- copper to Germany via Russia -- that Mr. Ashton-Gwatkin had raised. He was very anxious that we do anything we could to stop it.

He was also aware of the increase of exports to Belgium, Holland, and the Scandinavian countries since the war. He said he got those figures from our export returns and that, while some of these may have been intercepted, undoubtedly much of the exports, particularly fats and their substitutes, such as soy beans, were going into Germany via the neutral countries. I am convinced that he is right in that, for we had been watching

Regraded Unclassified

the traffic here and had come to the same conclusion.

I asked him practically the same questions and got practically the same answers that I had from Mr. Ashton-Gwatkin. They are collaborating very closely. When I suggested to him that sometimes unnecessary irritation was caused by untactful methods of exercising sea power, he agreed and said that he and Mr. Ashton-Gwatkin were over here to find out just what they could do to lessen any hardship on our shipping.

I then asked him some questions about the morale of the French people. He said their morale was high, both at the front and at home, but volunteered that the strain of the war was already very great. In his own family two of his sons are still at the front; two others are mobilized but on account of their age have been sent back into the zone of the interior. Then he volunteered the information that the morale of the Germans was also still high. He is an Alsacian and said he had German relations and had had German friends and that he still had friends in Switzerland who were in communication with Germans at home; the best information he could get was that at the present time the Germans were solidly behind Hitler and were denouncing Great Britain as a would-be destroyer of the German people and the German Reich.

He was convinced that the Germans would not attack on the Western Front, that Hitler believed the German people would

Regraded Unclassified

out-last the French. He held the contrary opinion but said that he could not truthfully say he expected a short war. He was confident of victory for the Allies, but thought they would have a long, hard fight. He saw no chances for a negotiated peace at the present time.

He, too, was well aware of what you have done to facilitate the purchase of airplanes and asked me to express to you his appreciation and to say that he would be happy to give you any information that you desire.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 15, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Conversation with Mr. Ashton-Gwatkin

I spent about an hour with Mr. Ashton-Gwatkin in the British Chancery. The following are the important points covered:

1. He told me that the British had definitely arranged to supply coal to Italy, provided the Italians supplied the colliers. In return the British had to accept agricultural products, mainly fruits. The Italians refused to supply munitions.

In response to my question about the amount of coal the German railroads could deliver to Italy, he said they would be pleased to think that the German railroads were diverting that much of their rolling stock. He seemed to feel pretty well assured about the position of Italy, although he volunteered the thought that Mussolini would not be pleased to see the overthrow of Hitler, because the prestige of Fascism would be lowered if Nazism was overthrown.

2. The most significant fact was an almost aside. He said that the bottle-neck of British traffic was already merchant ships. To be sure that this was not a slip of the tongue, I asked if the problem of ships' bottoms was becoming acute. He

Regraded Unclassified

said that they were already feeling a scarcity of tonnage.

I believe that the reason for the scarcity of bottoms is due primarily to the strenuous effort they are making to buy within the Empire, and of course this is due to their lack of foreign credit. Sooner or later, they will have to abandon all circuitous hauls and route their traffic by the shortest route. For example, they will have to buy their wheat from the United States and Canada simply because it can be delivered in Liverpool in a shorter length of time.

3. He was very much concerned over the reported exports of copper and tungsten to Russia. He assumed that the copper and tungsten were relayed on to Germany. He is probably correct. It is reported that the Trans-Siberian Railroad has been double-tracked, and it is quite possible that valuable material, like copper, could be delivered in Germany at not too great an expense.

I also found when I called on Mr. Rist that he had received a message from Paris about the export of copper to Russia. It is evident that both Paris and London are very much worried about this export. I also read in the despatch from Berlin that Goering had issued a call for everyone to collect the old copper in Germany. There is not so much old copper in Germany, because it was all collected from 1914-1918.

No substitute for copper can be used in cartridge cases. We should do all we can to obstruct the flow of copper to Russia.

Regraded Unclassified

4. Mr. Gwatkin told me he had talked with Secretary Wallace about the possibility of taking more of our agricultural products. He said they would take all they could get if they could get them on credit. I suggested that they might pay an installment of their debt owed to us, even a small one. He said he had already recommended that to his government some time before.

5. He told me their experts figured that their exchange would last until about the end of 1941 if it were used only for munitions of war. I told him that I had seen studies that indicated they had greater resources than this indicated, and he said that they had plenty of resources but they were undeveloped. I did not go any further into that phase of the discussion, but I believe they have other assets besides their American securities and gold. For example, they have many South American securities that should be as negotiable as our own.

6. He repeated several times that he and his colleague were over here primarily to find some way of smoothing out any objections on the part of Americans to the exercise of belligerent rights, and asked me for suggestions as to what he could do. I told him that I was not prepared to be specific but that I could say that there was a great deal in the manner of exercising sea power, and they should be very careful in their methods.

He asked me about the searching of mails; I told him that I knew nothing about it, but that I did know that during

Regraded Unclassified

the last war there was a strong feeling among American exporters that their British competitors were given information on business secrets obtained through searching the mails. He assured me that that was not done and later on in the conversation asked me if we would consider appointing an American representative to witness the seizure and censorship of mails. He asserted, and I think correctly, that it was absolutely essential for them to interrupt the German mail or the mail from German agents in the United States. They already had obtained very valuable information and could not abandon the practice.

He reminded me that we had done the same thing during the World War. I assented, because I knew we had.

7. I told him we had already given evidence of our good will in facilitating the sale of airplanes and protecting them from exorbitant prices. He agreed very heartily and said they are aware of this and deeply appreciate it. I told him that the administration had only been able to do this because public opinion in America was at this time in favor of the Allies, but if there are undue restrictions of American trade there would be hostile reactions in American opinion that might prevent the administration from continuing this help. He said he was aware of this and that was why his government had sent him over here, and that he would do everything in his power to keep from hurting American interests.

Regraded Unclassified

8. I told him that we were a little concerned about the effect of the British and French agreement on our export trade with neutral countries, that in their effort to increase their exports they might hurt our exports , and that we are a trading nation, easily aroused over interference with our trade. He said they would be very circumspect in that field but hoped we would remember that they were at war and that they would have to maintain their exports in order to preserve their credit. He again led to the question of obtaining credits in this country and asked if they could get credits to purchase agricultural products. I reminded him of the Johnson Law but told him that I thought if they could get credits at all it would be easier to get them for agricultural products, because we have a surplus.

9. He asked me to present his compliments to you and to say that he was aware of your friendly attitude and the assistance you had already given the Aviation Commission. He will leave soon for New York and asked if he could see me again on his return. I told him that I would be glad to see him at any time after he returns.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 18, 1940.

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Further Comments on the Conversations with Mr. Ashton Gwatkin and Dr. Rist

1. United States Copper Exports to Russia.

The fact of increased United States exports of copper to Russia is not per se a proof of transshipment to Germany. As a matter of fact, increased United States exports of copper to Russia as a result of the outbreak of war was to be expected.

As closely as it can be estimated, Russia is still dependent upon imports for roughly one-third of her requirements. Up to the outbreak of the war Russia imported the bulk of her foreign copper from England and Belgium. With the war these sources have naturally been cut off, and Russia has had to shift to the American market for her copper.

According to the best available sources, Russia imported in 1938 around 100,000 tons of copper. Less than 1,000 tons were imported from the United States. In addition to meeting its normal peacetime demands, Russia unquestionably now has an additional demand due to the war in Finland, increase in the size of her armed forces, and probably a desire to build up her strategic reserves still higher.

Regraded Unclassified

Since the war our exports of copper to Russia have been increasing. For the whole year 1939, our total exports to Russia were 25,000 tons, most of which occurred after the beginning of the war. In January, 1940, we exported 25,000 tons to the Soviet Union but only about 6,000 tons in February.

If the 25,000 tons rate per month continued for a number of months, we would be able to infer with some degree of certainty that transshipment to Germany was occurring. But the present statistics do not indicate more than that the United States is replacing England and Belgium as a source for Russian copper imports -- unless the Soviet Union is curtailing her own consumption to favor Germany's needs.

2. Request for Credits.

An allied request for credits at this time is wholly unwarranted. Their resources for purchases in this country are immensely greater than they were in 1914, as shown in the accompanying table. In addition, the value of their gold production is more than double what it was in 1914.

The policies of restrictions, Empire buying, blocked sterling and forced exports which the Allies are following would be more appropriate after several years of intensive warfare had elapsed than they are now.

Regraded Unclassified

In view of the fact that the French have not even made a serious pretense of mobilizing the foreign holdings of their citizens, a request for credits from France is particularly out of place.

3. The only reason, from the American point of view, for advancing credits to the Allies would be to permit them to purchase agricultural products that they are at present unwilling to purchase.

In my opinion, the time may soon come when Great Britain will have to purchase all her wheat from Canada and the United States, on account of a shortage of merchant ships. When this situation arises, it may be necessary to extend credits to the Allies, but even then we should make sure that they have exhausted their cash resources. In this connection it is interesting to note that the wealth of Great Britain was greater in 1928 than in 1914, in spite of the expenditures of the World War, (1914: £14,500 million and in 1928: £18,175 million). Sir Henry Maine, an English historian who devoted much time to political economy, said that wars did not destroy wealth much faster than consumers goods were consumed and so-called permanent investments became obsolete. Historically it is certainly true that industrial and commercial countries rapidly recover from the economic effects of war.

Regraded Unclassified

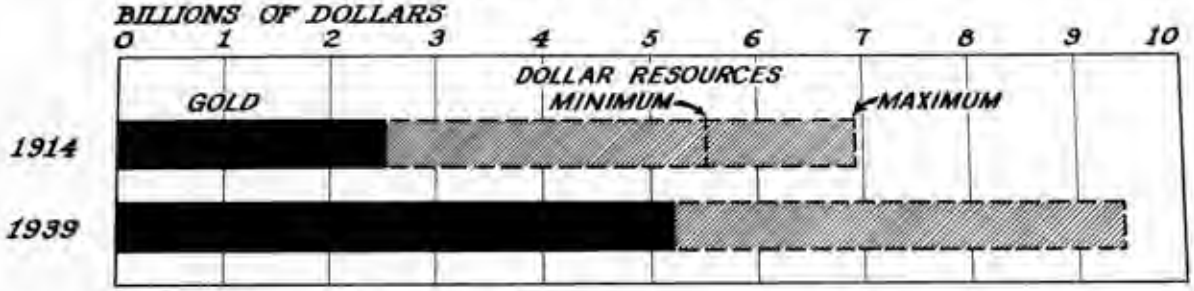
It is unquestionably in our interest to help France and Great Britain win this war, and we certainly should not profiteer at their expense nor quibble over details; on the other hand, they should pay for this war as long as they are able. There is no economic or military reason why they should not win, and they can well afford the cost.

W. D. Puleston

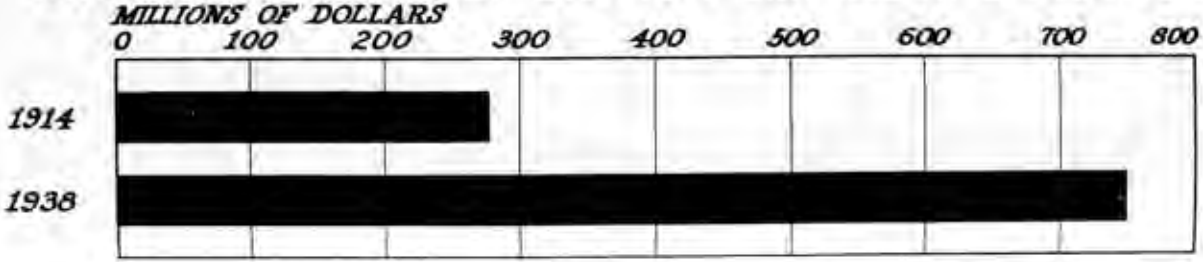
W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

GOLD AND DOLLAR RESOURCES OF THE UNITED KINGDOM, FRANCE, AND CANADA, 1914 AND 1939



GOLD PRODUCTION OF BRITISH EMPIRE AND FRANCE



Source, Board of Governors of the Federal Reserve System

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 18, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

1. The unexpected conference between Mussolini and Hitler in the Brenner Pass and the clumsy efforts made by the German Ambassador to Rome to suggest that he had sat in the conference with Ciano and Welles is typical of the Hitler-Mussolini "diplomatic squeeze" play. Our newspaper men have accepted these various motions at their face value and have given the maneuvers a wide write-up in the press.

Certain elements in the United States, including some big business firms with branch factories in Germany, have allowed themselves to be convinced that a tolerable European peace is possible. In my opinion, any peace now would be a real victory for Hitler and Stalin.

2. I am convinced that the British and French Governments realize that no peace can now be made. I think they are somewhat bewildered by the coincidence of Welles' visit with the collapse of the Finnish resistance to Russia. The bewilderment of the government may be taken advantage of by a small group in England who believe they can make a tolerable peace with Hitler.

Regraded Unclassified

3. The efforts of international church groups, though praiseworthy in themselves, were also unfortunately timed and tended to give an impression abroad that the United States would throw its weight towards any kind of peaceful settlement. And amid the welter of talk, President Roosevelt's clear statement that only a peace that allowed little nations to live should be accepted probably passed unnoticed. The result of all the events has been to increase the morale of the German people, to give Hitler and his regime greater prestige.

4. Reports from England and France indicate that, although the French and British publics are chagrined by the events in Finland, they are more than ever determined to see this war to a successful conclusion. From a combat point of view, the only weapon that can defeat Great Britain is aviation, and there is nothing yet to indicate that the Germans are so superior to the British in aviation that they can hope to win a military victory.

5. Hitler is taking advantage of his temporary prestige and the liquidation of the Finnish problem to try to bring Mussolini and Stalin together. If Hitler could really form a cohesive military alliance between Russia, Italy, and Germany, England and France would be faced with a desperate, but probably not vital, situation. I do not believe Mussolini will join either side until the military situation has declared itself

Regraded Unclassified

decisively, which it certainly has not yet done. If Germany and Russia should gain a decisive military success, not only Italy but probably Japan could be induced to join, for the spoils available if the French and British Empires can be overthrown are very enticing.

6. The question is: What can the United States do to help Britain and France without actually becoming involved in the war? I suggest the following.

First, impress upon Italy that American influence is going to be thrown on the side of the Western Powers; that this will eventually, perhaps at a comparatively early date, ensure their success; therefore, Italy should secure the best terms she can and then join the Western Powers.

Emphasize to Italy that the American people will not sit quiet while Hitler and Stalin overrun the two democracies and make themselves rulers over Europe.

Our next measure should be to retaliate against Japan's abuse of American trade in China by increasing duties on Japanese imports into the United States, accompanying this action with naval maneuvers of the entire United States fleet in the area, Honolulu-Guam-Manila, and explain to the Japanese Government that the United States will not acquiesce in the indefinite occupation of the Chinese sea-coast and will under

Regraded Unclassified

no circumstances recognize the Japanese puppet government.

In this course of action, the Administration can depend upon Congressional and popular support. Probably Congress is ready to proceed faster and more determinedly than the State Department.

Simultaneously, Japan could be told that the United States would maintain a hands-off policy in her dispute with Soviet Russia. We should not endeavor to stir up strife between Russia and Japan, because, first, it is unnecessary; they are fundamental rivals and can be depended upon to start their own wars. Second, we are not successful intriguants; any such effort would probably prove a boomerang and bring Russia and Japan temporarily together, just as Chamberlain and Daladier maneuvered Hitler and Stalin together.

If the United States puts pressure on Japan, it would force her to relax her efforts against Free China and might enable Chiang Kai-shek to recover some of occupied China. Due to the over-extension of the Japanese army forces in China and the strain on the domestic economic system in Japan, a small addition to Japanese economic burdens might easily have a benumbing effect on the military machine, for there is nothing so vulnerable as an army whose offense is arrested before it has broken the will of the enemy to resist. If it becomes necessary for the Japanese to withdraw any of their armies,

Regraded Unclassified

the Chinese can recover the evacuated area at once and put increasing pressure on the remaining Japanese forces. The effect would be cumulative and might result in a Japanese debacle.

Under the existing circumstances, the Chinese are now compelled to accept assistance from Russia and to permit Soviet forces to occupy portions of China. If China regains her provinces now held by Japan, she can reopen communication with the outside world and will no longer be dependent upon Russia. The Chinese Government and people would then be free to insist that the Russians evacuate China.

The probable result of Japanese and Russian evacuation of China proper would be to accentuate the Russo-Japanese rivalry over Manchukuo and Outer Mongolia. Russia would be just as deeply involved in the Far East and no more prepared to exert herself in the Balkans or Near East.

7. Summary. On the assumption that American interests will be definitely injured by a Hitler-Stalin victory and that the American people are already aware of this and are prepared to assist England and France to the fullest extent without becoming involved in the European War, I believe we should

(a) Immediately inform Italy that we would not propose to see the Allies lose.

(b) Commence retaliatory measures against Japan.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 20, 1940.

TO Secretary Morgenthau

FROM Captain Puleston

Subject: What Mr. Sheahan Accomplished in China. (Based on Mr. Sheahan's files, consular reports, and conversations with Mr. Sheahan and Dr. Buck.)

Summary

Mr. Sheahan and his fellow experts did not work a revolution in China's transport system. The principal work done was in improving the technical details and organization of the transportation net. On the whole, no great improvement was immediately effected. However, the cumulative effect of all of these technical improvements as they are carried out will lead to a more efficient system which will go a long way toward keeping Free China going while a more permanent system of railroads is being constructed.

Recommendations

From the nature of the technical details affected, it will take some time before great improvement is shown. Therefore, it would probably be wise (for a few years until sufficient Chinese experts have been trained) to maintain an American advisor in China to follow through these recommendations and check up the decisions taken.

Regraded Unclassified

1. The American commission of highway experts as one of the most important results of their work brought out many of the pertinent facts about the Chinese transport problem.

The most important highways were inspected. An inventory was taken of the cargo at Haiphong and provision made for the maintenance of a perpetual inventory system here.

An extreme example of how necessary it was to ascertain the true picture is shown by the attempt of the Szechwan-Sikang Bank and Chong-Sin Transport Company to sell its fleet of "400 trucks" to the Government. Upon investigation this fleet shrank to 39 trucks.

2. A beginning has been made in the task of uniting all of the 14 civil governmental units engaged in truck transportation into a single organization.

The China Transport Corporation (C.T.C.) was set up in January, 1940 with the purpose of eventually centralizing all truck operations of the Chinese Government in its organization. Several large government truck operators are already participating.

The C.T.C. should result in eliminating some of the previous chaos and inefficiency. Situations which often occurred of trucks of one governmental department returning empty from trips while another department had cargo in the same direction which it could not move, should be eliminated in the future.

Regraded Unclassified

3. A planned organization of garages and repair shops together with the institution of proper maintenance procedures is being set up. (Locations plotted on accompanying map)

A plan for the establishment of a system of shops and garages on the Chinese highways is being carried into effect. One of the American experts, Mr. Van Patter, is devoting most of his time to the actual setting-up and operation of this system. A proper maintenance procedure which should add many miles to the running life of trucks is being adopted.

In view of the fact that 33 percent, on an average, of the Chinese trucks have been awaiting repairs, an efficient, well-planned system of repair and good maintenance routine should cut down the large number of idle, crippled trucks and prolong the useful life of all the trucks.

4. Central stores of spare parts and equipment to be administered by the Foo Shing Trading Corporation are being established.

In addition to a third of the total number of trucks awaiting repairs, another third has been out of operation awaiting spare parts. One of the most important reasons for this has been the necessity for each trucking organization to maintain its own store of spare parts. The result was a very large total inventory of spare parts for all the truck operators combined with an inadequate inventory for any one operator with consequently idle trucks. Setting up the central stores organization should remedy this situation.

Regraded Unclassified

5. A set of minimum specifications for trucks necessary to meet the hard pounding of the Chinese highways was worked out: Purchasing was centralized in Universal Trading Corporation to ensure the carrying into practice of these specifications.

The American experts made an analysis of the causes of truck breakdowns and the strains and stresses set up by the nature of the Chinese highways and from the analysis drew up the specifications necessary for a truck operating in China. The purchase of new trucks with these specifications will result in longer truck life and fewer breakdowns and repairs.

Centralizing purchases in the Universal Trading Corporation will not only ensure that these specifications are demanded but also should lead to lower prices.

6. A national highway patrol is being instituted.

Due to inadequate policing, abuses and corruption have been allowed to creep into the highway transport system. The patrol should reduce drastically the theft of gasoline, spare parts, and cargo by drivers, and the smuggling of goods in and out of the country by highway. It will also lead to a quicker rescue and repair of broken down units. Incidentally, it also will tend to aid the unification of Free China by putting a national police in all provinces on the vital communication routes.

Regraded Unclassified

7. The improvement and better maintenance of highways due to the technical advice of the American experts should result.

The inspection tours, particularly of Mr. Bassi, led to specific recommendations on how the highways could be improved. The purchase and distribution of road machinery should result in better road maintenance.

8. Measures were taken to improve the morale and efficiency of the truck drivers.

(a) The National Government had been attempting a too rigid control over its drivers which it could not enforce. The result was the loss of thousands of drivers to other types of work and a complete breakdown of any control over the drivers remaining. A new licensing system is being put into effect which will provide a better check on drivers. Any attempt to enforce an imposed puritanical moral code on drivers is given up. Finally, drivers are to be treated more humanely.

(b) Better conditions for the drivers are to be put into effect. For example, drivers are not to be required to be away from home for weeks at a time but to relay a truck only over a stretch of road near their home.

(c) Training of drivers is to be improved by reducing the period of schooling by concentrating on only what the driver needs to know.

Regraded Unclassified

9. Measures are being taken to double the utilization of highways by operating trucks 24 hours a day instead of only in daylight.

(a) A system of driver-relays is being instituted by using three drivers, each driving 8 hours and keeping the truck moving 24 hours a day.

(b) The highway patrol will be responsible for setting up highway markers to make possible night driving.

10. Advice on miscellaneous technical details was given which should tend to more efficient and economical truck operation.

For example, common errors were pointed out in the loading of trucks which subjected them to undue strain. The mistakes in body building resulting in weakening the truck frame were explained.

11. Contact with American tempo and methods of work is bound to improve the efficiency of the Chinese engineers and transportation men.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Significance of the British and German Air Raids

I am inclined to minimize the immediate importance of both these raids, though both were well organized and well executed

The new development was the immunity from losses of both British and German bombers. In the case of the Germans this immunity was probably due to a successful surprise. In the case of the British it was due to the attack being carried out at night.

It is possible that these two attacks will incite others, but it is to be noted that in both cases each objective was a proper military objective and that the civilians in close proximity to these bases are not numerous. This indicates that neither side is yet willing to accept the responsibility for mass bombings of heavily populated cities. Night bombing by either side over large cities is perfectly possible and will cause immense damage to property and heavy casualties among civilians. But at present it is not possible for either side to attain accuracy at night in dropping bombs, so what military damage is done will be a plain matter of chance.

Regraded Unclassified

It is entirely understandable why authorities in all three countries hesitate to initiate the first attack on enemy cities, and I doubt whether these two raids presage the all-out war in the air.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

SCAPA FLOW LOSS PUT AT 6 WARSHIPS

240

Neutral Report Backs German Version—Nazis Say British Capital Fleet Is Halved

Special to THE NEW YORK TIMES.

WASHINGTON, March 18—Attention here was directed today to the Scapa Flow bombing of Saturday evening for information as to its seriousness and what it might portend for surface navies.

The State and Navy Departments insisted that they had no official details but, according to one seemingly authentic report through neutral sources that maintain contacts in London, the German official version is more nearly accurate than the British.

This report said that six large warships, including battle cruisers and cruisers, were struck, several severely, and that one was virtually destroyed. The latter received direct hits from two of the heaviest type of bombs, it was said.

Naval experts were greatly interested in details, but were reserving any judgment as to what this war would determine with reference to the relative value of aviation and surface navies. Their minds are open, awaiting many more developments before they attempt to crystallize opinions, they said.

BERLIN, March 18 (AP)—Half of

Continued on Page Eight

SCAPA FLOW LOSS PUT AT 6 WARSHIPS

Continued From Page One

Britain's most powerful battleships, "which represent the kernel of English marine power," have been sunk or damaged by German submarines, mines and planes, the official German news agency, D. N. B., said today in a resume of the war at sea.

D. N. B. said that the heart of the British Grand Fleet consisted of fifteen battleships, of which only the Nelson, Rodney and Hood were regarded as modern according to German standards.

Of these fifteen vessels of the first line, the 29,000-ton Royal Oak was sunk by Captain Lieutenant Guenther Prien, who steered a submarine into Scapa Flow on the night of Oct. 13.

Among those damaged and thus measure disabled, D. N. B. listed the 42,100-ton battle cruiser Hood, the 33,950-ton battleship Nelson, the 33,000-ton battle cruiser Repulse and the 31,100-ton battleship Barham.

It was conceded that some of these vessels, after being repaired, might have been struck again in an air attack on Scapa Flow on Saturday night, but D. N. B. contended it was conservative to assume that "half of the heart of the British fleet" had been disabled. In addition, D. N. B. said, numerous minor vessels had been destroyed or damaged.

[The British announcement of the Saturday raid on Scapa Flow said only one battleship had been slightly damaged. The ship was not identified by the British.]

Discrepancy in Claims

Almost since the outbreak of the war there has been a wide discrepancy between the German claims of damage to the British fleet and the British versions of the encounters hailed. Neutral estimates have also been more modest than the German assertions.

In a raid on Oct. 17 the Germans asserted that they struck a battleship and made hits on two other warships. These apparently were the training ship, unarmored, Iron Duke, which was announced as damaged slightly, and the cruisers Southampton and Edinburgh, which the British admitted were slightly damaged.

Prior to the last week in November the Germans announced the sinking of the battleship Royal Oak, the aircraft carriers Courageous and Ark Royal, and stated that the battle cruisers Hood and Repulse had been severely damaged by torpedoes. The British admitted the loss of the first two, but have reported to the present that no damage has been sustained by the Hood or Ark Royal (this last was confirmed by an American naval attaché) and announced that the Repulse was damaged slightly from the air two months after the German announcement, but not prevented from continuing enemy service.

On Nov. 26 Deutsche Diensts, official German service, announced that Britain had lost nine capital ships and cruisers. The next day, Nov. 27, Berlin announced direct hits on four British warships. On Nov. 28 Germany announced the torpedoing of a British cruiser. All of these reports were denied by the British Admiralty.

Early Version Changed

The early German claim that Britain had lost nine major naval units was apparently modified in official German circles, since the official review of the first six months of the war claimed for the Nazis the destruction of only two British capital ships, the battleship Royal Oak and the aircraft carrier Courageous, the loss of both of which had been announced by the British.

That review, however, stated that serious damage had been done to two battleships, one battle cruiser, and two cruisers by submarines, and to one battleship, one aircraft carrier and two cruisers by air attack.

The British reply to this announcement was merely: "If these absurdities are believed by the German High Command it is hardly to British interest to undeceive them."

Up to the most recent attack on Scapa Flow, the respective announcements regarding capital ships that were named in official actions, were:

	German Version	British Version
Royal Oak,	Sunk	Sunk
Courageous,	Sunk	Sunk
Ark Royal,	Sunk	No damage
Hood,	Disabled	No damage
Nelson,	Disabled by torpedo	Slightly damaged by mine
Repulse,	Disabled by torpedo	Slightly damaged by bomb
Barham,	Damaged	Damaged

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 20, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Smooth Working of German Propaganda in the United States.

1. The attached clipping from The New York Times is significant. It is only necessary for you to read the part bracketed in ink.

2. The following facts concerning this incident came out in a discussion I had with Colonel Magruder, in Military Intelligence. Almost immediately after the news of the attack on Scapa Flow was given to the newspapers, the German Military Attache here offered the Nazi Press Bureau account of this attack to Military Intelligence, who naturally could not refuse to receive the communication. The German Embassy then apparently passed the word around to newspapermen in Washington that official information supporting the German version was in the hands of the State and Navy (and War) Departments, but that they were compelled to deny having the information. Actually, to date, neither the State, War, or Navy Departments have any information about the attack on Scapa Flow other than has appeared in the press.

It is a little surprising to me that Washington representatives of The New York Times, who are usually pretty smart, should be taken in by this little German ruse, for it is one of

Regraded Unclassified

the oldest tricks in propaganda.

Colonel Magruder is considering telling the Military Attache that in the future he will welcome any official statements that the Attache would give him from the German War Department or Navy Department, but that he is not interested in receiving reports that had come through the German Propaganda Bureau.

3. Yesterday I checked with Admiral Anderson and Colonel Magruder, and both of them said that they believed more credibility can be given to British than to German statements. Our records here also indicate that British statements are more reliable.

Naturally, no belligerent is going to reveal losses until it has reason to believe the opponent has found out about them. To this extent, the British are concealing some losses, probably a few merchant ships and possibly some minor injuries to naval vessels. With these exceptions, I think we know within a small margin the actual losses that the British have suffered.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE March 21, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: General Conclusions on the Chinese Transportation Problem.

1. The problem of transportation is the critical one for Free China at the present time. The Japanese have seized control of the greater part of the old transportation system, the principal ports, the railroads, and the waterways. They have now stopped advancing and are attempting to stabilize their rule over these channels of commerce. The Japanese Army and Navy hope that, by controlling the circulation system on which a nation's life must depend, unoccupied China must eventually submit to their rule.

In order to live, then, Free China has to create a new system of transportation to hold her provinces together and prevent their falling away to the control of the Japanese. In addition, Free China must maintain constant pressure on the Japanese garrisons and prepare to pass over to a general offensive. For this, too, an adequate transportation system is a necessary first condition.

2. Free China has made great steps toward meeting its problem. A new network of inter-provincial and international

Regraded Unclassified

highways has been hurriedly organized. Because of the time and capital necessary to build railroads, principal immediate reliance had to be placed on highways.

Among the achievements of the Chinese was the construction of two new international highways now operating and the development of a third (the Burma highway, the Caobang Road to Indo-China, and the road to Russia), and the linking up of the major cities of Free China by highway.

These new highways create a communications framework within which a feeling of national unity is being developed in the provinces of the interior. The new intra- and inter-provincial flow of commerce developing is destroying local and provincial isolation. The military necessities in addition are forcing the breakdown of provincial autonomy in control of transportation and the strengthening of the national government in this vital sphere.

3. The military situation is the main factor affecting Chinese transportation. The needs arising out of the war must be the primary consideration of any transportation net. This leads to the following corollaries:

(a) The Burma road while economically unjustifiable should be maintained and improved in precedence over other roads because of its comparative safety from air attack.

Regraded Unclassified

(b) Transport operations should be decentralized away from Kunming (the terminal of the Indo-China Railroad and the Burma Road), as safety from air attack depends on dispersion and not on concentration.

(c) Priority of cargo on all roads should be (1) gasoline to run the system, (2) military supplies, (3) other cargo.

4. Even a highly efficient highway system can be no more than a stop-gap; ultimately to secure an adequate transport system, a railroad net must be provided.

Before the Japanese attack on July 7, 1937, China had 6,000 miles of railroad. On November 30, 1939, Free China had only 1,800 miles of railroad. However, on the same date, she had 2,500 miles under construction. The main route in operation and those under construction are shown on the accompanying map.

The two most important railroads under construction, Kunming to Burma, and Kunming to Suifu (near Chungking), are both being built from Kunming and both are dependent on receipt of railroad material by the Indo-China railway. The Indo-China railroad is then the main bottle-neck for railroad construction in China.

There are two recommendations to make:

(a) The Burmese Government should be persuaded to start building a railroad from the present railhead, Lashio, to the border. The Burmese railroad could then be used to bring railway

Regraded Unclassified

material for the Kunming-Burma railroad. The Irrawaddy River should then be used as a feeder for the Burma highway while the railroad is devoted to railroad material.

(b) After the congestion at Haiphong is cleared up, the Indo-China railroad should be used to bring up railroad material for the Kunming-Suifu railroad. After the highway from the head of navigation on the River Rouge to Kunming has been finished by September, the River Rouge and the highway to Kunming should be used to bring up other supplies while the Indo-China railroad concentrates on railroad materials.

5. A partial answer to the problem of increasing exports from Free China lies in the tin mines of Yunnan Province. These mines are close to an easy route to the outside world, the River Rouge, and, inadequate reports seem to indicate, have very large ore reserves of exploitable tin.

(These mines also may be the answer the United States is seeking to the present British control of tin. Particularly with the present British attempt to raise tin prices, these tin mines should prove increasingly profitable.)

The greatest need of the Chinese Government has been to find an export commodity which could be exported at a low transportation cost in large volume and which would provide the large sums of foreign exchange necessary to purchase munitions and other vital supplies. Tin may prove to be this commodity.

Regraded Unclassified

6. A. The present transportation of supplies into China is in largest part being carried on by Chinese Governmental agencies. As a result, transport has had to depend on inexperienced personnel and has increased the amount of Governmental investment.

Such Governmental semi-monopoly of transportation may be a necessary evil in order to maintain a tight control over foreign exchange. However, it is possible that efficient exchange control could be exercised and still allow more private investment in transport facilities.

B. Therefore, the Chinese Government should attempt to negotiate arrangements with:

(1) oil companies,

(2) truck manufacturers,

(3) spare part and accessory suppliers, and

(4) tire manufacturers, whereby these concerns accept the responsibility for the importation and distribution of Governmental civil supplies. This would mean that the commodities bought by the Chinese Government would be delivered not at Haiphong or Rangoon but in Chungking and other interior points. This will put the burden of building up an efficient transportation system on these experienced concerns, and transfer the burden of the capital investment necessary to foreign capital.

Regraded Unclassified

C. The interests of the Chinese Government can be safeguarded by (1) maintaining a yardstick transport company, (2) granting these rights to several companies and preserving competition among them, (3) providing options in the contracts enabling the Chinese Government to take over the facilities at cost.

D. The Chinese Government has several valuable assets which should be an attraction for foreign investment which would help China in financing its war.

(1) It is one of the great potential markets of the present time. The right of continued access to this future market is an intangible commodity for which foreign corporations should be willing to pay.

(2) It controls natural resources which have never been adequately explored. The Chinese Government owns all mineral resources and can sell or lease the right of exploitation.

(3) It has the power to grant valuable transport and utility franchises.

Briefly, the Chinese Government can sell rights to the future now. And by so doing, it would increase its present financial resources and would give a stake in the success of China to important and influential foreign interests.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE March 21,1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Armored German Bombing Machines.

You may already be aware of the following.

1. The British Air Force are very much concerned over the fact that the machine guns in their fighters can not penetrate the armor now used on some German bombers. They showed to an American observer a German machine that was finally brought down, and it had been literally peppered with machine-gun bullets that had not been able to penetrate the armor. I did not get any of the details of the method of armoring the German planes.

2. Our Army has developed a gun for fighting planes that can penetrate the armor that can be carried by any present day plane. The British authorities are extremely anxious to obtain this American gun. The Army is sending a couple of their experts to England to get further information.

I could not learn whether or not the Army has yet released this new gun to the British.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

File 250

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE March 27, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

The following are miscellaneous items gathered in conversation with officers in Military Intelligence. I am sure they are absolutely authentic

1. Italy.

Ambassador Phillips in Rome, who is a very cautious observer, is definitely of the opinion that there is a fundamental difference of opinion between Mussolini and his son-in-law, Ciano, the Foreign Minister. Mussolini inclines to the Berlin Axis, because he believes that the prestige of Fascism would be injured by the overthrow of Nazism. Ciano inclines to England and France, partly in response to the anti-German sentiment in Italy, and partly because he believes in the eventual success of the Western Powers. Most of the Fascist leaders support Ciano's view. Mussolini is still in power and controls all the armed forces. His daughter, however, sides with her husband.

Ciano's group is not pro-Ally, because there is still sentiment in Italy against the action of Great Britain in opposing the conquest of Ethiopia.

On account of this difference between Mussolini and Ciano, prominent officials in the Italian Foreign Office were under some apprehension that Mussolini might give support to

Regraded Unclassified

Hitler and might even be tempted into precipitate action in order to restore his own prestige at home.

(Comment: Personally, I do not think Mussolini will take precipitate action. In his entire career he has followed deliberately along a carefully thought out program. I do not think he will act impulsively on any important question.)

The King and the Royal Family are anti-Hitler and will resist any move toward collaboration with the Soviet in the Balkans. The Vatican also will oppose any understanding with the Soviet. A prominent priest in Milan in his Easter sermon denounced any effort toward an understanding with Russia.

2. Russia.

Recent reports from Russia indicate that the internal disorganization resulting from the war with Finland has been extremely severe. For this reason, Stalin will not make any move against Bessarabia or involve Russia in any foreign adventures in the near future. Stalin is reported to realize that if foreign invasions are successful they will build up the reputations of the Russian generals, who may overshadow Stalin; if they are failures, he will be held responsible by a dissatisfied populace.

(Comment: I am inclined to believe this, for Stalin is extremely shrewd.)

It is reported from Bulgaria that the Turks feel less apprehensive about a Russian advance in the Balkans than

Regraded Unclassified

they did last September when Molotov made extraordinary demands for Russian use of the Dardanelles. The most important consequence of Molotov's demands last September is that they have convinced the Turkish Government of the serious nature of Russia's ambitions. As a result, Turkey is definitely committed to England and France.

In spite of Russia's defeat and the disorganization of Russian railways, Colonel Magruder concurred with my estimate that Stalin definitely has the whip-hand over Hitler, because Germany has nothing that Russia needs. Russia, on the other hand, has supplies that are vital to Germany, and Germany can not collect these supplies by force, because if the German Army turned against Russia, Germany would again be involved in a war on two fronts.

3. At Sea.

The war on the sea has been marked by two very significant factors:

a. The British have taken the offensive against the German supply ships bring ore from Sweden.

b. The British defense measures have secured one week's immunity from losses from German submarines.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 27, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Aviation in England and France

In an effort to find out the possible reason for the British hesitation to sign up for American planes, I canvassed the whole situation with Army Intelligence. I believe the following will explain why the British Mission has hesitated to sign up definitely with our contractors.

1. Today England can build planes at home equal in performance to any she can purchase in the United States and in sufficient quantities to supply all the personnel she can train. That is, the limiting factor in the development of British aviation is not planes, but personnel.

2. On the contrary, the French can not build a sufficient number of planes in France. The limiting factor in France is material, not pilots.

3. Numerically, the British and French are now equal to the Germans in planes of all kinds. Qualitatively, the Germans are still one cycle ahead of the Allies.

4. Germany has not yet employed her latest type bombers in flights over England. It is believed she will only employ them in mass attacks, if and when the German High Command decides

Regraded Unclassified

to attack the United Kingdom or France in full force. German planes are sufficiently well armored to resist machine gun fire. The British are very anxious to acquire one of our airplane guns that is capable of piercing German armor. Naturally, they would like to acquire any other improvements we have in guns or planes.

5. The foregoing is based on the best information the Army has been able to get. They believe it to be correct. It seems to me that it explains the lag in the British purchases. I am writing you especially about it, and I have given the same information to Captain Collins.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE March 28, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The Far Eastern Situation.

1. On March 27 I discussed the Far Eastern situation with Mr. Hornbeck. As usual, we found ourselves in general accord. In answer to my question when we could expect the State Department to devote some attention to the Far East, he replied:

a. When the reciprocal trade treaties were out of the way.

b. When the State Department realized that peace could not be made in Europe and devoted more of its thought to the Far East.

Mr. Hornbeck clearly indicated that a firm policy with Japan was in prospect. I gathered the impression that he thought an import duty on Japanese silk would be a most effective measure.

2. Mr. Grew, Ambassador to Tokyo, will return to Washington on leave. Reports from Japan, perhaps inspired by the Japanese Government, have been made that he will not return. Mr. Hull took occasion to contradict these reports, which were designed to give the impression that the country would not support Mr. Grew's strong attitude towards Japan.

Regraded Unclassified

3. In my opinion, we should take some action in the Far East very soon. The British have taken into Hongkong two Russian merchantmen loaded with copper that they took aboard from American ships in Manzanillo Harbor, Mexico, (you may remember this incident). This action has already been protested by the Russians.

The Soviet, since the Finnish campaign is ended, has indicated that it will take more interest in the Far East and has been active in Sakhalin Island. Thus the Russo-Japanese relations are further strained.

4. In my discussion with Mr. Ashton-Gwatkin, March 15, he made no secret of the intention of the British Government to placate Japan in the Far East while this war was on unless we took stronger measures against Japan. He expressed the attitude of Great Britain very clearly: they would keep close behind us in the Far East but would not get in front. In view of their commitments in in Europe, this is a natural and understandable attitude on their part, but it also emphasizes the fact that only the United States and Russia can do anything against Japan in the Far East.

5. On the surface, the affairs in the Far East seem to be in a hopeless tangle; a thorough study of them indicates to me that they can be unraveled fairly easily if the United States will take a firm attitude towards Japan. I am convinced that

Regraded Unclassified

for the present this is the opinion in the State Department and feel very hopeful about the prospect when Mr. Hull's reciprocal trade treaties are disposed of.

W. D. Puleston

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified

TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE March 29, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Summary of Mr. Sheahan's Work in China.

1. (a) Recommendation.

The establishment of one governmental agency to centralize all civil government truck transport was recommended.

(b) Accomplishment.

The China Transport Corporation was chartered and started functioning on January 1, 1940. Several of the largest agencies have merged their truck fleets into this common pool (including Foo Shing Trading Corporation), but to the best of our knowledge at least ten agencies are not yet included.

2. (a) Recommendation.

Mr. Sheahan recommended that the Ministry of Communications be reorganized on functional rather than geographical lines.

(b) Accomplishment.

Several of the new bureaus outlined -- Bureau of Highway Maintenance, Bureau of Licenses -- are in the process of organization.

Regraded Unclassified

3. (a) Recommendation.

A national highway patrol is to be set up.

(b) Accomplishment.

The patrol is not yet functioning. The future patrol men are now at school learning their new jobs.

4. (a) Recommendation.

All purchases and stores for all the civil governmental truck transport units are to be centralized in Foo Shing Trading Corporation.

(b) Accomplishment.

Purchase of trucks has been centralized in Foo Shing. No information is at hand on whether or not centralization of stores has been carried out.

5. (a) Recommendation.

The American Commission of experts outlined a system of repair shops and garages and a proper maintenance procedure.

(b) Accomplishment.

These shops and garages are being organized. Mr. Van Patter, one of the American experts, is devoting himself to this task.

6. (a) Recommendation.

A set of minimum truck specifications were drawn up.

(b) Accomplishment.

I believe that the Universal Trading Corporation now follows the specifications in its purchases.

Regraded Unclassified

7. (a) Recommendation.

Measures to improve the morale of drivers and to increase the degree of utilization of trucks by introducing a drivers-relay plan were advised.

(b) Accomplishment.

Dr. Buck stated that the drivers relay system was being put into operation on the Burma-Kunming highway.

8. (a) Recommendation.

Miscellaneous technical advice was given on various aspects.

(b) Accomplishment.

No detailed information is available as to the results of these recommendations.

W. D. Puleston,
Captain, U.S.N., Retired.

Regraded Unclassified