Secretary's pencilled draft of reply to General Marshall's Christmas greetings
Please accept my wishes for your continued success. My sincere and fervent hope is that you will become enough in it to defend against any aggression. I am confident that I am able in helping you to bring this accomplishment.
to continue my efforts with renewed enthusiasm.

Our country is most fortunate in having you as Chief of Staff in these most difficult times and I have considered it a privilege to be able to work with you on problems of national defense.
I am not sure to tell you how pleased I was to receive your letter of the 23rd. The fact that you believe I have been of assistance in getting the army program under way is most gratifying to me and encourages me.
December 23, 1940.

Dear Mr. Morgenthau:

Along with my holiday greetings and good wishes go my thanks for your powerful assistance in getting the Army program under way, in both men and munitions. I do not forget your determining influence on two specific occasions last May when the real beginnings of our major preparations were reached.

I wish again to express my thanks and appreciation and to wish you all good things—and far-seeing wisdom—in this coming year with its tragic possibilities.

Faithfully yours,

[Signature]

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.
December 23, 1940.

My dear Mr. Morgenthau:

Along with my holiday greetings and good wishes go my thanks for your powerful assistance in getting the Army program under way, in both men and munitions. I do not forget your determining influence on two specific occasions last May when the real beginnings of our major preparations were launched.

I wish again to express my thanks and appreciation and to wish you all good things—and far-seeing wisdom—in this coming year with its tragic possibilities.

Faithfully yours,

[Signature]

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.
WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

December 23, 1940.

g dear Mr. Morgenthau:

Along with my holiday greetings and
wishes go my thanks for your powerful assistance
in getting the Army program under way, in both men
and munitions. I do not forget your determining
influence on two specific occasions last May when
the real beginnings of our major preparations were
launched.

I wish again to express my thanks and
appreciation and to wish you all good things — and
far-seeing wisdom, in this coming year with its tragic
possibilities.

Faithfully yours,

[Signature]

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.
My dear Cordell:

There is attached a copy of a letter dated December 21, 1940, from the International Telephone and Telegraph Corporation, 67 Broad Street, New York, New York, with respect to a proposed transaction by such corporation affecting its interests in Rumania. You will note that the contemplated arrangements are subject to the necessary licenses being granted, including a license for the unblocking of funds in the minimum amount of $13,753,720. The Charge d'Affaires ad interim of the Rumanian Legation has furnished this Department with a copy of his letter to you of December 19, 1940, which deals with this matter and requests that an agreement in principle be made for a license to release an amount of $14,000,000 from the gold which the Banque Nationale de Roumanie has on deposit with the Federal Reserve Bank of New York.

In view of the nature of the proposed transaction and the substantial portion of the total Rumanian dollar assets in this country which would thus be paid over to one American concern, this Department would appreciate receiving the views of the Department of State as to whether a license should be approved upon receipt of proper application.

Very truly yours,

[Signature]

Secretary of the Treasury.

Honorable Cordell Hull,
Secretary of State.

File returned to Mr. Feible
by Maj on 12/26/40 per HSK

Enclosure.

[Stamp: 12/26/40]
Devehonee Bohn
President

December 21, 1940

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

My dear Mr. Secretary,

In 1930 the International Telephone and Telegraph Corporation obtained a concession contract from the Romanian Government which provided for the development and installation in Roumania of a modern telephone system. Under this contract a Romanian Company known as Societatea Anonima Romana de Telefoane (SARDET) was organized as a subsidiary of ITT to own and operate the Romanian Telephone system. The outstanding capital stock of SARDET consists of 1,650,000 shares of the par value of Lei 1,000 each or a total outstanding capital of Lei 1,650,000,000 of which 1,367,960 shares or 82.91% is owned by ITT. The balance of 282,040 shares is held in Roumania.

The recent readjustment of the borders of Roumania resulted in the separation from the control of SARDET of telephone property amounting to approximately 12% of the total telephone plant and claims have been filed by SARDET with respect thereto against the Romanian Government.

For a number of years, certain influential Roumanians have advocated the nationalization and complete ownership in Roumania of the telephone system and this, together with the more recent political developments in Roumania has led to negotiations which have culminated in
an oral agreement between ITMT and the Romanian Government substantially as follows:

(A) ITMT will sell its stock in SARDET amounting to 1,367,960 shares at $7.00 U. S. currency per share, amounting to a total of $9,575,720 to the Romanian Government or an agency of said Government or a corporation of Romania to be designated for the purpose by the said Government.

(B) ITMT will assign its claims upon the current account against SARDET which amount to $4,178,000 U. S. currency to the Romanian Government or an agency of said Government or a corporation of Romania to be designated for the purpose by the said Government upon payment of like amount.

(C) ITMT will deliver certificates for its shares of stock in SARDET and an assignment of its claims against SARDET upon payment in the United States of the full U. S. currency amount set forth in subparagraphs (A) and (B) above.

(NOTE: It is understood that of the 1,367,960 shares owned by ITMT, certificates for 367,960 shares are actually located in Romania. Arrangements will be made so that either delivery in advance will be made of these shares in Romania or so that ITMT, upon delivering in the United States certificates for the balance of 1,000,000, at the same time will deliver an irrevocable order authorizing delivery in Romania by the depository of such certificates, of certificates for the 367,960 shares located in Romania.)
It is expected that the formal agreement may be signed within a few days and the purpose of this letter is to acquaint you with the proposed sale and to give you certain pertinent information which might assist in the unblocking of the funds. In the event that you require any additional information or documents concerning SARDET or IBET, I shall be very glad to submit same to you promptly.

Very truly yours,

/s/ Sotheene Behn

President
TO:

Miss Chauncey

The Secretary wants to send 1 white photostat copy to Office of Naval Intelligence (Rear Admiral W. S. Anderson, Director Naval Intelligence) and 1 white photostat copy to Military Intelligence via Maj Smith (carbon copy has been sent to Mr. Wiley).

From: LT. COMDR. McKay
December 26, 1940

Dear Admiral Anderson:

I am sending you herewith, for your confidential information, a photo-
static copy of a report on the Netherlands East Indies oil negotiations which has come to me from the Treasury Attaché in Shanghai.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral Walter S. Anderson,
Naval Intelligence Division,
Office of Naval Operations,
Navy Department.

Incl. (unclassified)

By Messenger /
December 20, 1949

Dear Admiral Anderson:

I am sending you herewith, for your confidential information, a photostatic copy of a report on the Netherlands East Indies oil negotiations which has come to us from the Treasury Attaché in Shanghai.

Yours sincerely,

(Signed) E. Messina, Jr.

Rear Admiral Walter S. Anderson,  
Naval Intelligence Division,  
Office of Naval Operations,  
Navy Department.

Incl. Lusure.

By Messenger
December 20, 1940

Dear Admiral Anderson:

I am sending you herewith, for your confidential information, a photostatic copy of a report on the Netherlands East Indies oil negotiations which has come to me from the Treasury Attaché in Shanghai.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral Walter S. Anderson,
Naval Intelligence Division,
Office of Naval Operations,
Navy Department.

Inclòsure.

By Messenger
December 20, 1943

Dear Major Smith:

I would appreciate it if you would see that the enclosed photostatic copy of report on the Netherlands East Indies oil negotiations, prepared by the Treasury Attaché at Shanghai, reaches the Director of Military Intelligence for his confidential information.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Major V. B. Smith,
Office, Chief of Staff,
War Department.

Enclosure. ✓
December 29, 1940

Dear Major Smith:

I would appreciate it if you would see that the enclosed photostatic copy of report on the Netherlands East Indies oil negotiations, prepared by the Treasury Attaché at Shanghai, reaches the Director of Military Intelligence for his confidential information.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Major W. B. Smith,
Office, Chief of Staff,
War Department.

Inclosure.
December 30, 1940

Dear Major Smith:

I would appreciate it if you would see that the enclosed photostatic copy of report on the Netherlands East Indies oil negotiations, prepared by the Treasury Attaché at Shanghai, reaches the Director of Military Intelligence for his confidential information.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Major W. B. Smith,
Office, Chief of Staff,
War Department.

Inclosure.
December 7, 1940.

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

Dear Mr. Secretary:

This is to confirm the following radio message, in four parts, forwarded to you December 4th, 5th and 6th giving details of the Netherlands East Indies Oil Negotiations between the Japanese, the N.E.I. authorities, the Standard-Vacuum and the Dutch Co., - Betoafshe Petroleum Mij.:

N. E. I. Oil Negotiations

1. Japanese Memorandum of September 25, 1940, to Netherland delegation tabulated their Minimum annual requirements for five years as follows:-

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>Annual quantity in tons of 2,240 lbs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Crude Oil</td>
<td></td>
</tr>
<tr>
<td>1. Aviation Crude</td>
<td>1,100,000</td>
</tr>
<tr>
<td>2. Crude for Lubricants</td>
<td>100,000</td>
</tr>
<tr>
<td>3. Other grades of Crude</td>
<td>1,050,000</td>
</tr>
<tr>
<td>Total Crude</td>
<td>2,250,000</td>
</tr>
<tr>
<td>B. Aviation gasoline (over 87 Octane)</td>
<td>400,000</td>
</tr>
<tr>
<td>C. Diesel Oil</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>3,150,000</strong></td>
</tr>
</tbody>
</table>

2. Quantities offered October 8, 1940 by the Oil companies and accepted on October 19th by T. Maki (President of MitsuiBusan Kaisha) as representing the Japanese Petroleum Importers:-

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>Standard-Vacuum</th>
<th>Betoafshe Petroleum Mij.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aviation Crude</td>
<td>N11</td>
<td>120,000 tons</td>
</tr>
<tr>
<td>2. Lubricant Crude</td>
<td>N12</td>
<td>100,000</td>
</tr>
<tr>
<td>3. Other grades Crude</td>
<td>180,000</td>
<td>360,000</td>
</tr>
<tr>
<td><strong>Total Crude</strong></td>
<td>180,000</td>
<td>550,000</td>
</tr>
</tbody>
</table>
4. Aviation gasoline

5. Motor

6. Gas oil and Diesel Oil

7. Fuel Oil

8. Kerosene

Grand total

Total by two companies:

Crude Oil, 760,000 tons; Products, 564,500

Grand total - 1,306,500 tons

(Quantities shown represent annual rates only - not fixed amounts)

3. Memo of agreement incorporating agreed quantities and terms and conditions of sale, signed on November 12, 1940:-

Principal items:-

a. Annual sales contracts to be signed in Japan by actual purchasers and Standard-Vacuum Oil Co. and Rising Sun Petroleum Co.

b. Contract period for

Crude Oil - 12 months from November 1, 1940

Products - 6 " = " = " = " = "

c. Prices in U. S. Currency - according to formula based on California and Gulf quotations.

d. Delivery - F.O.B. loading terminals of two companies in N. E. Indies in tankers to be furnished by the purchaser.

e. Payment - upon delivery

100% in U. S. Currency (Standard-Vacuum Co.)
75% in U. S. Currency } Betoafahe
25% in N. I. Currency } Petroleum Mij.

Irrevocable credits to be set up in New York 7 days before loading.

f. Destination - Must be Japan, and can not be diverted to any other country.

g. Force Majure - Applies.
I understand copies of this data have been furnished by one of the negotiators to the High Commissioner of the Philippine Commonwealth and Admiral Hart, Commander in Chief of the U. S. Asiatic Fleet.

Respectfully,

M. R. K"o"oš
Treasury Attaché
### Location of Japanese Armies as of December 1, 1940

#### North China:

**Divisions**

<table>
<thead>
<tr>
<th>Division</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>21st</td>
<td>East Luanghai Railway</td>
</tr>
<tr>
<td>25th</td>
<td>Wutai area, North Shanxi</td>
</tr>
<tr>
<td>27th</td>
<td>Tientsin area</td>
</tr>
<tr>
<td>32nd</td>
<td>Shantung, Tainan area</td>
</tr>
<tr>
<td>35th</td>
<td>North Honan - Southeast Shanxi area</td>
</tr>
<tr>
<td>36th</td>
<td>Southeast Shanxi</td>
</tr>
<tr>
<td>37th</td>
<td>Southwest Shanxi</td>
</tr>
<tr>
<td>41st</td>
<td>Shanxi, Linfen area</td>
</tr>
</tbody>
</table>

**Independent Mixed Brigades**

<table>
<thead>
<tr>
<th>Brigade</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>Hopei, Pingshan area</td>
</tr>
<tr>
<td>2nd</td>
<td>Suiyuan Railway</td>
</tr>
<tr>
<td>3rd</td>
<td>North Shanxi</td>
</tr>
<tr>
<td>4th</td>
<td>East Shanxi, Shichiachwang - Taiyuan Railway</td>
</tr>
<tr>
<td>5th</td>
<td>East Shantung, Kiao tai Railway</td>
</tr>
<tr>
<td>6th</td>
<td>East Shantung</td>
</tr>
<tr>
<td>7th</td>
<td>Hopei, North Tsingpu Railway</td>
</tr>
<tr>
<td>8th</td>
<td>Hopei, Shichiachwang area</td>
</tr>
<tr>
<td>9th</td>
<td>West Shanxi</td>
</tr>
<tr>
<td>10th</td>
<td>South Shantung</td>
</tr>
<tr>
<td>16th</td>
<td>Shanxi, Taiyuan area</td>
</tr>
<tr>
<td>*18th</td>
<td>Hopei</td>
</tr>
</tbody>
</table>

#### Central China:

**Divisions**

<table>
<thead>
<tr>
<th>Division</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd</td>
<td>Northeast Hupeh</td>
</tr>
<tr>
<td>6th</td>
<td>Yochow - Shansi area</td>
</tr>
<tr>
<td>13th</td>
<td>Ichang area, North Hupeh</td>
</tr>
<tr>
<td>*15th</td>
<td>Hankiang area, part Central Hupeh</td>
</tr>
<tr>
<td>17th</td>
<td>Yangtze Estuary</td>
</tr>
<tr>
<td>22nd</td>
<td>Hangchow area</td>
</tr>
<tr>
<td>*31st</td>
<td>Han River area, Central Hupeh</td>
</tr>
<tr>
<td>33rd</td>
<td>Kiangsi - Huan Border</td>
</tr>
<tr>
<td>34th</td>
<td>Nanchang area</td>
</tr>
<tr>
<td>*39th</td>
<td>Wuhan area</td>
</tr>
<tr>
<td>*40th</td>
<td>Central Hupeh</td>
</tr>
<tr>
<td>116th</td>
<td>Yangtze</td>
</tr>
</tbody>
</table>

**Independent Mixed Brigades**

<table>
<thead>
<tr>
<th>Brigade</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>*11th</td>
<td>Kiangsu, Chakiang</td>
</tr>
<tr>
<td>12th</td>
<td>Southeast Kiangsu, Wushih area</td>
</tr>
<tr>
<td>15th</td>
<td>Central Anhwei, Fengpu area</td>
</tr>
<tr>
<td>14th</td>
<td>North Kiangsi, Kiukiang area</td>
</tr>
<tr>
<td>17th</td>
<td>Southwest Kiangsu, Shanghai</td>
</tr>
</tbody>
</table>
South China:

Divisions

18th —— East River area, Hong Kong Border
26th —— Indo-China († Hainan)
28th —— South Kwangtung and Indo-China
38th —— North & West River area (Kwangtung)
104th —— Kwangtung
110th —— Uncertain
5th —— Indo-China, Tongking

*1st Guards Independent Mixed Brigade —— Indo-China, Tongking
*2nd Guards Independent Mixed Brigade —— Chungshan area, West River (near Macao)

15th Independent Mixed Brigade ———— Swatow

Manchuria:

Divisions

1st —— Tsitsihar area (North)
2nd —— Mutanjiang area (Northeast)
4th —— Chiamusso area (Northeast)
7th —— Haihar area (North) † returned Japan
8th —— Heihuo area (North)
11th —— Harbin area
23rd —— Nomonham area (North)
24th —— Nomonham area

Korea:

Divisions

19th —— Russo - Korean border
20th —— Ryusan

Japan:

Divisions

9th —— Kanazawa († relieved 7th Division)
10th —— Himeji
12th —— Kurume
14th —— Utsunomiya
15th —— Kyoto
Guards Division ——— Tokyo

Guards Division and 1st to 8th and 11th Divisions have depot divisions in Japan

Note ——— * means doubtful

Division — 20,000 men
Brigade — 10,000 men
NOTE ISSUE IN FAR EAST AS OF JUNE, 1940


<table>
<thead>
<tr>
<th>Month</th>
<th>Jan 40</th>
<th>Feb 40</th>
<th>March 40</th>
<th>April 40</th>
<th>May 40</th>
<th>June 40</th>
<th>Nov 40</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$67,854,941.26</td>
<td>$72,644,383.68</td>
<td>$82,603,094.94</td>
<td>$89,519,748.49</td>
<td>$105,144,959.20</td>
<td>$100,361,195.49</td>
<td>$125,000,000.00</td>
</tr>
</tbody>
</table>

Now estimated at ¥150,000,000. Used as legal tender in occupied areas in Central China and Shanghai. In occupied areas in South China a conservative estimate is 50,000,000 - total 300,000,000.

2. Amount of Japanese Yen Notes in circulation (000 omitted).

<table>
<thead>
<tr>
<th>Year</th>
<th>Bank of Japan</th>
<th>Bank of China</th>
<th>Bank of Taiwan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>1,660,000</td>
<td>2,074,000</td>
<td>75,000</td>
<td>4,809,000</td>
</tr>
<tr>
<td>1938</td>
<td>2,074,000</td>
<td>254,000</td>
<td>105,000</td>
<td>2,433,000</td>
</tr>
<tr>
<td>1939</td>
<td>2,522,000</td>
<td>285,000</td>
<td>146,000</td>
<td>3,053,000</td>
</tr>
<tr>
<td>1940*</td>
<td>3,597,000</td>
<td>427,000</td>
<td>176,000</td>
<td>4,211,000</td>
</tr>
</tbody>
</table>

June, 1940.
End October, 1940, Bank of Japan increased its note issue to ¥3,755,000,000, but "Tokyo Economic Magazine" declared that by that time the Bank of Japan issued a total of ¥2,735,000,000. Reliable sources state that the total amount to be issued by the three Japanese banks by end of 1940 will be ¥5,000,000,000 according to official Japanese figures.

3. Amount of Chinese Legal Tender Notes (Yuan) in circulation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Bank</th>
<th>Bank of China</th>
<th>Bank of Communications</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>June, 1937</td>
<td>375,039,927</td>
<td>509,682,082</td>
<td>315,548,454</td>
<td>1,199,266,323</td>
</tr>
<tr>
<td>June, 1938</td>
<td>469,666,785</td>
<td>663,251,720</td>
<td>311,859,495</td>
<td>1,444,776,900</td>
</tr>
<tr>
<td>June, 1939</td>
<td>1,048,883,145</td>
<td>703,570,740</td>
<td>548,456,070</td>
<td>2,300,917,955</td>
</tr>
<tr>
<td>June, 1940</td>
<td>1,223,380,740</td>
<td>1,100,228,595</td>
<td>727,556,790</td>
<td>3,051,165,125</td>
</tr>
</tbody>
</table>

The actual issue of Chinese Legal Tender notes is being kept a dark secret in Chungking but knowing sources estimate the present issue to be 7000 million and perhaps over that figure. This, of course, does not include a very large sum of notes - all in denominations of one dollar - issued by the provincial banks during the past year but not circulated in Shanghai.
Note: Issue in North China & Manchuria (end of June, 1940).

4. Federal Reserve Bank
   FRB 566,000,000
   Monkhang Bank (Inner Mongolia)
   61,000,000
   Central Bank of Manchuria
   654,000,000
   Hwa Hain Bank (Hongkow, Shanghai)
   6,400,000

   All the banks are controlled by Japanese influences.

5. Sino-British Stabilization Fund (STRICTLY CONFIDENTIAL).

   Fund since last withdrawal - May 2, 1940
   recovered

   Contributions for replenishment,
   Central Bank ............... US$3,000,000
   Bank of China ............. 8,600,000
   Bank of Communications ... US$2,000,000
   Hongkong & Shanghai Bank: 81,000,000
   or approx. total

   @ Shanghai open market cross rate
   of 3.80 fund now has in possession US$21,340,000

   No selling by fund since May 2, 1940.

   CUSTOMS REVENUE

   Whole of China -------- August-October, 1940

   August
   * O. P.
   N. O. P.
   Total.

   September
   O. P.
   N. O. P.
   Total.

   October
   O. P.
   N. O. P.
   Total.

   * O. P. - Occupied Ports.
   N. O. P. - Non Occupied Ports.

   Regraded Unclassified
Mr. White has noted. Do you want this back, or shall we file with the other Nicholson material?
Re the attached communications from the Treasury Attache, Shanghai —

1. Note issue shows steady progress of currency inflation in the Far East.

2. Location of Japanese divisions would be of interest to MID.

3. The negotiations between Japan and the Dutch East Indies for gas and lubricants are based 7/8ths on dollar payments with irrevocable credits in New York. An extension of freezing would constitute an impediment.
NOTE ISSUE IN FAR EAST AS OF JUNE, 1940


1940:
- January: ¥ 57,854,941.26
- February: 73,646,323.68
- March: 88,605,094.94
- April: 99,519,748.49
- May: 105,144,959.20
- June: 100,301,195.49
- November: 123,000,000.00

Now estimated at ¥ 100,000,000. Used as legal tender in occupied areas in Central China and Shanghai. In occupied areas in South China a conservative estimate is 80,000,000 - total 200,000,000.

2. Amount of Japanese Yen Notes in circulation (000 omitted).

<table>
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<tr>
<th>Year</th>
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<tr>
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<td>1,650,000</td>
<td>2,074,000</td>
<td>2,822,000</td>
</tr>
<tr>
<td>1938</td>
<td>2,074,000</td>
<td>2,822,000</td>
<td>3,597,000</td>
</tr>
<tr>
<td>1939</td>
<td>2,822,000</td>
<td>3,597,000</td>
<td>4,357,000</td>
</tr>
<tr>
<td>1940*</td>
<td>3,597,000</td>
<td>4,357,000</td>
<td>5,211,000</td>
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June, 1940.

End October, 1940, Bank of Japan increased its note issue to ¥3,755,000,000, but "Tokyo Economic Magazine" declared that by that time the Bank of Japan issued a total of ¥3,735,000,000. Reliable sources state that the total amount to be issued by the three Japanese banks by end of 1940 will be ¥3,000,000,000 according to official Japanese figures.

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<tr>
<td>June, 1937</td>
<td>376,839,967</td>
<td>509,858,662</td>
<td>513,540,454</td>
</tr>
<tr>
<td>June, 1938</td>
<td>459,654,785</td>
<td>653,251,720</td>
<td>511,259,438</td>
</tr>
<tr>
<td>June, 1939</td>
<td>1,048,863,145</td>
<td>703,570,740</td>
<td>548,456,070</td>
</tr>
<tr>
<td>June, 1940</td>
<td>1,652,860,740</td>
<td>1,100,228,695</td>
<td>727,566,790</td>
</tr>
</tbody>
</table>

The actual issue of Chinese Legal Tender notes is being kept a dark secret in Chungking but knowing sources estimate the present issue to be 7000 million and perhaps over that figure. This, of course, does not include a very large sum of notes - all in denominations of one dollar - issued by the provincial banks during the past year but not circulated in Shanghai.
Notes Issue in North China & Manchuria (End of June, 1940).

4. Federal Reserve Bank
   FRB $558,000,000
   Monkang Bank (Inner Mongolia)
   61,000,000
   Central Bank of Manchuria
   554,000,000
   Hen Hsia Bank (Hongkew, Shanghai)
   5,400,000

All the banks are controlled by Japanese influences.

5. Sino-British Stabilization Fund (STRICTLY CONFIDENTIAL).

Fund since last withdrawal - May 2, 1940

Contributions for replenishment,
Central Bank ................. US$3,000,000
Bank of China .............. £ 800,000
Bank of Communications ... US$2,000,000
Hongkong & Shanghai Bank.. A1,000,000
or approx. total

£ 915,500

9 Shanghai open market cross rate of 3.60 fund now has in possession US$21,340,000

No selling by fund since May 2, 1940.

CUSTOMS REVENUE

Whole of China ---- August-October, 1940

August
* O. P.
   C$34,839,010.82
   92.67%
N. O. P.
   8,765,172.09
   7.43%
Total.... C$37,604,182.91
   100.00%

September
O. P.
   C$26,923,956.05
   86.17%
N. O. P.
   5,612,401.04
   11.83%
Total.... C$32,536,357.07
   100.00%

October
O. P.
   C$28,896,054.82
   86.48%
N. O. P.
   4,517,886.03
   13.52%
Total.... C$33,413,941.85
   100.00%

* O. P. - Occupied Ports.
N. O. P. - Non Occupied Ports.
The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

This is to confirm the following radio message, in four parts, forwarded to you December 4th, 5th and 6th giving details of the Netherlands East Indies Oil Negotiations between the Japanese, the N.E.I. authorities, the Standard-Vacuum and the Dutch Co., - Bataafsche Petroleum Mij.:

N. E. I. Oil Negotiations

1. Japanese Memorandum of September 25, 1940, to Netherland delegation tabulated their Minimum annual requirements for five years as follows:

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>Annual quantity in tons of 2,240 lbs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Crude Oil</td>
<td></td>
</tr>
<tr>
<td>1. Aviation Crude</td>
<td>1,100,000</td>
</tr>
<tr>
<td>2. Crude for lubricants</td>
<td>100,000</td>
</tr>
<tr>
<td>3. Other grades of Crude</td>
<td>1,050,000</td>
</tr>
<tr>
<td><strong>Total Crude</strong></td>
<td><strong>2,250,000</strong></td>
</tr>
<tr>
<td>B. Aviation gasoline (over 87 Octane)</td>
<td>400,000</td>
</tr>
<tr>
<td>C. Diesel Oil</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>2,150,000</strong></td>
</tr>
</tbody>
</table>

2. Quantities offered October 8, 1940 by the Oil companies and accepted on October 19th by T. Mikni (President of Mitsui Bussan Kaisha) as representing the Japanese Petroleum Importers:

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>Standard-Vacuum</th>
<th>Bataafsche Petroleum Mij.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aviation Crude</td>
<td>Hill</td>
<td>120,000 tons</td>
</tr>
<tr>
<td>2. Lubricant Crude</td>
<td>Hill</td>
<td>100,000</td>
</tr>
<tr>
<td>3. Other grades Crude</td>
<td>180,000</td>
<td>360,000</td>
</tr>
<tr>
<td><strong>Total Crude</strong></td>
<td><strong>180,000</strong></td>
<td><strong>580,000 tons</strong></td>
</tr>
<tr>
<td>PRODUCT</td>
<td>Standard-Vacuum</td>
<td>Betoafsha Petroleum Mij.</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>4. Aviation gasolines</td>
<td>N11</td>
<td>N11</td>
</tr>
<tr>
<td>5. Motor</td>
<td>75,000</td>
<td>175,000 tons</td>
</tr>
<tr>
<td>6. Gas oil and Diesel Oil</td>
<td>N11</td>
<td>166,500</td>
</tr>
<tr>
<td>7. Fuel Oil</td>
<td>N11</td>
<td>73,000</td>
</tr>
<tr>
<td>8. Kerosene</td>
<td>97,000</td>
<td></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td>318,000</td>
<td>994,500 tons</td>
</tr>
</tbody>
</table>

Total by two companies:

- Crude Oil, 760,000 tons; Products, 564,500
- Grand total = 1,306,500 tons

Quantities shown represent annual rates only – not fixed amounts.

3. Memo of agreement incorporating agreed quantities and terms and conditions of sale, signed on November 12, 1940:

**Principal items:**

a. Annual sales contracts to be signed in Japan by actual purchasers and Standard-Vacuum Oil Co. and Rising Sun Petroleum Co.

b. Contract period for

- Crude Oil - 12 months from November 1, 1940
- Products - 6 months

c. Prices in U. S. Currency – according to formula based on California and Gulf quotations.

d. Delivery – F.O.B. loading terminals of two companies in N. E. Indies in tankers to be furnished by the purchaser.

e. Payment – upon delivery

100% in U. S. Currency (Standard-Vacuum Co.)
75% in U. S. Currency ) Betoafsha

Irrevocable credits to be set up in New York 7 days before loading.

f. Destination – Must be Japan, and can not be diverted to any other country.

g. Force Majure – Applies.
I understand copies of this data have been furnished by one of the negotiators to the High Commissioner of the Philippine Commonwealth and Admiral Hart, Commander in Chief of the U. S. Asiatic Fleet.

Respectfully,

M. R. Nicholson
Treasury Attaché
**Location of Japanese Armies as of December 1, 1940**

**North China**

**Divisions**

<table>
<thead>
<tr>
<th>Division</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>21st</td>
<td>East Lanzhou Railway</td>
</tr>
<tr>
<td>25th</td>
<td>Wutai area, North Shanxi</td>
</tr>
<tr>
<td>27th</td>
<td>Tientsin area</td>
</tr>
<tr>
<td>32nd</td>
<td>Shantung, Tainan area</td>
</tr>
<tr>
<td>35th</td>
<td>North Honan - Southeast Shanxi area</td>
</tr>
<tr>
<td>36th</td>
<td>Southeast Shanxi</td>
</tr>
<tr>
<td>37th</td>
<td>Southwest Shanxi</td>
</tr>
<tr>
<td>41st</td>
<td>Shanxi, Linfen area</td>
</tr>
</tbody>
</table>

**Independent Mixed Brigades**

<table>
<thead>
<tr>
<th>Brigade</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>Hopei, Pingnian area</td>
</tr>
<tr>
<td>2nd</td>
<td>Suliymun Railway</td>
</tr>
<tr>
<td>3rd</td>
<td>North Shanxi</td>
</tr>
<tr>
<td>4th</td>
<td>East Shanxi, Shihchunghwang - Taiyuan Railway</td>
</tr>
<tr>
<td>5th</td>
<td>East Shantung, Kiao tai Railway</td>
</tr>
<tr>
<td>6th</td>
<td>East Shantung</td>
</tr>
<tr>
<td>7th</td>
<td>Hopei, North Taiyuan Railway</td>
</tr>
<tr>
<td>8th</td>
<td>Hopei, Shihchunghwang area</td>
</tr>
<tr>
<td>9th</td>
<td>West Shanxi</td>
</tr>
<tr>
<td>10th</td>
<td>South Shantung</td>
</tr>
<tr>
<td>16th</td>
<td>Shanxi, Taiyuan area</td>
</tr>
<tr>
<td>*18th</td>
<td>Hopei</td>
</tr>
</tbody>
</table>

**Central China**

**Divisions**

<table>
<thead>
<tr>
<th>Division</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd</td>
<td>Northeast Hopeh</td>
</tr>
<tr>
<td>6th</td>
<td>Yanchow - Shanxi area</td>
</tr>
<tr>
<td>13th</td>
<td>Ichang area, North Hopeh</td>
</tr>
<tr>
<td>*15th</td>
<td>Nanking area, V part Central Hopeh</td>
</tr>
<tr>
<td>17th</td>
<td>Yangtze Estuary</td>
</tr>
<tr>
<td>22nd</td>
<td>Hangchow area</td>
</tr>
<tr>
<td>*31st</td>
<td>Han River area, Central Hopeh</td>
</tr>
<tr>
<td>35rd</td>
<td>Kiangsi - Huma Border</td>
</tr>
<tr>
<td>34th</td>
<td>Nanchang area</td>
</tr>
<tr>
<td>*39th</td>
<td>Wuhan area</td>
</tr>
<tr>
<td>*40th</td>
<td>Central Hopeh</td>
</tr>
<tr>
<td>116th</td>
<td>Yangtze</td>
</tr>
</tbody>
</table>

**Independent Mixed Brigades**

<table>
<thead>
<tr>
<th>Brigade</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>*511th</td>
<td>Kiangsu, Chakiang</td>
</tr>
<tr>
<td>12th</td>
<td>Southeast Kiangsu, Wushib area</td>
</tr>
<tr>
<td>13th</td>
<td>Central Anhwei, Fengdu area</td>
</tr>
<tr>
<td>14th</td>
<td>North Kiangsi, Kiukiang area</td>
</tr>
<tr>
<td>17th</td>
<td>Southwest Kiangsu, Shanghai</td>
</tr>
</tbody>
</table>
South China:

Divisions

18th ——— East River area, Hong Kong Border
28th ——— Indochina ( ? Hainan)
29th ——— South Kwangtung and Indo-China
38th ——— North & West River area (Kwangtung)
104th ——— Kwangtung
110th ——— Uncertain
5th ——— Indo-China, Tongking

*1st Guards Independent Mixed Brigade —— Indo-China, Tongking
*2nd Guards Independent Mixed Brigade —— Chungshan area, West River (near Macao)

15th Independent Mixed Brigade ——— Beetow

Manchuria:

Divisions

1st ——— Taitsihar area (North)
2nd ——— Matsunagao area (Northeast)
4th ——— Chianshu area (Northeast)
7th ——— Hamler area (North) ? returned Japan
8th ——— Haimo area (North)
11th ——— Harbin area
23rd ——— Nomonhan area (North)
24th ——— Nomonhan area

Korea:

Divisions

19th ——— Russo - Korean border
20th ——— Ryusan

Japan:

Divisions

9th ——— Kanazawa ( ? relieved 7th Division)
10th ——— Himeji
12th ——— Kurume
14th ——— Utanomiya
16th ——— Kyoto
Guard Division ——— Tokyo

Guard Division and 1st to 8th and 11th Divisions have depot divisions in Japan

Note ——— * means doubtful

Division — 20,000 men
Brigade — 10,000 men
On or about November 23rd a special Ambassador or Envoy from Afghanistan arrived in Shanghai from Deiren on route to Tokyo where he will confer with the Japanese General Headquarters and the Tokyo Government. He was accompanied by one Murat, Mohammadan, who is one of the assistants to the Mohammadan politician, Bourban Gellieff. According to Murat, he has been appointed to act as agent and advisor to the Ambassador. In reality, he is an insignificant official who has been employed in Deiren by the Japanese Gendarmerie, and in this case will merely act as interpreter.

A movement for independence among the Mohammadans of Tokyo has been going on for quite some time. This movement is of an anti-foreign character. It has been dormant for a long period but is now coming to light, and the question of organization of a wide Mohammadan movement in Central Asia, India, and Arabia, as well as in the Near East, together with the formation of a great Mohammadan Empire, is being considered. The movement is being planned and subsidized by Tokyo, Berlin and Rome. According to Murat, a large number of German and Italian agents are working in the Near East; that is, Turkey, Egypt, Arabia, Palestine, and India; while at the same time the work is being directed by the Kwantung Headquarters in the Far East.

To organize the Mohammadan movement, General A. F. Goushin of the local Russian General Headquarters, who acted as advisor in China of the Moscow Government at the time of the Borodin and General Chiang Kai-shek incident (1925-1927), was called to Tokyo. Goushin left for Tokyo accompanied by a Japanese named Shimadzu, who is an employee of the South Manchurian Railway and resides in Shanghai. The Mohammadan movement is regarded as of great importance by the Japanese and will be conducted under the slogan "Asia for the Asiatics."
Tokyo is on the eve of signing a pact with Moscow, and therefore Japanese authorities are showing much concern regarding the activities of White Russian leaders, who have been warned against conducting any propaganda or display of anti-Soviet feeling.

In order to strengthen the power of Wang Ching-wei, General Chen Yu Lin has been directed to organize an international legion in Central China, and to form a Russian unit similar to that which has been operating in North China. To assist in strengthening this unit, Russian units from Manchukuo will be transferred to Shanghai as guards for railroads, telegraph lines, and other means of communication. Colonel A. D. Kouznetsoff, Cossack Ataman from Amour, is slated for the post of Commander of the local unit.

A letter was received from Denmark, dated October the 28th, from one Professor Brent, in which it was stated that the Danes and Germans residing in Denmark are absolutely certain that England will capitulate in the near future; that there is absolutely no chance for England to come out of the war victorious, even with the active help of the United States. In his letter Professor Brent expresses great surprise that such a large number of persons exist who have been hypnotized by England and believe that she has a chance to win the war. Brent also states that free exchange of books, newspapers, magazines, are prohibited in Denmark, and that the receipt of these publications in the mail, except by special permission, is regarded as a crime.

A Japanese Police officer from Japan, who was formerly attached to the Police Bureau at the Japanese Embassy in Central China, returned to Shanghai for a brief visit recently. He stated that internal conditions in Japan are going from bad to worse with alarming speed. The population has lost self control and all respect for the Emperor and the Government. All Japan is a revolutionary camp. Near riots are not uncommon whereby soldiers on leave dressed in civilian clothes attack and beat up Police Officers who, in line of duty, arrest drunkards and close up cabarets and cafes.
The Police believe that the cause for all this is the fact that many prominent and important posts in Japan are today occupied by ex-soldiers who were formerly arrested and jailed for communist activities and who afterwards repeated and were sent to the front where they served a year or two then returned home wounded or sick. These soldier-politicians are now very active in the introducing of the so-called "New Order in Asia" which evidently has become very offensive to the people who do not enjoy the limitations of their everyday lives imposed by the so-called New Order. The speaker further stated that anti-military moves are growing every day and that common welfare which was so popular three years ago is seen no more. Intelligence is suppressed and new sects and anti-Government groups are appearing all the time, and the money appear to be attracted by the propaganda and promises of such groups. Although Japan is surrounded by enemies, Government, Army and Navy will not retreat from their plan of reformation of Asia. Regarding England and the United States, no one in Japan believes that these countries will declare war on Japan. If such war is declared, it would result in the immediate growth of patriotic feeling among the Japanese. The Japanese believe they have sufficient forces to assure victory in a war with England and the United States in the Pacific. Regarding the internal situation in Japan, military dictatorship and resolute measures are expected to succeed in restoring order in the country. It is said in Tokyo that, after Prince Konoye, a military dictator will be appointed in Japan, with one of the Imperial Princes as puppet.

A large part of goods received in Shanghai from the United States and consigned to China are being sent to Germany via Saipan and Hainan. Exceedingly large transactions are noticed by the local German firms and merchants & company which is working through Chinese.

Japanese military circles state that chief communist authorities are taking measures to cut off Shanghai from any connection with the outer world. Many new military expeditions are planned in South China.
DECEMBER 25, 1940.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Harle Cochran

Pursuant to Mr. Cochran's request, I enclose our compilation for the week ended December 18, 1940, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

L. W. Knoke,
Vice President.

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

Enclosures
## Analysis of British and French Accounts

### Period: Week Ended Dec. 18, 1940

#### Bank of England (British Government)

<table>
<thead>
<tr>
<th>Period</th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Debits</td>
<td>Gov't Expenditures(a)</td>
</tr>
<tr>
<td></td>
<td>Proceeds of Sales of Securities (incl. adjts.)</td>
<td>Net Incr.</td>
</tr>
<tr>
<td>1939</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr. 30 - Sept. 27</td>
<td>94.3</td>
<td>36.6</td>
</tr>
<tr>
<td>Sept. 29 - Nov. 1</td>
<td>101.7</td>
<td>8.8</td>
</tr>
<tr>
<td>Nov. 1 - Jan. 3</td>
<td>107.7</td>
<td>8.7</td>
</tr>
</tbody>
</table>

#### Bank of France

<table>
<thead>
<tr>
<th>Period</th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Debits</td>
<td>Gov't Expenditures(c)</td>
</tr>
<tr>
<td></td>
<td>Proceeds of Sales of Securities (incl. adjts.)</td>
<td>Net Incr.</td>
</tr>
<tr>
<td>1940</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan. 4 - 31</td>
<td>84.3</td>
<td>16.8</td>
</tr>
<tr>
<td>Jan. 1 - 28</td>
<td>104.8</td>
<td>15.4</td>
</tr>
<tr>
<td>Jan. 29 - Feb. 23</td>
<td>105.6</td>
<td>15.4</td>
</tr>
<tr>
<td>Apr. 4 - May 1</td>
<td>105.4</td>
<td>14.5</td>
</tr>
<tr>
<td>May 2 - 31</td>
<td>105.2</td>
<td>14.5</td>
</tr>
<tr>
<td>July 1 - 31</td>
<td>104.9</td>
<td>14.5</td>
</tr>
<tr>
<td>Aug. 1 - 28</td>
<td>104.7</td>
<td>14.5</td>
</tr>
</tbody>
</table>

#### Footnotes
- All figures are in Millions of Dollars.
- The table includes the breakdown of expenditures and credits for the Bank of England and Bank of France for the week ended Dec. 18, 1940.
- The table also notes the net increment (in balance) for each period.
- The table includes footnotes explaining the calculations and the sources of the data.
Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.

Through June 19, these figures represent total sales of American securities in Seaway District reported for account of the United Kingdom. Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases. Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.

Includes payments for account of French Air Commission and French Purchasing Commission.

Includes adjustment for (b) above.

About $65 million transferred from accounts of British authorized banks with New York banks.

About $11 million transferred from accounts of British authorized banks with New York banks.

About $8 million transferred from accounts of British authorized banks with New York banks.

About $10 million transferred from accounts of British authorized banks with New York banks.

Adjusted to eliminate the effect of $60 million paid out on June 26 and returned the following day.

About $8 million transferred from accounts of British authorized banks with New York banks.

About $3 million transferred from accounts of British authorized banks with New York banks.

About $4 million transferred from accounts of British authorized banks with New York banks.

About $6 million transferred from accounts of British authorized banks with New York banks.

About $0.9 million transferred to account of Sveriges Riksbank.

About $1.3 million transferred from account of British authorized banks with New York banks.
## ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS

(In Millions of Dollars)

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>Total Debits</th>
<th>Transfers to Official British A/C</th>
<th>Other Debits</th>
<th>Total Credits</th>
<th>Proceeds of Gold Sales</th>
<th>Transfers from Official A/C</th>
<th>Other Credits</th>
<th>Net Incr. (+) or Dscr. (-) in Balance</th>
<th>Total Debits</th>
<th>Transfers to Official British A/C</th>
<th>Other Debits</th>
<th>Total Credits</th>
<th>Proceeds of Gold Sales</th>
<th>Other Credits</th>
<th>Net Incr. (+) or Dscr. (-) in Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9/30 - Sept. 27</td>
<td>17.5</td>
<td>0.6</td>
<td>15.9</td>
<td>21.8</td>
<td>15.1</td>
<td>0.6</td>
<td>-</td>
<td>5.9 (+ 4.3)</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10/30 - Nov. 1</td>
<td>9.6</td>
<td>0.3</td>
<td>9.3</td>
<td>16.7</td>
<td>7.3</td>
<td>2.1</td>
<td>-</td>
<td>7.3 (+ 7.1)</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11/30 - Dec. 29</td>
<td>9.9</td>
<td>0.7</td>
<td>9.2</td>
<td>14.4</td>
<td>13.3</td>
<td>-</td>
<td>1.1 (+ 4.6)</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/30 - Jan. 3</td>
<td>30.0</td>
<td>3.0</td>
<td>22.8</td>
<td>15.3</td>
<td>3.0</td>
<td>-</td>
<td>6.5 (- 7.2)</td>
<td>2.5 (- 2.5)</td>
<td>5.8 (- 5.2)</td>
<td></td>
<td></td>
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<td>1940</td>
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<tr>
<td>1/30 - Jan. 31</td>
<td>23.5</td>
<td>-</td>
<td>23.5</td>
<td>25.7</td>
<td>21.1</td>
<td>-</td>
<td>4.6 (+ 2.2)</td>
<td>5.2 (+ 3.3)</td>
<td>4.9 (- 2.6)</td>
<td></td>
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<tr>
<td>2/30 - Feb. 28</td>
<td>23.1</td>
<td>-</td>
<td>23.1</td>
<td>17.0</td>
<td>16.1</td>
<td>-</td>
<td>0.9 (- 6.1)</td>
<td>5.5 (- 6.1)</td>
<td>0.1 (- 2.8)</td>
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<tr>
<td>3/30 - Mar. 31</td>
<td>42.3</td>
<td>-</td>
<td>42.3</td>
<td>29.5</td>
<td>29.5</td>
<td>-</td>
<td>0.2 (- 12.5)</td>
<td>3.0 (- 3.0)</td>
<td>0.5 (- 2.5)</td>
<td></td>
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<tr>
<td>4/30 - Apr. 30</td>
<td>38.2</td>
<td>-</td>
<td>38.2</td>
<td>42.9</td>
<td>24.8</td>
<td>15.0 (- 4.7)</td>
<td>3.1 (- 12.3)</td>
<td>2.2 (- 4.2)</td>
<td>2.0 (- 2.0)</td>
<td></td>
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<tr>
<td>5/30 - May 31</td>
<td>37.9</td>
<td>15.0</td>
<td>52.9</td>
<td>50.2</td>
<td>50.0</td>
<td>-</td>
<td>0.2 (+ 22.3)</td>
<td>2.0 (+ 2.0)</td>
<td>2.5 (+ 2.5)</td>
<td></td>
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<tr>
<td>6/30 - Jun. 30</td>
<td>44.1</td>
<td>72.5</td>
<td>117.5</td>
<td>90.5</td>
<td>95.3</td>
<td>-</td>
<td>19.2 (+ 89.4)</td>
<td>4.6 (+ 4.6)</td>
<td>5.0 (+ 4.5)</td>
<td></td>
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<td></td>
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<tr>
<td>7/30 - Jul. 31</td>
<td>22.2</td>
<td>-</td>
<td>22.2</td>
<td>117.5</td>
<td>95.3</td>
<td>-</td>
<td>15.6 (- 19.1)</td>
<td>21.6 (- 19.1)</td>
<td>16.4 (- 16.4)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1940 (Year-end)</td>
<td>323.0</td>
<td>16.6</td>
<td>306.4</td>
<td>504.7</td>
<td>412.7</td>
<td>20.9 (- 181.7)</td>
<td>32.4 (+ 181.7)</td>
<td>31.2 (+ 181.7)</td>
<td>27.3 (+ 27.3)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1940 - Oct. 2</td>
<td>44.3</td>
<td>-</td>
<td>44.3</td>
<td>43.9</td>
<td>16.4</td>
<td>-</td>
<td>27.8 (- 27.8)</td>
<td>2.5 (- 25.5)</td>
<td>6.2 (+ 6.2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1940 - Nov. 30</td>
<td>26.7</td>
<td>-</td>
<td>26.7</td>
<td>22.6</td>
<td>14.0</td>
<td>-</td>
<td>14.3 (- 14.3)</td>
<td>0.3 (+ 0.3)</td>
<td>10.1 (+ 10.1)</td>
<td></td>
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</tr>
<tr>
<td>1940 - Dec. 31</td>
<td>35.2</td>
<td>-</td>
<td>35.2</td>
<td>69.6</td>
<td>49.2</td>
<td>-</td>
<td>14.7 (- 14.7)</td>
<td>1.1 (- 1.1)</td>
<td>2.5 (- 2.5)</td>
<td></td>
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<tr>
<td>AVG DEBITS</td>
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<tr>
<td>Nov. 27</td>
<td>8.2</td>
<td>-</td>
<td>8.2</td>
<td>10.8</td>
<td>9.5</td>
<td>-</td>
<td>9.6 (- 2.4)</td>
<td>0.7 (+ 0.7)</td>
<td>1.1 (+ 1.1)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Dec. 4</td>
<td>10.8</td>
<td>-</td>
<td>10.8</td>
<td>21.4</td>
<td>21.4</td>
<td>-</td>
<td>10.6 (+ 10.6)</td>
<td>0.8 (- 0.2)</td>
<td>0.8 (- 0.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11/30 - Dec. 31</td>
<td>5.4</td>
<td>-</td>
<td>5.4</td>
<td>14.4</td>
<td>5.8</td>
<td>-</td>
<td>4.5 (- 9.5)</td>
<td>4.1 (+ 9.1)</td>
<td>0.8 (+ 0.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>12/30 - Jan. 3</td>
<td>11.0</td>
<td>-</td>
<td>11.0</td>
<td>10.4</td>
<td>10.4</td>
<td>-</td>
<td>0.1 (- 0.1)</td>
<td>1.7 (- 1.7)</td>
<td>6.0 (- 6.0)</td>
<td></td>
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</tbody>
</table>

**Week Average of Total Debits Since Outbreak of War** (Canada alone)

Through December 18 $6.7 million

Regraded Unclassified
<table>
<thead>
<tr>
<th>MONTH</th>
<th>TOTAL</th>
<th>ASSET</th>
<th>MRT</th>
<th>FRT</th>
<th>TRS</th>
<th>Total Jan 1 - Dec 31</th>
<th>Subtotals July 7 - Dec 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1 - July 6</td>
<td></td>
<td></td>
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<td>July 7 - Dec 31</td>
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<td>Jan 1 - July 6</td>
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<tr>
<td>July 7 - Dec 31</td>
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</table>
Dear Mr. Morgenthau,

Thanks very much for your Christmas card and its good wishes. May I take this opportunity of wishing you the Compliments of the Season, and, in regard to the New Year, if "happiness and prosperity" be not wholly appropriate terms, may it be one in which we may take some pride in making a contribution that will bring us nearer to the day when peace and sanity can once more reign among the nations of the world.

It was a great pleasure and privilege for me to be able to meet you again and to discuss problems of mutual interest.

Yours respectfully,

[Signature]

Hon. Henry L. Morgenthau, Secretary of the Treasury, WASHINGTON, D.C.
MEMORANDUM FOR THE SECRETARY:

James B. Reston, of the New York Times Bureau in London, today gave me further impressions of conditions and prospects in England, supplementing his talk with you.

The British need the following from us during the next three months:

1. The starting of mass shipbuilding in this country;
2. More destroyers, or their equivalent, in our convoying of cargoes half across the Atlantic;
3. Long-range land planes, capable of carrying a load of bombs, but staying over their targets, especially in these winter months when the nights are long;
4. Long-range seaplanes for patrolling the sea routes and protecting convoys. The Germans now use such seaplanes, flying them regularly from Bordeaux to Stavanger on a vast arc which takes them far out over the Atlantic, west of Ireland. These German planes are in constant communication with submarines and are directly responsible for a large proportion of present British shipping losses.

About food conditions in England, Mr. Reston says that many cold storage plants have been bombed, feeding stuffs have been cut severely, and much British livestock has already been killed for lack of fodder. Fruit is scarce and dear, and milk probably will be rationed before the end of the winter. The British are coming into a period in which food will be as short in some categories as in Germany.

About production: The Air Ministry is now planning for a 50% lag in production by the end of the winter. One prospective shortage in the aircraft industry is aluminum, although the British are sure that they could get all the aluminum they need if they had enough shipping and enough protection for their convoys. A serious problem is the waste of about 50,000 skilled workers, badly needed in the war industries, who are now idle because their factories have been bombed and the government has not been able to resettle and reemploy them.
About Lord Halifax: Mr. Reston is convinced that he is not an appeaser and is 100% for winning the war. Halifax has, however, been an obstacle to Churchill as a man of deep principle who believes in fighting the war according to the rules. He was largely responsible for the British decision not to invade northern Norway ahead of the Germans, and has also opposed the bombing of Rome, which is strongly favored by Churchill. Churchill was therefore glad to get Halifax out of the country into a new post where his qualities can be effective without interfering with the conduct of the war.

About a possible German invasion: Mr. Reston finds the British well protected, with a mobile and well-equipped army. The British docks and harbors are not only strongly armed, but they are equipped with oil pipes which are ready to squirt oil onto the water (for burning) whenever and wherever an attempted landing might be made. About the future, he believes that a British invasion of the Continent will be a mere dream until a “revolution in thinking” takes place among the German and the conquered peoples. He feels that the only way to win the war is to start a “war of ideas” to convince the enslaved peoples that Democracy has an economic answer to their troubles. The British, he says, have not stated their war aims because they do not know how far the United States will be willing to coordinate its economic policies with theirs after the war.
Subject: Probable Reasons for English Delay in taking Bardia.

1. The terrain around Bardia is fairly flat and there are practically no difficulties of terrain. The Italians have strongly fortified the port, however, and from this standpoint the capture of Bardia is fairly difficult. A frontal attack on the town would be costly in lives to the English.

2. The English have cut the lines of communication of the Italians and the Italians will therefore sooner or later have to surrender.

3. By not carrying out a large-scale frontal attack on Bardia, the British are exercising good judgment. In the position that the Italians are they will be forced to attack if they wish to avoid surrender. This enables the English to be tactically on the defensive even though strategically they are on the offensive. This enables them to carry out an important operation and minimize the loss of men.

4. The situation is somewhat similar to that of the siege of Yorktown in the American Revolution. Washington did not attempt to win the victory over Cornwallis by attacking him directly. Washington merely kept Cornwallis' lines of communication cut thus forcing Cornwallis to make attempts to break through the strong defensive fortifications of the American Army. After the failure of these attempts Cornwallis had no alternative but to surrender. In the same way, unless the main Italian-Libyan Army can rescue the Italians in Bardia or the Italian Navy drive off the British Navy, the Italians will be forced to surrender.
Copy of Letter from B. Mexico City, December 26, 1940.

This is a quiet week with little to write about, although important occurrences are in the making. The President has submitted to Congress his projected law, by which the administration of the National Railways is taken out of the hands of the Union. Reports seem to indicate that the project will hurriedly be approved by the Chambers before their recess on December 31st, and it is to be expected that we shall have a different set up for the Railroads by January 1st. The essentials of the project are these: The Railways will be administered by a Board of seven directors, four of whom will be appointed by the Federal Government and three by the Union, whereby a Government majority is assured. A Director General, to be appointed by the President will be invested with the most ample faculties in order to manage the National Lines as any other business enterprise. Unfortunately this enterprise is by now so much run down that the new administrators are facing a terrible task, and we are not altogether sure that they will not resort to increases in tariffs in order to cover the ever growing deficits. As long as the Union was responsible, the Government has been more or less opposed to freight increases. The picture is liable to change when the responsibility rests mainly with the Government itself. We have our fears in this respect. Although the Union has voiced its disapproval of this change, they will have to accept it, especially as the public and political opinion are applauding the action taken by the President.

As we had stated in previous letters, something had to be done about the Railroads, which were constantly going from bad to worse. Unfortunately their financial position seems to be very bad and the Government will have to find ways and means to finance the purchase of much needed equipment and the repair and upkeep of the long neglected tracks. How this will be done remains to be seen, as well as the Government's ability to restore discipline amongst the members of the Union. As stated, the task will be no easy one, and since it is again a Government business, it is very possible that the Mexican people will be called upon to participate in the losses or the cost of reorganization, as one wishes to call it. We are following the matter with much expectation and are curious to learn the Government's choice for their 4 Directors on the Board and the Director General. A great deal will depend on these appointments.

With the Government having its 10 day vacation there is little doing otherwise.

To the best of our knowledge, no headway has been made towards a settlement of the Rosita strike.

The term for concluding the Real del Monte contract discussions expired on the 24th, but so far we have not heard of any strike at Pachuca. We are doubtful that the Union is prepared to sustain another major strike. Cananea and Rosita have given a heavy bleeding to the Union's finances, so has Matamoros, where the Union members are leaving the Union to collect individually their indemnities, cheating the Union out of any reimbursements for support received from it. At Rosita and Real del Monte, we do not expect to see anything new between now and the end of the year.
An electric tramway strike in the Federal District, scheduled for the 24th was postponed to the first week of the new year.

The exchange continues at 4.85, where it seems to be pegged for the time being.

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Copy of Memorandum from Monterrey, Mexico, December 28, 1940

We have received numerous reports of increasing strife between the Cooperativa (labor union) which is leasing the Ojuela mines and the "gambusinos" (ore thieves). The leaders of the Cooperativa group are said to be using high-handed methods in their attempt to rid the camp of "gambusinos", and, according to news items, blasted the San Jorge tunnel just before Christmas to prevent the "gambusinos" from gaining access to the mine. It is further stated that a pitched battle between the two factions was prevented by the intervention of Federal troops.
No. 735. Chungking, December 26, 1940

Subject: Reaction to the Establishment of the Central Reserve Bank by the Nanking Government.

Air mail

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to refer to my telegram dated December 24, 10 a.m. and to report the substance of a conversation between the Vice Minister of Finance and a member of the staff of the Embassy regarding current financial matters in China.

Summary

The announcement of the establishment of the Central Reserve Bank in Nanking has caused no anxiety as it is believed that this institution will be weak and also prevented by Japanese influence from attaining appreciable financial importance. The main function of the bank will be to provide a means of financing the Nanking Government. The Chinese National currency could be harmed only if its circulation were prohibited in Shanghai but according to the Vice Minister of Finance it would be impossible to enforce such a prohibition in the International Settlement and the plan would be a failure. The American and British loans have been of material assistance. Chinese National currency now has a coverage of practically seventy per cent and there is no fear that the new note issue by the Central Reserve Bank will cause any drop in the exchange rate of fapi.

The announcement that the Nanking Government will open a new bank of issue on January 6, 1940, has caused no anxiety in official or banking circles in Chungking. It is believed that the new bank "will be weak and deprived of sufficient power to be in a position to affect the foreign exchange value of Chinese National currency. It is the general feeling here that the primary purpose of the new bank is to provide a means for financing the Nanking Government and that the Japanese will prevent the bank from becoming too strong. The establishment of this financial
institution was encouraged by the Japanese to relieve them from the financial responsibility of running the new government. On the other hand it is against Japanese interests to allow the Central Reserve Bank to become too powerful because the Military Yen would then be adversely affected. Since the circulation of the Military Yen is rather large, it is to the decided advantage of Japan to prevent anything happening that might cause it to depreciate.

The official mentioned above believes that the only possible way in which the Central Reserve Bank could hurt the Chinese National currency would be to prohibit its circulation and substitute the new notes in its place. He feels confident, however, that the Nanking Government would not issue such a decree because the only place where the substitution of the new notes for fapi could seriously harm the Chinese National currency would be in Shanghai and according to him such a decree could not be enforced in the International Settlement and very likely not in the French Concession either.

The American and British loans have given tremendous encouragement to the Government and raised the morale considerably. The Vice Minister of Finance, however, pointed out that these loans have a most important material, as well as psychological, effect. As a result of the portions of the loans to be used for the stabilization fund, in addition to foreign exchange held by the government banks, the Chinese National currency has a coverage at present of almost seventy per cent. He stated also that the Ministry of Finance is convinced that the cost of conducting hostilities for the next year can be met by merely increasing the note issue without the coverage falling below forty to fifty per cent. The National currency is now in such a strong position that there is no fear that the new notes issue by the Central Reserve Bank at Nanking will cause any adverse reaction in the exchange rate.

Respectfully yours,

Nelson Trusler Johnson

Original and two copies (by air mail) and three copies of the Department Copy to Peiping Copy to Shanghai

851.6
JMN:MCL
True copy of signed original
Copied: aja
Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns............£76,000
Purchased from commercial concerns....£31,000

Open market sterling was quoted all day at 4.05-3/4 and transactions of the reporting banks were as follows:

Sold to commercial concerns............£ 2,000
Purchased from commercial concerns.....-0-

Closing quotations for the other currencies were:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian dollar</td>
<td>13-7/8% discount</td>
</tr>
<tr>
<td>Swiss franc</td>
<td>.2321</td>
</tr>
<tr>
<td>Swedish krona</td>
<td>.2385</td>
</tr>
<tr>
<td>Reichsmark</td>
<td>.4005</td>
</tr>
<tr>
<td>Lira</td>
<td>.0505</td>
</tr>
<tr>
<td>Argentine peso (free)</td>
<td>.2355</td>
</tr>
<tr>
<td>Brazilian milreis (free)</td>
<td>.0505</td>
</tr>
<tr>
<td>Mexican peso</td>
<td>.2070</td>
</tr>
<tr>
<td>Cuban peso</td>
<td>8-5/8% discount</td>
</tr>
<tr>
<td>Chinese yuan</td>
<td>.05-1/2</td>
</tr>
</tbody>
</table>

There were no gold transactions consummated by us today.

No new gold engagements were reported.

Today was a holiday in Bombay and there were no gold or silver prices quoted in that city.

In London, spot and forward prices for silver were unchanged from Tuesday at 23-1/4d and 23-3/16d respectively. The dollar equivalents were also unchanged at 42.22¢ and 42.10¢.

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

We made three purchases of silver totaling 426,000 ounces under the Silver Purchase Act. Of this amount 326,000 ounces represented secondary materials and the balance of 100,000 ounces consisted of new production from foreign countries, for forward delivery.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE: December 23, 1940.

TO: Secretary Morgenthau
FROM: Mr. Dietrich

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Deutsche Asiatische Bank, Shanghai, maintained with the Chase National Bank.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Debited</th>
<th>Account Debited</th>
<th>Paid To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 23</td>
<td>$124,300</td>
<td>Deutsche Asiatische Bank, Shanghai, by order of Deutsche Asiatische Bank, Berlin</td>
<td>Chase National Bank, for account of Yokohama Specie Bank, N.Y., for account of Showa Tsukasa Kaisha, N.Y.</td>
</tr>
</tbody>
</table>
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 26, 1940.

STRICTLY CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Dietrich

The Federal Reserve Bank of New York reported the following transaction in the
account of the State Bank of the U.S.S.R., Moscow, maintained with the Guaranty
Trust Company of New York.

Date Amount Debited Paid To
December 24 $ 5,000 Guaranty Trust Co., N.Y.,

for account of Banque
de Grece, Athens

Regraded Unclassified
The Federal Reserve Bank of New York reported the following transactions in Russian accounts maintained with the Chase National Bank.

Principal changes in the State Bank of Russia's dollar account during the period December 19 to December 26, inclusive, were as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Credited</th>
<th>Received From</th>
<th>Amount Debited</th>
<th>Paid To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 19</td>
<td>$131,565.71</td>
<td>Amtorg Trading Corp.</td>
<td>$822,533.51</td>
<td>Commercial Letters of Credit</td>
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<tr>
<td>Dec. 20</td>
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<td></td>
<td>$215,686.72</td>
<td>Commercial Letters of Credit</td>
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<tr>
<td>Dec. 21</td>
<td>250,475.26</td>
<td>Commercial Letters of Credit</td>
<td></td>
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</tr>
<tr>
<td>Dec. 23</td>
<td>131,898.08</td>
<td>Commercial Letters of Credit</td>
<td>500,521.89</td>
<td>Amtorg Trading Corp.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>128,176.02</td>
<td>Commercial Letters of Credit</td>
</tr>
<tr>
<td>Dec. 24</td>
<td>275,000</td>
<td>Chase National Bank, N.Y., by order of</td>
<td>83,636.65</td>
<td>Commercial Letters of Credit</td>
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<tr>
<td></td>
<td></td>
<td>Stockholms Enskilda Bank, Stockholm</td>
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<tr>
<td>Dec. 26</td>
<td>104,360.53</td>
<td>National City Bank, N.Y.</td>
<td>57,933.88</td>
<td>Commercial Letters of Credit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>120,000</td>
<td>Amtorg Trading Corp.</td>
</tr>
</tbody>
</table>
On December 26 the balances of the State Bank and the Amorg Trading Corporation were as follows:

<table>
<thead>
<tr>
<th></th>
<th>State Bank of the U.S.S.R.</th>
<th>Amorg Trading Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Balance</td>
<td>$ 9,633,000</td>
<td>$ 1,245,600</td>
</tr>
<tr>
<td>Cash commercial Letters of Credit</td>
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<tr>
<td>Changes in total since December 18</td>
<td>- $ 1,344,000</td>
<td>- $ 322,400</td>
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December 15. The National Maritime Union has organized at least two strikes in foreign ships in American ports (the last being December 16th in the Port of New York with regard to a British steamship) to test the Union's power to control ships sailing under foreign flags.

December 19. Regarding a recent press interview by George H. Hutchinson concerning the delivery of British planes from Canada over the Atlantic, FBI states Hutchison has a bad record dating from 1926.

December 20. The Dies Committee has subpoenaed the National City Bank for all records pertaining to German banks for the past year. The Banco de Mexico has paid a gold reserve $9,000,000 and expects to pay over a remaining $3,000,000 for a $1,000,000 gold purchase to strengthen the Mexican gold reserve.

December 21. A large batch of translations of official French documents, taken aboard the Pan-American Clipper by Governor General Oré and his aide when they were taken into custody by British authorities at Antigua in October, is transmitted. Among items in the papers is a statement that the Colonial Government's activities in the past three months have been devoted to resisting influences directed to detaching the Colonies from the mother country; the plan of action in Brittany and the other Colonies has been to diversify the economic and agricultural production of the islands; the reduction of imports and regulation of internal taxation and production are planned as well as the obtaining of dollar credits in the United States; there is discussed a plan for exchange control for the utilities; it is recommended that sugar prices be cut to meet world competition and new outlets be found for the alcohol produced as well as for bananas. There are complaints with regard to corruption and waste by prior officials. A summary of the military situation is also appended.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 26, 1940

strictly confidential

To Secretary Morgenthau

From Mr. Klaus

JBI reports:

November 20. It appears, with regard to the $2,000,000 United States currency transported from Washington by Italian officials on November 4th, that the Chief U.S. Customs Inspector at Laredo requested the Mexican Immigration Chief at Nuevo Laredo to treat the Italians as diplomatic couriers with every courtesy, that a guard of honor was provided by the Mexicans at the border but that upon the arrival of the Italians in Mexico City two days later the bags were seized, opened and one week later (November 13), the currency was placed in the Mexican Treasury for the reason that such an amount of American currency in Mexico might affect the value of the Mexican peso; the Mexicans told the Italian officials that the money would be returned if it were immediately transported out of Mexico.

December 7. Report on the activities of Jean Monnet shows him to have been in communication with A. F. Adams, Comptroller of the Transcontinental Broadcasting Company; with Twentieth Century-Fox Film; with Rene Boel, Belgian financial representative, formerly with Allied Dye and Chemical Company; Gasselin of Baldwin Locomotives. Gasselin got his job on the War Department's recommendation in connection with tank construction, having been associated with the Renault French Commission which came here in June, 1930. Gasselin worked at Baldwin Locomotive from September 2 to September 6, when he disappeared; he is reported to have gone to Canada.

December 18. Packages of phonograph records consigned from the German Embassy at Tokyo to the German Consulate at New York have been received in New York City; these are recorded propaganda speeches covering British blockade, naval and air warfare, etc., and are intended to show that England is bound to lose. While it is said that the speakers are different persons (usually "Rear Admiral Luetzow"), the report says that the voice of each talk seems to be the same.

December 21. A private conference was held November 16, 1940, during the C.I.O. conference, at which John Lewis, Murray, Harry Bridges and others were present; Murray accepted the presidency only on condition that Harry Bridges be not named vice president but Bridges was allowed to select Joe Curran for the office. Prior to the conference, there was a report that the Communists threatened to start a new labor organization to be known as the National Transportation Federation with Joe Curran as president if Murray were elected President of the C.I.O.

December 21. Affidavits and other information said to be reliable have been received to the effect that Wyndham Mortimer of the United Automobile Workers, who recently led the Vultee strike, is a Communist Party member.
I. Western Theater of War.

Truce on offensive air operations prevailed from noon on the 24th.

II. Greek Theater of War.

Only local operations on a reduced scale are reported. Bad and cold weather limited ground and aerial activity.

III. Mediterranean and African Theaters of War.

The situation in the Bardia area is reported unchanged. The Italian Air Force has intensified its operations against British positions in Libya. The tempo of British air activity in this region has been maintained.
NOTICE

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

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SOLDAN’S OPINIONS ON GERMAN MILITARY SUCCESS

SOURCE

This bulletin contains a translation, somewhat abridged, of an article written by Lieutenant Colonel Georg Soldan, one of Germany’s most noted military critics, and published in the Deutsche Jahr, semi-official journal, on September 20, 1940.

An American official observer makes the following statement:

"Articles appearing in The Deutsche Jahr are considered to voice the official views of the German armed forces, and the article by Lieutenant Colonel Soldan, one of the editors, is considered to portray accurately German military opinion on the subject of Germany’s recent military success."
SOLDIER'S OPINIONS ON GERMAN MILITARY SUCCESS

During the World War it was difficult for me to see beyond the narrow circle of my duties as company commander and later as battalion commander, and I succeeded only partially in understanding the larger aspects of the war. It was a long time before I was able to see the full picture and to grasp the reasons for our not being able to win. Many others felt the same way.

In the present case, however, circumstances are entirely different. We have won the war with such fantastic speed and effectiveness that today we are consumed with eagerness to know how victory has been possible. This question has often been asked even by comrades with a good background of personal war experience.

Clausewitz has said, "Only now and then do some of the threads which form the web become visible. Most of the mental struggles are purposely hidden because they touch on political matters." Our question cannot be answered in an entirely satisfactory manner, but in giving it consideration we shall deal with the factors which are plain for all to see.

First, we can state without qualification that the German Air Force has altered the entire art of war. I am inclined to value this fact as the most important element in the achievement of our success and in the speed with which it has been achieved.

I do not think of the air force only as a new branch of the service which is able to fight for itself independently of the army and navy. We are now watching it in the gigantic aerial fight against England, and there is no doubt that this aerial war is something entirely different from anything we have seen before. But we should realize that great aerial battles and immense bombing attacks by day and by night are only preludes, and that they presage a change in the conduct of war—a change whose effect cannot yet be foreseen. The change will not occur during this war. When I think of the future in terms of what I have seen and experienced, and when I consider the possibility of further development of the air force, I conclude that the present moment in the history of war can be considered as only a beginning.

We know that today, as well as in the future, war by land and by sea can be successful only with superiority in the
air. The present conflict has already demonstrated this fact, and the air force must now be considered the controlling and decisive branch of the service. Its development, therefore, will be the central point of all future military efforts. The air force, however, must not be developed as an individual arm which conducts an individual war, for neither the army nor the navy of the future can operate without strong units of the air force. This is already true of the army, although it is not reflected in army organization.

Recent events have given rise to the question of whether heavy artillery is still of value to the army, and the matter has been discussed in neutral military technical literature. We know—and I think this the second reason for the greatness and rapidity of German success—that we must grant our air force a complete artillery effect, an effect which artillery on the ground would never be able to produce.

During the World War, the offensive successes of the infantry were possible only with the support and cover of artillery fire of all calibers. The fact that infantry attack stopped as soon as artillery support ceased is the essential reason for failure of the entire 1914-1918 military effort. We artillerymen could not help, since the artillery was not sufficiently mobile to change position quickly when a break-through was effected and when the attack was going forward well. Sooner or later, the enemy always had opportunity to stop our successes by utilizing the defensive force of the machine gun.

The air force, as the most mobile and effective artillery, changed this. Without it, tanks and the motorized troops would not have achieved their great successes as effectively and as quickly as they did. We are not unaware of the important development of armored and motorized forces. On the contrary, we consider their effectiveness the third factor of our quick success, for without their weapons and the speed of their movements, the artillery effect of the air force would have been in vain. Never has it been so evident that the secret of success lies in cooperation of all weapons and in proper combination of individual forces.

It is futile to ask which factor has been most important, for no individual weapon alone has achieved our success and our glory. The success of one is not possible without the success of the others, and even the most modern weapons are finally dependent upon old weapons. Regiments, brigades and divisions, after long marches and hard fights, completed jobs which had been begun with lightning attacks. This fact is an additional con-
sideration which must not be undervalued. It is decisive.

Individual factors have been closely strung together until an unbreakable chain has been forged around the enemy's neck. This has been possible only because the soldier has been trained to use his power efficiently and because the spirit of the new period has inspired enthusiastic devotion. The soldierly virtues of our army and the spirit of the nation are additional factors—factors which Clausewitz has characterized as most important. But even these elements would be useless without an eminent command to point the way for annihilating attacks. The ability and the genius of the strategist are, as Clausewitz also stated, the crown of the extraordinary achievements of our armed forces.
December 27, 1942,

Dear Mr. Secretary:

I am enclosing a memorandum in regard to the possible use of Danish vessels in our and other neutral ports. When you have had an opportunity to look over this memorandum, I should like to sit down with you and Admiral Land and discuss it.

I am sending a copy of the memorandum to Admiral Land.

Sincerely,

Secretary of the Treasury.

The Honorable
The Secretary of the Navy.

Enclosure

* * * 40/01/43
26/47/43
DAVID MESSMORE IN UNITED STATES AND OTHER FOREIGN POSTS

(1)

In December 16, 1940 there were seventy-seven (77) Danish vessels of a total dead weight tonnage of 331,118 tons in neutral
waters. On the same date there were sixty-three (63) Danish ships
of a dead weight tonnage of 372,310 tons in ports of the United States
or its possessions.

An analysis is a chart showing the location of each of these vessels,
their ownership, their dead weight tonnage and the year in which the
vessel were built.

(2)

There are several ways by which these Danish boats can be put
to use under existing laws:

(a) By a bare boat charter from the Danish owners
to the President, the Navy or a private corporation
financed and controlled by the U.S.

(b) By requisition.

(3)

Charters

The attorney for M. J. Ingersleben and Ingersleben-Koller Inc.
(agent for the owners of the Maersk Line boats) has been negotiating
with the Navy Department to have bare boat charter the Maersk Line boats.
In all probability such a charter can be worked out. It is also possible
that Maersk Koller, the son of A. P. Koller, the control M. J. Ingersleben's
power over the boat, will join in the charter. The indications are
that if the Maersk Line boats are chartered to the President, the Navy
or an RFC corporation on a bare boat charter, the other Danish owners
will follow the same pattern. If this is done all 77 of the Danish
vessels would probably be covered by the charters.

When and if the Danish vessels are chartered by the President,
the Navy or an RFC corporation on a bare boat charter, the vessels
can be put to various uses. Thus, for example, the Navy under the
charter party could convert a vessel such as the GREEK NAUKI to a
war auxiliary or patrol craft for use in the Philippine Islands.

(Act of June 25, 1940 — Public L. 697 — 76th Congress; Act of
September 9, 1940 — Public L. 762 —

Regraded Unclassified
75th Congress). If this were done, it would achieve the purpose of existing shipping and thereby make vessels available for the British. The Navy directly, or through the War Department (Act of July 12, 1942 (44 Stat. 122); Act of July 22, 1943, as amended (47 Stat. 231, 48 Stat. 984, 50 U.S.C.A., Sec. 202)), the President or an H.O.S. corporation, with the advice and consent of the Senate, can probably recharter the British vessels to private ships that operate for the British or other British starting from the understanding that substitute ships will be released for the use of the British or converted into the British.

If not already committed, the Emergency Funds appropriated to the President (Act of June 23, 1940—Public No. 589—76th Congress and Act of June 25, 1940—Public No. 611—76th Congress) can also be used to pay for the chartering. Similarly, the $25,000,000 appropriated to the President for the acquisition and conversion of vessels by the Act of July 29, 1940 can be used to charter these vessels.

Requisitioning of British Vessels

If the British vessels cannot be chartered, those of them in our ports can probably be requisitioned under existing law. Under the present prevailing circumstances the Executive can probably requisition vessels both as a matter of domestic and international law. U.S. Const. Art. II, Sec. 2; United States v. Russell, 30 U.S. 42 (1871); The Law of Foreign Relations, 3rd ed. (1944) 400-401, 418; and The Law of International Law and the World War, 1920 p. 170, 212; Bean, La Réquisition des Navires allemands, Portugal, 1916 Revue Générale de Droit International Public 268, 272; Bull. Intern, (1922-23) British Year Book of International Law 119-11.

Upon requisitioning, payment to the owners can probably be left to future congressional appropriations (United States v. Russell, supra) or such appropriations as the President's Emergency Funds, or the Navy appropriations or H.O.S. funds can be used. U.S. v. Mid-National Line Company v. United States, (1929) 269 U.S. 55; American v. O'Brien, (1925) 234 U.S. 270, 286; Long Island Water Supply Co. v. Wexford, (1937) 265 U.S. 663.

If the requisitioning is done, it should probably be handled by Presidential proclamation and Executive order designating the department or agency to take the bonds and providing for the method of payment to the owners, if any.
Recommendations

To recommend that:

(1) The Navy Department and the RFC be authorized to proceed with the negotiations with H. J. Isbrandtsen to charter the Maxem line boats on a bare boat charter and to negotiate with the other owners of Danish boats in neutral ports on a similar basis;

(2) Simultaneously, the Navy, Maritime Commission, the RFC and Treasury work out with the Attorney General the bases for requisitioning the Danish vessels in our ports under existing law and prepare the necessary Proclamations and Orders; and

(3) When and if the vessels are obtained by charter or requisition, the Secretary of the Navy, the Chairman of the Maritime Commission, the Chairman of the RFC and the Secretary of the Treasury determine their disposition and use.
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<tr>
<th>No.</th>
<th>Vessel</th>
<th>Owner and Address</th>
<th>Location</th>
<th>D.W.T.</th>
<th>Year</th>
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<td>J. Lauritzen, Hammerenæsgade 1</td>
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<td>Year Built</td>
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<td>Det. Forenede Dampskibeselskab, S.A.</td>
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<td>Ostasiatiske Kompagni, Holbergsgade 2-4 Copenhagen K., Denmark</td>
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<td>Det. Danske Petroleum A/S</td>
<td>(F. W. Kraft, Mgrs.) 13, Skt. Anna Plads, Copenhagen</td>
<td>St. Thomas, V.I.</td>
<td>12,760</td>
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<td>Dampe-A/S Myren (Holm &amp; Wonsild Mgrs.) Amaliegade 36, Copenhagen K., Denmark</td>
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December 27, 1940

Dear Admiral Lewis

I am enclosing a memorandum in regard to the possible use of Danish vessels in our and other neutral ports. When you have had an opportunity to look over this memorandum, I should like to sit down with you and Secretary Knox and discuss it.

I am sending a copy of the memorandum to Secretary Knox.

Sincerely,

Secretary of the Treasury.

Honorable Henry C. Land
Chairman, Maritime Commission
Washington, D. C.

Enclosure

 memo/nc/n
 12/27/40

Regraded Unclassified
December 26, 1940

DEPARTMENT OF VITAL STATISTICS AND OTHER MORTAL FACTS

(1)

On December 27, 1940 there were seventy-seven (77) Danish vessels of a total dead weight tonnage of 439,343 tons in neutral countries. On the same date there were forty-three (43) Danish ships of a dead weight tonnage of 772,050 tons in ports of the United States or its possessions.

An amended chart showing the location of each of these vessels, their ownership, their dead weight tonnage and the year in which the vessels were built.

(2)

There are several ways by which these Danish boats can be put to use under existing laws:

(a) By a bare boat charter from the Danish owners to the President, the Navy or a private corporation financed and controlled by the RFC.

(b) By regulation.

(3)

Charter

The attorney for H. J. Ingersoll and Ingersoll-Koller Inc., agents for the owners of the Ingersoll Line boats, has been negotiating with the Navy Department to have a boat charter the Ingersoll Line boats. In all probability such a charter can be worked out. It is also possible that Ingersoll Koller, the son of H. J. Ingersoll's power over the boats, will join in the charter. The indications are that if the Ingersoll Line boats are charter to the President, the Navy or an RFC corporation as a bare boat charter, the other Danish owners will follow the same pattern. If this is done all 77 of the Danish vessels would probably be covered by the charters.

When and if the Danish vessels are charter by the President, the Navy or an RFC corporation as a bare boat charter, the vessels can be put to various uses. Thus, for example, the Navy under the charter party could convert a vessel such as the CHEREE BIRCH to a naval auxiliary or patrol craft for use in the Philippine Islands. (Act of June 26, 1940 - Public No. 687 - 76th Congress; Act of September 9, 1940 - 71st No. 782 -
Requisitioning of Danish Vessels


Upon requisitioning, payment to the owners can probably be left to await future congressional appropriations (United States v. Russell, supra) or such appropriations as the President's Emergency Funds, the Navy appropriations or AFC funds can be used. Cf. Old Dominion Land Company v. United States, (1925) 269 U.S. 55; Grenier v. Kurn, (1912) 221 U.S. 290, 308; Long Island Water Supply Co. v. Brooklyn, (1897) 156 U.S. 605.

If the requisitioning is done, it should probably be handled by Presidential proclamation and Executive Order designating the department or agency to take the boats and providing for the methods of present payment to the owners, if any.
Recommendations

We recommend that:

1. The Navy Department and the RFC be authorized to proceed with the negotiations with E. J. Inman to charter the Maersk Line boats on a bare boat charter and to negotiate with the other owners of Danish boats in neutral ports on a similar basis;

2. Simultaneously, the Navy, Maritime Commission, the RFC, and Treasury work out with the Attorney General the bases for requisitioning the Danish vessels in our ports under existing law and prepare the necessary Proclamations and Orders; and

3. When and if the vessels are obtained by charter or requisition, the Secretary of the Navy, the Chairman of the Maritime Commission, the Chairman of the RFC and the Secretary of the Treasury determine their disposition and use.
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Regraded Unclassified
December 27, 1940
9:58 a.m.

H.M.Jr: Hello.
Operator: Secretary Hull coming on.
Cordell Hull: Hello.
H.M.Jr: Cordell?
H: Well, Mrs. Hull and I wanted to felicitate with you folks on the delightful social event which is a great epoch in the life of.....
H.M.Jr: It was terribly nice of the Roosevelts.
H: Yes, that was great.
H.M.Jr: And Joan had a great time.
H: We were so glad to hear it.
H.M.Jr: It's a wonderful age - eighteen.
H: Yes.
H.M.Jr: Cordell, I've got a document here which we have not shown to anybody yet outside of the Treasury.
H: Yes.
H.M.Jr: It's a proposed Executive Order covering foreign funds and foreign buying and the whole question of how we treat the question of letting foreigners buy in this market.
H: Yeah.
H.M.Jr: Now, before I show it to anybody, I'd like to have at least an hour to go over it with you and see whether you like it and get the benefit of your advice.
H: Yeah.
H.M.Jr: Now, how about Monday morning?
H: Monday morning would be all right with me.
(Talks aside). Yeah, that would be all right.

H.M.Jr: What time would be good for you?

H: Well, a quarter after 9:00 or 9:30.

H.M.Jr: 9:30?

H: 9:30?

H.M.Jr: Yes. I think it will take at least an hour.

H: All right.

H.M.Jr: And I'll send you a copy over of it. I'll have a summary - I have no summary - I'll have a summary made and send over that, plus the original, as you might want to look at it before Monday.

H: Yes, just send it over as soon as convenient. Then at 9:30 Monday morning.

H.M.Jr: Yes, and I'll bring a couple of my fellows with me who've been working on this with me.

H: Yes. Let's see - all right, Henry.

H.M.Jr: As I say, nobody outside of the Treasury has seen this and I don't want to go any further until I know how you feel about it.

H: Yes, well, I'll be glad.

H.M.Jr: Thank you.

H: Yeah. Good-bye.
Those present at the meeting were Secretary Morgenthau, Captain Collins, and Philip Young.

The Secretary asked Captain Collins as to how many Bell pursuit ships were produced in December, and Captain Collins replied thirty-two. It was expected that twenty-eight would be delivered in January, all to go to the Army. It was thought, however, that probably five additional ships would be delivered to the British.

In response to Secretary Morgenthau's question as to the status of British orders, Captain Collins replied that the first British ship was supposed to be tested that day. Captain Collins thought that probably a total of 62 planes per month would be produced in February, March, and April, and that the number would probably increase to 56 in May, which represented the maximum rate of production for Bell (three per day for twenty-two days).

The new Bell plant at Niagara Falls is to be completed about May and will have a production capacity of about two planes per day. The Secretary inquired as to whether Bell was going to build another new plant at Niagara Falls, and Captain Collins said he thought it probable. This new plant costing six million dollars would have an area of about 440,000 square feet plus a drop hammer house and an engine building. This new plant would have a production capacity of about ten more planes per day and could be ready by November.

Secretary Morgenthau inquired as to how much the Bell planes cost, and Captain Collins said that the first batch of 200 without engines, propellers, radios, guns, or oxygen equipment cost from $40,000 to $45,000 each. The price of the second batch of 250 was cut to $39,500, and on the third batch of 360 was cut to $38,593.

The speed of the Bell with the Allison E-5 is 388 miles per hour loaded, and this is expected to jump to 400 miles per hour with the new Allison E-4 engine. Captain Collins said that the leak-proof tanks and armor which had been added to the planes had increased the weight and resulted in cutting down their speed.
December 27, 1940
1:00 p.m.

William Clayton:

Hello, Mr. Secretary. How are you?

H.M. Jr:

It's Henry to you.

C:

Hello? This is Will Clayton.

H.M. Jr:

Yeah. How are you?

C:

Pretty well. I hope you had a nice Christmas - you and all your family.

H.M. Jr:

Very good.

C:

Well, that's good. Mr. Secretary, I'm giving a very small luncheon for Mr. D'Arcy Cooper of England on Tuesday and I'd feel highly honored if you could come. It's very informal, no speeches or anything of that kind.

H.M. Jr:

Well, I'd love to come, but it so happens I've got Leon Henderson coming over here for lunch and some other people, on Tuesday.

C:

Oh, I see.

H.M. Jr:

But thank you for asking me.

C:

Well, I'm sorry and maybe some other time.

H.M. Jr:

Well, I'd love to.

C:

All right. Thank you, sir.
Dear [Name],

This is a personal note only in case it may be of some value if matters move that way.

So sorry about today. Have been trying by every means possible to get here earlies but both planes were grounded.

[Signature]
MEMORANDUM

1. To provide for U. S. defence needs still further production facilities for weapon manufacture on a very large scale are necessary.

2. As to whether such weapons will be loaned to the U. K. as a means of defending the U. S. is for Congress to decide.

3. If the creation of such new production facilities is delayed, it may be too late to attend to U. S. needs by either method.

4. The President, in consulting Congress as to whether or not it wishes to supply the U. K. with weapons as a means of defending itself, therefore asks for the immediate establishment by Congress of a $1,000,000,000 appropriation for the creation of capital facilities for such new weapons. (This is without prejudice to any other means which may be available from existing appropriations for assisting in a broader manner. In this connection it should be remembered that the provision of certain items of the Army "A" programme and merchant ships are of special urgency in the view of His Majesty's Government.)

5. If Congress, in due course and after appropriate debate, decides to loan the output of such plants to the U. K., well and good.

6. If not, the insurance of U. S. defence needs will have been effected at a relatively insignificant insurance premium in that the weapons will be available to the U. S.

Arthur B. Purvis.
December 27, 1940.

Dear Henry:

Sir Frederick has given me the enclosed memorandum which he would like to have in your hands immediately. As our appointment is for Monday, I am therefore sending it on.

I was so sorry about today.

Yours sincerely,

[Signature]

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

It is very important that we should be given an opportunity, before any final decision is reached, to have a look at the scope of the authority to be given by Congress in respect of the supply of munitions, etc. to the United Kingdom. The reason is this.

As we explained to Mr. Morgenthau, our total dollar deficits (not allowing for Canada) during the second year of war is estimated to be roughly equal to the expenditure of the British Purchasing Missions (which includes, beside armaments, certain expenditure on raw materials and consumable stores used for warlike purposes). Assuming that the assistance received were sufficient to cover the expenditure of the British Purchasing Missions, the remaining problem would resolve itself into the following two points:

(a) Our free resources in gold and United States dollars were on the 2 3rd of December down to the dangerously low level of $416 millions. Of this, $63 millions represent the working balances held by British banks operating on behalf of the British exchange control, and cannot in practice be appreciably drawn down. This leaves only about $350 millions, and this figure is being daily reduced. How are we to carry on in the interval before Congress has approved the new proposals, and how are our resources to be brought back to a proper working balance?

(b) How are we to deal with the remaining adverse balance, which mainly arises in Canada? After taking into account the help which Canada can give us and all the newly-mined South African
gold, this is estimated to run at about $200 millions a year (Our adverse balance with Canada is swollen not merely by munitions orders but also by our increasing dependence on Canada for materials such as timber, paper, etc., which we used formerly to obtain largely from Europe).

But there is a previous question to be answered. Will the expenditure of the British Purchasing Missions in fact be covered by the powers to be granted by Congress? If not, that part of their expenditure which is not covered will also have to be provided for; and this might increase the net deficit of $200 million a year, which I have mentioned above, to quite a different order of magnitude.

In the same connection, it is intended that the proposals to be laid before Congress should cover the warlike expenditure of Canada and the other Dominions, and of Greece and our other Allies? This obviously may make a considerable difference to our position.

27th December, 1940.
DEPARTMENT OF THE TREASURY

Villard Hotel, Washington, D.C.

December 27, 1940.

Dear Henry:

Sir Frederick has given me the enclosed memorandum which he would like to have in your hands immediately. As our appointment is for Monday, I am therefore sending it on.

I was so sorry about today.

Yours sincerely,

(Signed) Arthur

The Secretary of the Treasury,
Washington, D.C.
(3) How are we to deal with the remaining adverse balance, which mainly arises in Canada? After taking into account the help which Canada can give us and all the newly-mined South African gold, this is estimated to run at about $200 million a year (Our adverse balance with Canada is swollen not merely by munitions orders but also by our increasing dependence on Canada for materials such as timber, paper, etc., which we need formerly to obtain largely from Europe).

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In the same connection, is it intended that the proposals to be laid before Congress should cover the warlike expenditure of Canada and the other Dominions, and of Greece and our other Allies? This obviously may make a considerable difference to our position.

(Initiated)F.P.

27th December, 1940.
Dear Henry,

Thank you for your note of December 23rd, enclosing a copy of "Inventory of Idle Plants", which will undoubtedly be most useful to us.

Yours sincerely,

[Signature]

The Honourable Henry Morgenthau Jr.  
Secretary of the Treasury  
Washington, D.C.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, French West Africa
DATE: December 27, 1940, 2 p.m.
NO.: 115

FOR THE TREASURY.

At the present time, Bank of France inspectors are in French West Africa making a check on the gold reserves of the Bank of France which now are stored at Kayes, French Sudan, in an old fort. It was stated by the Banque de l'Afrique Occidentale that the gold sent to France recently belonged to the Belgian and Polish Central Banks, and Germany had demanded that it be returned.

WASSON.

EA:LMW
To: The Secretary  
From: Mr. Young  

Re: Rifles for Canada  

In response to my memorandum which you forwarded to Secretary Stimson requesting 100,000 additional rifles for Canada, Secretary Stimson has replied that this matter has been referred to the Joint Defense Board.  

He also stated that investigation by the War Department disclosed that the need for these rifles was not urgent at present and that the ultimate needs of Canada were thought to be considerably less than the number of rifles requested. Further, Secretary Stimson stated that no additional rifle ammunition was now available for transfer to Canada.  

This matter is still under discussion by the Joint Defense Board.
Miss Chauncey:

Mr. Young sent the Secretary a memorandum on the rifles for Canada dated 12/27/40.

bj
12/28/40

MR. YOUNG
December 27, 1940

My dear Mr. Secretary:

On behalf of the Secretary of the Treasury, may I thank you for your letter of December 16th, suggesting that no action be taken on the request of the Canadian Government for 100,000 additional rifles until the matter has been fully considered by the War Department and the Permanent Joint Defense Board.

Sincerely yours,

(Signed) Philip Young

Philip Young
Assistant to the Secretary

The Honorable,

The Secretary of War.

bj
The Honorable,  
The Secretary of the Treasury.  

Dear Mr. Secretary:  

I am in receipt of your letter of December 12th and its enclosures relative to the supply to the Canadian Government of 100,000 additional rifles.

The question of the extent of the Canadian need for additional rifles has been under investigation by the War Department in consequence of discussions of the subject between the military representatives of the two Governments who are members of the Permanent Joint Defense Board. The investigation to date indicates that this need is not urgent at present, and that the ultimate needs will be considerably less than the numbers shown in the enclosures accompanying your letter. Moreover it should be noted in this connection that no additional rifle ammunition is now available for transfer to Canada because of the dangerously low level to which our stocks have been depleted.

In view of the foregoing and as the matter is one that concerns continental defense, it is suggested that no action thereon should be taken until it has been fully considered by the War Department and the Permanent Joint Defense Board, as an important and integral feature of joint defense plans.

Sincerely yours,

[Signature]

Secretary of War.
Hello.

Mr. Foley.

Hello.

Yes, Mr. Secretary.

At Cabinet there was a big discussion on how to do the Danish boats. The President seemed very much interested. I tried to get in on it but for some reason, I don't know why, he doesn't want us in on it.

I see.

But I told the Attorney General that we had it all wrapped up in a pink package and he said for heaven sakes to send it to him at once. so he could work on it tonight.

All right.

But why the President doesn't want us in on it I don't know. He says it has got nothing to do with munitions.

(Laughs).

So I said

Anyway, I'd send it up - get it right over to the Attorney General by special messenger.

All right. That will be a copy of that memorandum you sent to Knox this morning.

That's right.

O. K. I'll do it right away.

Thank you.

All right.
December 27, 1940
4:49 p.m.

Operator: Mr. Haas.
H.M.Jr: Hello, George.
George Haas: Yes.
H.M.Jr: Please send over at once by direction of the Secretary a copy of what the Army uses in the way of wool.
H: Yes, to whom?
H.M.Jr: That list.
H: Who do you want it sent to.
H.M.Jr: Secretary of Agriculture.
H: Oh, I didn't get you.
H.M.Jr: Get it over to him. Send it by direction of me.
H: Yes, sir. Right away to the Secretary of Agriculture.
H.M.Jr: Right away.
H: I'll do it by special messenger.
December 27, 1940
4:56 p.m.

H.M.Jr: Hello.
Operator: Mr. Kuhn.
Ferdinand Kuhn: Hello.
H.M.Jr: Ferdi, have you got that stuff ready?
K: Yes, certainly. I've given it to Schwarz, and it was approved by Welles over at the State Department.
H.M.Jr: Well, do you know - am I going to read something?
K: He said no. They couldn't get a sound man over, there wasn't one in town, so it will simply be a silent film.
H.M.Jr: Oh, but the statement is all right.
K: The statement is O. K.
H.M.Jr: But Schwarz has it?
K: Yes, he has it, Mr. Secretary. Do you want me to get it?
H.M.Jr: Well, if you and Schwarz would be in my outer office at 5 minutes of 5:00 ......
K: All right.
H.M.Jr: Will you please?
K: Fine. I'll tell him.
H.M.Jr: Thank you.
K: Thank you.
December 27, 1940
5:00 p.m.

H.M. Jr: Hello.

Chester Davis: Hello, Henry.

H.M. Jr: Hello, Chester.

D: I’ve finished all except typing a couple of memoranda to you and I wondered if you — if tomorrow morning will be all right, because if you are not planning to come to the office I can send them to the house.

H.M. Jr: Be perfect.

D: Tomorrow morning?

H.M. Jr: Perfect.

D: All right.

H.M. Jr: I wouldn’t work on it tonight anyway; I’ll be honest.

D: Fine. Now, I’ve done one thing that maybe I shouldn’t have done: I’ve added to the memorandum which is responsive to your question, I’ve added another one giving you confidentially some observations on the need to define and delineate and clear up this whole defense distribution of functions.

H.M. Jr: I’d love to see it.

D: Well, that’s good, and you can throw it in the wastebasket if you want to.

H.M. Jr: Well, I’ll read it carefully.

D: Well, I’ll send this over to you for what it’s worth.

H.M. Jr: Thank you, Chester.

D: All right.
December 27, 1940
5:00 p.m.

RE ARGENTINE LOAN

Present: Mr. Scilingo
         Mr. Grumbach
         Mr. Bell
         Mr. Gaston
         Mr. Espil
         Mr. Berle
         Mr. Prebisch
         Mr. White
         Mr. Bernstein
         Mr. Foley
         Mr. Cochran
         Mrs. Klotz

H.M.Jr:  Mr. Bell?

Bell:    Your signature, I guess, comes first,
         Mr. Secretary. Mr. Prebisch is next, and
         then the Ambassador signs.

H.M.Jr:  Do I sign here?

Bell:    Yes, sir.

H.M.Jr:  How many times do I sign?

Bell:    You sign two originals.

H.M.Jr:  Does the check go with this?

Bell:    Not quite.
H.M. Jr: No check today, no cash. (Laughter)
Bell: This is the same one.
H.M. Jr: You people have seen the proposed press statement?
Berle: Yes, I think so.
H.M. Jr: Well, I hope it will be most fruitful and will cement the friendship. Now, as I understand it --
Bell: There are a lot of photographers outside.
Espil: Thank you.
Prebisch: Thank you.
ACCIDENT made as of the 1st day of January, 1941, at the City
of Washington, District of Columbia, between the Secretary of the
Treasury of the United States of America (hereinafter called the
Secretary), the Banco Central de la Republica Argentina (hereinafter
called the Bank), and the Government of the Argentine Republic
(hereinafter called Argentina).

HEREIN, the monetary and financial cooperation of the United
States of America and the Argentine Republic and the stabilization of
the United States dollar-Argentine peso rate of exchange are important
factors in promoting trade and in fostering the welfare and friendly
relationships of the two countries.

Hence, THEREFORE, in order to further such objectives and in
consideration of the premises and of the mutual covenants herein
contained, it is agreed as follows:

1. The Secretary, through the Federal Reserve Bank of New York as
fiscal agent of the United States, shall, as hereinafter provided,
purchase Argentine pesos from the Bank from time to time as requested
by it, the United States dollars thus obtained by the Bank to be used
exclusively for the purpose of stabilizing the United States dollar-
Argentine peso rate of exchange. The total amount of pesos purchased
by the Secretary from the Bank, exclusive of accrued interest thereon
and of any pesos repurchased by the Bank, shall not at any time exceed
in the aggregate the equivalent of United States $50,000,000 computed at the
rate at which such pesos are purchased as hereinafter provided. The pesos
so purchased shall be credited to the Federal Reserve Bank of New York as
fiscal agent of the United States on the books of the Bank in a special

- 1 -
account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States". Upon receipt by the Federal Reserve Bank of New York of advice from the Bank by teletype cable that this account has been credited with a stated amount of Argentine pesos, the Federal Reserve Bank of New York as fiscal agent of the United States will in turn credit the Bank in a special account, to be opened by the Federal Reserve Bank of New York as fiscal agent of the United States in the name of "Banco Central de la Republica Argentina, Special Account" in an amount in United States dollars equivalent, at the then prevailing free buying rate of exchange in New York for cable transfers in Argentine pesos on Buenos Aires, to the amount in Argentine pesos so credited to the account in the name of the Federal Reserve Bank of New York as fiscal agent of the United States on the books of the Bank.

2. Except as otherwise specifically approved by the Secretary, no withdrawals shall be made from the dollar account in the name of "Banco Central de la Republica Argentina, Special Account" in excess of $5,000,000 in any one month from and after the date of this Agreement, except that the amount which may be thus withdrawn each month shall be cumulative from month to month.

3. The Bank shall credit interest on the special peso account in the name of "Federal Reserve Bank of New York as fiscal agent of the United States" on the last day of each successive month from and after the date hereof. Such interest shall be computed at the rate of 1½ (one and one-half percent) per annum on the daily balance of such pesos in such special account as were purchased by the Secretary under this Agreement, provided, however, that no interest shall be payable on the amount of such pesos as an equivalent, at the average rate at which the pesos then in such special peso account were purchased, to the number of dollars in the "Banco Central de la Republica Argentina, Special Account"
which the Bank may not under the terms of this Agreement withdraw from such accounts.

4. At any time on or after May 31, 1911, either the Bank or the Secretary (acting directly or through the Federal Reserve Bank of New York as fiscal agent of the United States) may, by giving to the other on or after May 31, 1911 not less than thirty (30) days' notice in writing or by cable, direct that any or all of the pesos shall be repurchased (and in the case of accrued interest, purchased) by the Bank. On the date specified in such notice the Bank shall repurchase (or purchase in the case of accrued interest) the pesos therein referred to in United States dollars (utilising, if necessary, the gold resources of the Bank and Argentina) by payment therefor at the Federal Reserve Bank of New York at the following rate or rates of exchange:

(a) Pesos purchased by the Secretary through the Federal Reserve Bank of New York as fiscal agent of the United States shall be repurchased at the same rate or rates of exchange at which such pesos were purchased; and

(b) Pesos representing interest accrued on, and whether or not credited to, the special peso account on the books of the Bank in the name of Federal Reserve Bank of New York as fiscal agent of the United States shall be purchased at the average rate of exchange at which the pesos, upon which such interest has accrued, were purchased by the Secretary through the Federal Reserve Bank of New York as fiscal agent of the United States.

Notwithstanding the foregoing, in the absence of a request by the Secretary or the Federal Reserve Bank of New York as fiscal agent of the United States, pesos in the amount of such accrued interest shall be purchased by the Bank by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three months.
period from and after the date hereof and upon the termination of this
Agreement, at the rates of exchange described in subdivision (b) of
paragraph 4.

All the pence credited to the aforementioned special account
(including interest) and the other obligations of the Bank and Argentina
under this Agreement shall, in so far as the rights, powers and privileges
of the Secretary or the Federal Reserve Bank of New York as fiscal agent
of the United States may thereby be affected, be exempt and immune from
any taxes, charges, restrictions, regulations and controls of any nature
under the laws of Argentina or any political subdivision thereof.

5. The Bank may also at any time by making payments at the Federal
Reserve Bank of New York in United States dollars at the rates of exchange
provided in paragraph 4, repurchase the pence described in paragraph 4
with available funds resulting from seasonal increases in the exports
of Argentina or from any other source.

6. In the event of any failure to repurchase (or in the case of
interest, purchase) the pence as provided in paragraph 4 or other act,
done or omitted, not in accordance with the provisions of this Agreement,
the Bank shall, if and when the Secretary (acting directly or through
the Federal Reserve Bank of New York as fiscal agent of the United States)
says so elect to oblige or obliges the Bank to such extent, become forthwith
obligated to repurchase all of the pence at a total price in United
States dollars determined as provided in paragraph 4 hereof by payment
at the Federal Reserve Bank of New York, and the dollars remaining in
the "Fonse General de la Republica Argentina, Special Account" shall
be applied by the Federal Reserve Bank of New York as fiscal agent
of the United States as a payment on account of such purchase price. No
failures or delay on the part of the Secretary in exercising any of his
rights, powers or privileges in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to the Secretary under this Agreement. It is understood that the Federal Reserve Bank of New York will act only as fiscal agent of the United States in carrying out this Agreement and in doing and performing any acts or transactions in connection with this Agreement, and that it will not incur any liability for any acts done or omitted pursuant to instructions of the Secretary.

7. Argentina hereby unconditionally guarantees the full performance by the Bank of all of the obligations, duties and liabilities of the Bank under this Agreement and any arrangements made pursuant thereto.

8. Argentina, the Bank and the Secretary agree that at some convenient time (to be agreed upon) during the last three months of 1941 there shall be held in Washington a conference to be attended by the representatives of each of such parties to discuss and consider the United States dollar-Argentine peso rate of exchange, problems of mutual interest in connection therewith and all other monetary, financial and economic problems of mutual interest.

9. Each of the parties to this Agreement shall take and cause to be taken all the necessary measures to affectuate the carrying out of this Agreement and to provide each other with such information in their possession relative to foreign exchange transactions, stabilization operations and other matters of mutual interest as is relevant to the proper functioning of this Agreement. Any obligation of the Secretary pursuant to this Agreement shall be conditional and dependent upon the prior performance by the Bank and/or Argentina of any obligations to be performed or liabilities to be discharged by them, or either of them, under this Agreement and any arrangements made pursuant thereto.
10. Any obligation of the Secretary to purchase pesos under this Agreement shall terminate on June 30, 1941, subject to earlier termination at any time thirty days after receipt by the Bank of a written communication or cable from the Secretary or the Federal Reserve Bank of New York as fiscal agent of the United States giving notice to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers or privileges of the Secretary or of the Federal Reserve Bank of New York as fiscal agent of the United States, or any of the duties, liabilities or obligations of the Bank or of Argentina hereunder, all of which shall continue in effect until the Bank and Argentina shall have fully performed their said duties and obligations and discharged said liabilities. If an extension of the Agreement is agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that the Bank and Argentina wish an extension of this Agreement, they will give the Secretary notice to that effect in writing or by cable at least thirty days prior to the termination of the Agreement.

11. This Agreement shall come into operation and effect as between the parties hereto when Argentina shall file with the State Department of the United States appropriate documents satisfactorily evidencing ratification and confirmation of the authority of Argentina under its constitution and laws to enter into this Agreement. Argentina and the Bank each for itself represents and agrees that upon the delivery of the aforesaid documents of ratification and confirmation, the execution and delivery of this Agreement shall have in all respects been duly authorized, and that all acts, conditions and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes,
Agreed and signed this 13th day of December, 1940, by the United States of America, by the Secretary of the Treasury and the Chargé d'Affaires, a.i., of the Argentine Republic, by the Secretary of the Interior of the Argentine Republic, and in duplicate.

\[Signature\]

Secretary of the Treasury of the United States

Raúl Prebisch
General Manager

Government of the Argentine Republic

Felipe A. Espil
Chargé d'Affaires Extraordinary and Plenipotentiary

Signed,\nDec. 27, 1940.
The following joint statement is made by the Secretary of the Treasury, the Argentine Ambassador and the General Manager of the Central Bank of Argentina:

As another practical proof that the Good Neighbor policy is a living force among American Republics, the United States and Argentina have completed a stabilization arrangement by which $50,000,000 of the United States Stabilization Fund is set aside to promote stability between the United States dollar and the Argentine peso.

The agreement provides, under conditions acceptable to both parties, for the purchase of Argentine pesos with dollars, and for the exchange of information and of views bearing on the proper functioning of such a program.

This is a cooperative arrangement between old and good friends. It has been discussed and formulated in this spirit by representatives of the Argentine Government and the Central Bank of Argentina, and by the officials of the United States Treasury. The monetary authorities of the two countries expect to hold further discussions in the same friendly spirit during the coming year; and it is hoped that these conversations will enable both countries to reap the greatest possible benefit from the workings of the present agreement.
December 27, 1940,
5:07 p.m.

H.M.Jr: Hello.

Admiral Stark: Mr. Secretary.

H.M.Jr: Yeah. You're not on the White House, you know.

S: Sir?

H.M.Jr: You're not on the White House phone.

S: Well, I don't see why in the world they don't connect me up. I'm on my White House phone.

H.M.Jr: Well, should I - let me call you.

S: All right, sir. Well, I think what I can give you is all right anyway. Our ship sailed this morning and should arrive on the 5th.

H.M.Jr: Should arrive on the 5th.

S: Yes, sir.

H.M.Jr: Well ....

S: And the other messages are all cleared and everything is squared away and I'll keep you informed.

H.M.Jr: Well, now, you'll advise them of this through your man in London, won't you?

S: Yes, sir.

H.M.Jr: Will you do it that way?

S: Yes, sir.

H.M.Jr: I mean, I'm not going to say anything to him here, so if you could get ....

S: I'll keep them informed.
H.M.Jr: Through your man in London.
S: Yes, sir.
H.M.Jr: Thank you so much.
S: All right.
H.M.Jr: Thank you.
Conversation with
Attorney General Jackson,
December 27th, 5:27 and 5:40
in Safe.

5:27 Tried to get
5:40 Talked.
(Confidential)

PARAPHRASE

A strictly confidential telegram (no. 502) of December 27, 1940, from the American Consul General at Hong Kong reads substantially as follows:

Orders have been received by Cyril Rogers (British Financial Adviser to the Chinese Government) to leave Hong Kong by airplane on the morning of December 28 en route to the United States. From the United States Mr. Rogers will go to London with Mr. T. V. Soong. Rogers has connections with the Bank of England and lives in Hong Kong. He expects that his wife and his British woman secretary will accompany him.

As is usual with him, Mr. Rogers is very mysterious in regard to his plans and his movements. However, the American Consul General has been informed confidentially by divers reliable observers in Hong Kong that Mr. Rogers will make every effort possible to obtain at least joint control by Great Britain and the United States of the loan made by the United States to be used to stabilize Chinese currency. The American Consul General states that he is personally well acquainted with Mr. Rogers and that although their relations have always been pleasant he, the Consul General, feels certain that Mr. Rogers has a very
very set opinion to the effect that Americans are so lacking in expertise in connection with exchange matters, banking, et cetera that he (Rogers) feels that it is virtually his religious duty to work to bring about control by the British of financial relations between China and the United States.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £156,000
Purchased from commercial concerns £23,000

The Federal Reserve Bank of New York sold £15,000 to a non-reporting bank.

Open market sterling was quiet all day at 4.03-3/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns £16,000
Purchased from commercial concerns £4,000

Closing quotations for the other currencies were:

Canadian dollar 13-9/16% discount
Swiss franc .2321-1/2
Swedish krona .2365
Reichsmark .4005
Lira .0505
Argentine peso (free) .2350
Brazilian milreis (free) .0505
Mexican peso .2070
Oman peso 8-11/16% discount
Chinese yuan .05-17/32

We sold $1,000,000 in gold to be added to the earmarked account of the Bank of Portugal.

We purchased $40,000 in gold from the earmarked account of the National Bank of Nicaragua.

Under licenses previously issued the Federal Reserve Bank of New York today transferred from the account of the Central Bank of El Salvador gold valued at approximately $150,000 to the account of the B.I.S. The B.I.S. advised the Federal Reserve Bank that the gold transferred is owned by the Central Bank of El Salvador and constitutes a pledge securing repayment of credit.

In the report of December 24 regarding a shipment of gold valued at $41,551,000 from the Bank of Canada to the Federal Reserve Bank of New York for the account of His Britannic Majesty’s Government, it was stated that the disposition of this ship-
The Bombay gold price was the equivalent of $33.96, up 12¢ from December 30. Silver was the equivalent of 44.03¢, up about 1/2¢.

The prices fixed for spot and forward silver in London were 23-1/8d and 23-1/16d respectively, both off 1/8d. The dollar equivalents were 41.99¢ and 41.86¢.

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

We made three purchases of silver totaling 250,000 ounces under the Silver Purchase Act. Of this amount 150,000 ounces represented inventory silver and the balance of 100,000 ounces consisted of new production from foreign countries, for forward delivery.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 27, 1940.

TO Secretary Morgenthau
FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statement in Italian accounts maintained at:

Chase National Bank
National City Bank
### Chase National Bank

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Credited</th>
<th>Account Credited</th>
<th>Received From</th>
<th>Amount Debit</th>
<th>Account Debited</th>
<th>Paid To</th>
</tr>
</thead>
</table>

### National City Bank

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Credited</th>
<th>Account Credited</th>
<th>Received From</th>
<th>Amount Debit</th>
<th>Account Debited</th>
<th>Paid To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 21</td>
<td></td>
<td></td>
<td>Centro Commercio Italiano, N.Y.</td>
<td>$25,000</td>
<td>Banco Commercio Italiano, N.Y.</td>
<td>National City Bank, 51st Branch, N.Y., for account of Italian Line, N.Y.</td>
</tr>
<tr>
<td>Dec. 23</td>
<td></td>
<td></td>
<td>Centrale Commercio Italiano, N.Y.</td>
<td>400,000</td>
<td>Banco Commercio Italiano, N.Y.</td>
<td>National City Bank, N.Y., for account of Stockholm's Bank, Stockholm.</td>
</tr>
<tr>
<td>Dec. 26</td>
<td></td>
<td></td>
<td>Banco di Napoli Trust Co., N.Y.</td>
<td>675,740</td>
<td>Banco di Napoli Trust Co., N.Y.</td>
<td>Check to order of Yokohama Specie Bank, N.Y.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Banco di Napoli Trust Co., N.Y.</td>
<td>805,375</td>
<td>Banco di Napoli Trust Co., N.Y.</td>
<td>Check to order of Yokohama Specie Bank, N.Y.</td>
</tr>
</tbody>
</table>
The Federal Reserve Bank of New York reported the following transactions in German accounts maintained with the Chase National Bank:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Debited</th>
<th>Account Debited</th>
<th>Paid To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 26</td>
<td>$388,620</td>
<td>Deutsche Golddiskontbank, Berlin</td>
<td>Irving Trust Co., N.Y., for account of Vongibara</td>
</tr>
<tr>
<td></td>
<td>66,612</td>
<td>Deutsche Golddiskontbank, Berlin</td>
<td>Irving Trust Co., N.Y., for account of Vongibara</td>
</tr>
<tr>
<td></td>
<td>200,000</td>
<td>Narodni Banks pro Cechy a Moravia, Prague</td>
<td>Swiss Bank Corp., N.Y., for account of Swiss Bank Corp., Zurich</td>
</tr>
</tbody>
</table>
December 9. In connection with the investigation of the sale of Rückwanderer in the Milwaukee area, it appears that before an individual can purchase such a property approval of the German Consul in Chicago is necessary. The application must state if the applicant fails to establish permanent residence in Germany the money will be available to him in Reichsmarks in German banks designated by him. Applicants, however, must declare their intention to return to Germany after the sale, and to follow their trade or occupation in Germany.

March 12. The FBI is analyzing the individual ledger sheets of the accounts of an Embassy and twelve of its main officials at the Riggs Bank. The sources of large deposits are indicated; these throw light on the pattern of German Embassy accounts - for example, $50,000 in the German Embassy account on August 12 came from the Stockholm Bank; $30,000 on August 28 came from the German Legation in Chicago; $60,000 on September 6 came from a Swiss bank.
December 9. In connection with the investigation of the sale of Rückwanderer works in the Milwaukee area, it appears that before an individual can purchase such works, the approval of the German Consul in Chicago is necessary. The application states that if the applicant fails to establish permanent residence in Germany the works will be available to him in Reichsmarks in German banks designated by him; the applicants, however, must declare their intention to return to Germany after the war, and to follow their trade or occupation in Germany.

December 12. The FBI is analyzing the individual ledger sheets of the accounts held by an Embassy and twelve of its main officials at the Riggs Bank. The sources of several large deposits are indicated; these throw light on the pattern of German payments — for example, $50,000 in the German Embassy account on August 12 was received from the Stockholm Bank; $30,000 on August 22 came from the German Consul general in Chicago; $60,000 on September 5 came from a Swiss bank.
Gray
Berlin
Dated December 27, 1940
Rec'd 12:50 a.m., 38th

Secretary of State,
Washington

5153, December 27, 3 p.m.
My 3001, December 19, 10 a.m.
FROM WOODS (IN ABSENCE OF HEATH) FOR TREASURY

It is reported that further progress has been made in the German campaign for establishing Berlin as the European clearing center and the Reichsmark as the principal continental currency: according to the VOLKISCHER BEOBACHTER of December 21, 1940 the German-Swedish negotiations are said to have included a provision for the establishment of a double account system for accommodating the clearing arrangements of the two countries. Heretofore the German-Swedish clearing has been conducted through a single account maintained in Swedish crowns in Stockholm. It is now claimed that a second account in Reichsmarks will be set up in Berlin. German banking circles point out that the exchange risk which has been imposed under the old system upon German creditors holding Swedish promises to pay will now be eliminated while the prestige of the Reichsmark will be enhanced by the Berlin Reichsmark clearing account.

The
The tendency towards a revaluation of Balkan currencies in terms of the Reichsmark has resulted in another shift in the Reichsmark-lei exchange rate. The Bucharest quotation for the Reichsmark having been advanced according to the same report, which is confirmed by quotations from Minister Canceicov's speech in the SUDOST ECHO of December 20, 1940 and by officials of the Romanian Legation from 50 to 60 lei to become effective April 1, 1941 while simultaneously in accordance with the German program for improving the relative position of the Reichsmark at the expense of the American dollar the amount of lei quoted to the dollar is reported to have been reduced from 217 to 185.

In conformity with yet another policy tending to transform all former mechanisms for making payments between states now under German control into indirect clearings in Reichsmarks by way of Berlin it is also announced that through agreements with France and with Belgium Berlin is now to be the center for Franco-Belgian clearing arrangements with Reichsmarks serving as the basis for exchange computations. The negotiations leading to the new arrangement are said to have established an exchange rate of 5 Reichsmarks per 100 francs and this rate will henceforth be used to clear all current obligations between France and Belgium. Former obligations
December 27, 3 p. m. from Berlin

obligations will be settled direct between Paris and Brussels.

It is pointed out by competent observers that German financial policy tends towards the establishment of multilateral to replace bilateral clearings wherever feasible and thus to remove certain of the most obvious handicaps and restrictions imposed upon international trade by the system of exclusively bilateral clearings which the Reich formerly introduced and supported.

PLEASE INFORM COLLEGE.

MORRIS

E.B
Surprise Cabinet shakeup involving replacement Home Minister by Baron Hiranuma and Justice Minister by Lieutenant General Yanagawa reportedly considered unusually significant and essential for following reasons: to attain speedy and broad expansion national defense facilities view increasingly tense situation at home and abroad; to mobilize total strength of nation under full wartime system order construct proposed new order in East Asia and to acquire international political power to contribute to creation of new world order; to counteract any difficult situation which may arise in coming session Diet; and to give Americans to successful passage by Diet of proposed electoral law bill, new national economic structure bill and other controversial measures. Stock market sentiment continued cautious and prices fairly steady but with weak undertones. Reported passing
passing of dividend by Ibigawa Electric Company caused heavy unloading this and associated issues. Changes in Cabinet personnel also disturbing factor. Only strengthening influences were continued buying by Life Insurance Securities Company and announcement Central Reserve Bank, China, would begin business January. Money market slightly tighter with approaching year end settlement demands.

Foreign exchange rates unaltered and market dull. Bank Japan note issue for first time in history exceeded four billion yen mark reaching yen four zero four five four five three thousand on twenty-first, representing gain two six one four nine five thousand over last year. Widespread interest evidenced in three day session of Central Cooperative Council of Imperial Rule Assistance Association held during past week. Discussions covered numerous issues most of which expected, before Diet session. Outstanding feature was frank presentation of actual conditions prevailing among people especially serious problems confronting small and medium sized businessmen and agrarian population. New silk control bill for presentation Diet reportedly will provide establishment Japan silk control company capitalized yen one hundred million which will control production silkworm eggs and cocoons on planned basis and will
AB-3- No. 34, Dec. 23rd, from Tokyo.

will purchase entire output eggs and cocoons. These will be sold to reeilers, textile manufacturers and spinners. Raw silk will be repurchased for sale to textile manufacturers and to exporters. Minister Communications reportedly drafting bill for Diet giving Government increased powers over entire shipping business. Press reports recent organization cooperative association iron and steel control for purpose facilitating increased production and effective control of iron and steel to meet changing situation at home and abroad. Minister Commerce reportedly drafting bill for Diet providing license system for all retail establishments. Trade reports indicate rayon yarn allotment for sale during January has been fixed at forty thousand cases and minimum export price yen eighty per case, increase yen five compared December. Japanese press strongly advocating conclusion permanent fishing agreement with U.S.S.R. Present temporary arrangement expires December 31st. Trade reports indicate Japan Steel Tubing Company and Nauyana Steel Manufacturing Company will shortly merge result position small open hearth iron and steel and rolled steel manufacturers have been placed since embargo on scrap iron exports by United States of America. To protect people from high prices on winter clothing price Bureau Ministry Commerce fixed
fixed official prices on pure cotton knitted goods for underwear, ties and artificial silk goods. Labor Bureau Welfare Ministry reports labor disputes September lowest in history with only twenty one involving seven six four people representing decline sixty two disputes and one seven two seven people compared with August. Number disputes from January to September six four six with five zero zero seven four participants representing decline two four seven and two five eight zero nine respectively compared. French Indochina delegation comprising sixteen members headed by Jean Cousin, Director Finance Control, Indochina Government, arrived Tokyo 19th to participate economic conference with Japanese Government officials. Chairman delegation reported by stated forthcoming parley would be strictly confined to economic matters. Reports indicate Japan Foreign Trade Promotion Association will be inaugurated January 16th under leadership Baron S. Goh. A fund of ten million yen is to be provided of which yen two and one half million will come from Cotton Textile Export Federation, one and one half million from Japan Rayon Export Federation and six million from such foreign traders as Mitsui, Mitsubishi, et cetera. Ministry Finance promulgated regulations eighteenth providing release foreign trade statistics to applicants on certain
certain conditions. Press comments indicate statistical tables for release will contain only items whose public knowledge will not interfere with nations anti-reconnaissance aims. Trade reports Indian Government has decided revise import tariff January 1st, that further restrictions of imports into Australia from non-sterling countries is expected shortly, that import licensing system in Netherlands Indies is to be effective from January. All of these restrictions will adversely affect Japan's exports. Three Nagoya banks have signed provisional merger contract, Aichi, Nagoya and Ito Banks. Press reports eight banks in Hyogo Prefecture signed tentative merger agreement on 19th. Cabinet Board of Information announced 16th that up to end November 30 banks have ceased existence by merging with stronger institutions. This reduces number commercial banks to two eight seven against three four five at end 1938 and three one seven at end 1939. These mergers have strengthened underwriting capacities of larger institutions, have enabled granting more credit and concentrated financial control in fewer hands. It is understood Ministry Finance has encouraged such amalgamations order accelerate rate bond absorption which for first eleven months reported only eighty seven point ten percent of issues, decline of four percent.

334
Bonds holdings by Deposita Bureau end November reported yen six one three two million against yen one four five eight million coomampeter. Ministry Finance announced bank deposits end November read million yen two eight nine eight two, gain seven two nine compOctober. Loans one seven four eight two up three one zero compOctober. Security holdings nine two nine five increase one five nine compOctober. Bank Japan wholesale commodity price index Tokyo November three one zero point seven increase zero point three percent compOctober and three point eight percent coomampeter. Government’s price fixing measures responsible for decline two percent in price of foodstuffs and zero point two percent in building materials compOctober, textiles, textile materials and miscellaneous goods advanced while metallic goods, fuel, fertilizer and chemicals remained stationary. All Japanese press commentators enthusiastically welcome establishment new Central Reserve Bank of China and anticipate early stabilization Chinese currency in occupied areas. Corporate debentures issued last quarter this year totaled in million yen six eight one, only twenty below anticipated amount. Of total four two four underwritten by Government offices and syndicate banks, remainder offered public subscription. Oriental Development Company reportedly decided double present capital of fifty million yen
-7- 34, December 23, from Tokyo

yen by resorting to increase of capital rather than issuance debentures due present state bond market. Financial reports indicate large number leading corporations have reduced dividends for last half year term of 1940, majority of cases due to decline in profits resulting from difficulty obtaining materials, depression in export trade and Government's price fixing policy. To more adequately meet demand for funds necessary for productive expansion Ministry Finance reportedly decided introduce next session Diet bill revising provisional fund adjustment law providing authority extend issue limit of industrial debentures and saving debentures. Present maximum limit industrial debentures yen one eight seven five million and amount issued end November yen one four zero five million. Margin yen four seven zero million considered too small under present conditions. Industrial share prices twenty first average seventy seven point sixty seven, index eighty point zero one. Week's average seventy seven point seventy one, index eighty point zero five.

INFORM COMMERCE. Williams.

GREW

TFV
Secretary of State,

Washington.

36, December 27, noon.

Linen shipment left December 22 by Japanese vessel for Shanghai. Comprised 203 tons with a total estimated value of $3,021,372. 500 per ton "voluntary contribution" paid to Mitsubishi Shoji Kaisha; handling charges and freight to Shanghai were 144 per ton; total paid to Japanese agencies was $131,319. This shipment was the smallest since the beginning of the occupation and is indicative of the industry's desire to get its product out of Swatow as rapidly as possible.

During my absence first half of December an importation of materials was made from Hong Kong via Amoy under Japanese auspices. 450 cases were imported valued at $5,227,579, on which the "11 per cent ad valorem duty" paid to Mitsui Bussan Kaisha was $575,033. In addition 5,227 had to be paid to Japanese agencies in Amoy. Freight and handling charges from Hong Kong to Swatow via Amoy totalled $22,489.

All amounts stated are in Chinese national dollars.

Sent to the Department, repeated to Peiping, Shanghai.

FONNES

CSB
CONFIDENTIAL

December 27, 1940

To: The Secretary
From: Mr. Young

Re: Extra Machine Guns

In talking with Mr. Goodrich of Colt Firearms this afternoon, I was advised that Colt has on hand 120 light air machine guns 7.92 calibre. These guns had originally been made by Colt as a speculative proposition for the Chinese, but no order was ever received.

Both the Chinese and the Greeks use this calibre and the guns could be made available for shipment in a week's time. I asked Mr. Goodrich to hold them temporarily and to let me know if he received any inquiries concerning them.

It is my understanding that these guns, which are the equivalent of a standard United States .30 calibre type, will probably fit into P-40 planes.
To: The Secretary
From: Mr. Young

Re: Sperry Bomb Sight

On December 10th, the British Purchasing Commission filed a request with the Liaison Committee for priority ratings on the parts and materials involved in the manufacture of the Sperry Ol bomb sight. The British have placed an order with Sperry for 345 sights for delivery April to September, 1941. It is my understanding that this priority rating is essential to the early installation of these bomb sights in British bombers being built in the United States.

This priority request was passed on to the Liaison Committee members and to Mr. Knudsen on December 12th. On December 19th, I received a letter from the Assistant to the Administrator of Priorities, Mr. A. C. C. Hill, Jr., advising me that a study was being made of the possibility of extending preference ratings to cover the manufacture of equipment for foreign governments. In the meantime, however, he stated that nothing could be done.

In addition to the foregoing, the British would like to place orders for Sperry bomb sights to be produced at the rate of 450 per month commencing in October, 1941. This priority case will be forwarded again to the Priority Board, and it is my understanding that the Sperry Company has also talked directly with the Priority Board.

I bring this matter to your attention because of our interest in getting the bomb sights released and using them to equip bombers being built for the British in this country. Attached is the most recent memorandum which I have received from the British Purchasing Commission concerning this matter.
Late in September the Sperry bomb sight was released to us, and we immediately placed orders with the Sperry Company for sufficient sights to cover our presently contracted deliveries of heavy bombers in this country, viz. Consolidated LB30s, together with a number of heavy bombers released to us by the United States Army, such as Consolidated B24s, and Boeing B17s.

The Sperry Company recently reported that they would be unable to meet their delivery schedules unless priority ratings could be given to their orders to suppliers and sub-contractors, since the latter already have U.S. Army and Navy orders with high priorities. Our representations have been made through the President's Liaison Committee to the National Defense Advisory Council Priority Board, and also by the Sperry Company direct to the Board. As far as can be ascertained no action has yet been taken by the Board.

This is a matter of great concern to us, since heavy bombers are of no military value without bomb sights, and as is well known, these heavy bombers are considered of prime importance in the war effort. We are wondering whether any further assistance can be given us in obtaining the necessary priority action.

British Purchasing Commission,
Washington, D.C.

December 21, 1940.
December 27, 1940

To: The Secretary
From: Mr. Young

Re: Reports Requested by Defense Commission

I have written Mr. Stacy May stating my understanding of the conference which he attended in my office on December 12th, at which George Haas was also present. This understanding was that the Advisory Commission had taken official action to centralize reporting activities through Mr. May's office and that future reports of British purchasing activities should be sent to him.

I suggested and Mr. May agreed that Mr. McReynolds should address a letter to you citing this official action on the part of the Advisory Commission and outlining the scope and nature of the reports desired. I explained to Mr. May that his requests for information would be held pending this official action by Mr. McReynolds.
CONFIDENTIAL

December 27, 1940

To: The Secretary
From: Mr. Young

Re: Siamese Planes

Arthur Palmer in Secretary Stimson's office has informed me that the War Department is negotiating for the ten North American planes owned by Siam and now resting in the Philippines. He added that if these ten airplanes were taken over, the Army would release ten P-26 planes for China if she wanted them.

I gather that the P-26 is an obsolete pursuit ship and that it would not be useful to the Chinese anyway. Mr. Palmer said that he would be glad to find out whether the Air Corps would make these planes available to a purchaser other than the Chinese. However, he would only take this matter up if a specific purchaser were designated.
To:       The Secretary  
From:   Mr. Young  

Re: Toluol for Sweden

Joe Green of the State Department called me yesterday and asked the cooperation of the Treasury. Evidently, last spring Sweden released to the British 500 tons of toluol with the understanding that the British would replace it before the end of the year upon demand of Sweden.

Sweden has now requested the fulfillment of this obligation, and the British Embassy has advised the State Department that a navicert has been issued and that the British Government would like to live up to its promise.

Joe Green advised that the State Department had issued an export license for this toluol and that the cooperation of the Treasury was requested in not holding up the shipment. I told him that I saw no reason why the ship should be held up on that account as long as the British had issued a navicert and the State Department had issued an export license.
To: The Secretary
From: Mr. Young

Re: War Supplies for Greece

You have received a note from Under Secretary of State Sumner Welles attaching copies of two cables, one to the Minister at Athens, and the other from the Minister in reply. These do not add anything to what we already know.

The situation is still that no one has yet been able to find out whether the Greeks are satisfied with the twelve British Gladiator planes which were brought into Greece from Egypt.

Ten thousand rounds of .57 mm. ammunition are being made available to the Greeks from United States Navy surplus stocks. The first batch of 4000 rounds will be made available in three or four weeks inasmuch as it has to be reworked and assembled. The British Purchasing Commission is handling the mechanics of the transaction although payment will be made by Greece.

I received a letter this morning from the Greek Minister requesting 150 tons of manganese. The Minister asked as to whether it would be possible for the National Defense Commission to defer delivery of this amount from United States orders in view of the urgency of the request. I am investigating this as I am not currently up on the manganese situation here or in Greece.
To: The Secretary  
From: Mr. Young  

Re: Planes for South America  

A new list of requests for airplanes and parts for South American countries, pending or recently disapproved, has been compiled as of December 26th. I have sent a copy of this to Nassau, Rockefeller and Meigs.

I am informed that Mr. Meigs will be out of town from noon today until Monday, and that Mr. Rockefeller will be out of town next Monday. I have not yet been able to contact Mr. Duggan. My feeling is that it would be better to postpone a meeting on this subject until about Tuesday or Thursday of next week in order that we will have all of the interested parties together at one time. A certain amount of spade work can be done in the meantime toward finding out just what the exact status of each request is.
<table>
<thead>
<tr>
<th>Country</th>
<th>Request For</th>
<th>Date of Request</th>
<th>Date Forwarded to Defense, Army, Navy</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>600 - Part 160892 - Rocker Shafts for Twin Vasp Jr. S2A40 engines</td>
<td>Nov. 4, 1940</td>
<td>Nov. 23, 1940</td>
<td>Disapproved Dec. 7, 1940</td>
</tr>
<tr>
<td></td>
<td>Spare parts for Vasp S3K1 engines</td>
<td>Dec. 4, 1940</td>
<td>Dec. 9, 1940</td>
<td>Disapproval rec'd 12-26-40</td>
</tr>
<tr>
<td></td>
<td>10 Ha-16-1 and 15 Ha-16-3 training planes</td>
<td>Sept. 25, 1940</td>
<td>Sept. 28, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>Spare parts for Wright Cyclone engines</td>
<td>Dec. 13, 1940</td>
<td>Dec. 17, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>Repair parts for Wright Whirlwind engines</td>
<td>Dec. 18, 1940</td>
<td>Dec. 20, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>Raw materials for manufacturing Curtiss Hawk 75's</td>
<td>Dec. 18, 1940</td>
<td>Dec. 20, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>Raw materials for repairs (PFR AA-1)</td>
<td>Dec. 26, 1940</td>
<td>Dec. 26, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>Repair parts Martin JAN-717</td>
<td>Dec. 19, 1940</td>
<td>Dec. 23, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td>Brazil</td>
<td>Spare parts for Pratt and Whitney Vasp Jr. engines (PFR D-11)</td>
<td>Nov. 13, 1940</td>
<td>Nov. 13, 1940</td>
<td>Pending information</td>
</tr>
<tr>
<td></td>
<td>2 Lockheed Model 16-14 airplanes equipped with Pratt and Whitney S4040 engines and Hamilton Standard constant speed propellers, Hub #23350 and Blades #6133A-12. (Filed by Lockheed)</td>
<td>Oct. 28, 1940</td>
<td>Oct. 31, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td>Chile</td>
<td>1 S183-3 Hornet engine and accessories (PFR D-3)</td>
<td>Nov. 25, 1940 (PFR D-3)</td>
<td>Nov. 25, 1940</td>
<td>Pending information</td>
</tr>
<tr>
<td></td>
<td>25 Fairchild Trainers M. 62-3 and spare parts (PFR D-5)</td>
<td>Nov. 28, 1940 (PFR D-5)</td>
<td>Nov. 28, 1940</td>
<td>Pending information</td>
</tr>
<tr>
<td>Country</td>
<td>Request For</td>
<td>Date of Request</td>
<td>Date Forwarded to Defense, Army, Navy</td>
<td>Status</td>
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<tr>
<td>-------------</td>
<td>------------------------------------------------------------------------------</td>
<td>-----------------</td>
<td>--------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Colombia</td>
<td>Spares for Wright GR-1830-H1 (FW No. 0-1)</td>
<td>Dec. 18, 1940</td>
<td>Dec. 18, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td>Mexico</td>
<td>Spare parts for airplane engines (Wasp 3M1 and Wasp Jr. 5B)</td>
<td>Nov. 15, 1940</td>
<td>Nov. 19, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>Spare parts for airplane engines</td>
<td>Nov. 15, 1940</td>
<td>Nov. 19, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>21 airplanes CW22 and 6 airplanes CW21</td>
<td>Oct. 10, 1940</td>
<td>Oct. 12, 1940</td>
<td>Temporarily disapproved</td>
</tr>
<tr>
<td>Uruguay</td>
<td>8 Model 6-4000 Ranger aircraft engines (Flume)</td>
<td>Oct. 24, 1940</td>
<td>Oct. 25, 1940</td>
<td>Disapproved</td>
</tr>
<tr>
<td></td>
<td>2 Standard Hamilton propellers, 40 rubber tubing and 80 clamps</td>
<td>Dec. 4, 1940</td>
<td>Dec. 5, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>5 Curtiss F-36 planes</td>
<td>Oct. 25(?) 1940</td>
<td>Oct. 25, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>3 Stearman A75LS planes</td>
<td>Oct. 25(?) 1940</td>
<td>Oct. 25, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>5 North American NA 16-3 planes</td>
<td>Oct. 25(?) 1940</td>
<td>Oct. 25, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>3 North American 76-D-3 planes</td>
<td>Oct. 25(?) 1940</td>
<td>Oct. 25, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>1 2030 (6167A-6 blades) propeller</td>
<td>Dec. 10, 1940</td>
<td>Dec. 13, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>Spare parts from Aviation Equipment</td>
<td>Dec. 17, 1940</td>
<td>Dec. 17, 1940</td>
<td>Pending</td>
</tr>
<tr>
<td></td>
<td>and Export</td>
<td>Dec. 17, 1940</td>
<td>Dec. 17, 1940</td>
<td>Pending</td>
</tr>
</tbody>
</table>
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE: December 27, 1940.

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

Subject: Standard Oil Tankers

Jay Cranes brought in Captain Howard, the head of the Marine Department of Standard Oil of New Jersey, this morning to discuss the disposition of several Standard Oil of New Jersey tankers to the British.

The proposals of Captain Howard are split up into two different cases: (1) Two Danish flagships, the Scandia and the Christian Holm, now located at St. Thomas in the Virgin Islands, are to be ordered to dry dock in New York. The idea is that as soon as they leave St. Thomas they will be picked up by British men-of-war operating probably from Trinidad. The British will then doubtless take them into a prize court in the British West Indies or elsewhere and retain the Danish crews if they deem it wise or else make replacements wherever they consider it necessary. These two tankers located at St. Thomas are owned by a Danish company controlled by the Standard Oil of New Jersey. The Scandia has a dead-weight tonnage of 12,760 tons and the Christian Holm has a dead-weight tonnage of 14,026 tons. (2) The other case involves two tankers. One is the Esso Belgium with a dead-weight tonnage of approximately 15,000 tons and the Ampeco with a dead-weight tonnage of 13,000 tons. Apparently by a three-cornered agreement between the Standard Oil of New Jersey, Sir Ashley Sparks, representing the British Ministry of Shipping, and a representative of the Belgian Government, these two vessels will be operated under the Belgian flag by the Standard Oil of New Jersey, or one of its controlled companies. The Standard Oil of New Jersey in consideration for the operation of the Esso Belgium and the Ampeco will give up two of its vessels under Panamanian flag to the British if the Maritime Commission gives the necessary clearance. The British Ministry of Shipping has not yet decided whether it wants two clean vessels (vessels which carry gasoline, kerosene, etc.) of approximate tonnage of 22,000 dead-weight tons or two dirty vessels (vessels which carry crude oil) of approximate dead-weight tonnage of 29,000 tons.

Captain Howard said that he was going over to discuss the clearance of the Panamanian vessels for transfer to the British with Max Truitt of the Maritime Commission and would apply with the local customs office at St. Thomas for the Treasury clearance to authorize the two Danish flagships to sail for dry dock in New York.
Under this arrangement the British will secure for their own use four tankers. In view of these circumstances, I recommend that we drop any further discussions looking to the purchase of the Danish and Belgium tankers which Jay Crane mentioned in his conversation with you yesterday and facilitate insofar as possible the carrying out of the arrangement described above.

8.10.71.
December 27, 1940

My dear Mr. President:

I am enclosing herewith, for your information, a tabulated statement giving the latest figures on deliveries of airplanes.

Yours sincerely,

(Signed) H. H. Magruder, Jr.

The President,

The White House.

Enclosure.
December 27, 1940

My dear Mr. President:

I am enclosing herewith, for your information, a tabulated statement giving the latest figures on deliveries of airplanes.

Yours sincerely,

(Signed) E. Harmon, Jr.

The President,
The White House.

Enclosure.
December 27, 1945

My dear Mr. Secretary:

I am enclosing herewith, for your information, a tabulated statement giving the latest figures on deliveries of airplanes.

Yours sincerely,

(Signed) E. Musselman, Jr.

Honorable Cordell Hull,
Secretary of State,
Washington, D.C.

Enclosure ✓
December 27, 1940

My dear Mr. Secretary:

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Yours sincerely,

(signed) E. Morgenthau, Jr.

Honorable Cordell Hull,
Secretary of State,
Washington, D.C.

Enclosure
## STRICTLY CONFIDENTIAL

### DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANES

**January 1 - December 31, 1960**

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*Note of the Secretary of the Treasury, Division of Research and Statistics. December 20, 1960.*

Deliveries under French contracts were made up to June 30, 1960.
MEMORANDUM

To: Secretary Morgenthau
From: Mrs. Forbush

The comments elicited by the "slacker money statement" have
about stopped so I am sending a brief resume on this group.

In all about 30 communications were received, 2/3 protest,
1/3 approval. Wires and letters of protest from Florida Chambers
of Commerce or important men went to Mr. Gaston for individual
replies. All others were briefly acknowledged for his signature.

Representative comments follow:

Strange that money invested in Government securities should be called
"slacker money" now! Wealth has been "drafted" by the present
Government, which is most incompetent. M.E.A. Pa.

Nothing fair about confiscating wealth and not labor. Labor should
be made to contribute equally with wealth and capital. C.S.A. Ind.

The Secretary has a crust describing money invested in tax-exempt
bonds as "slacker" money after expressing delight at their successful
sale. "Resentful Baby Bondholder". N.Y.

Present Administration has done more deliberately to spread class
hatred than any other, during a fifty year period. Why should
insidious comparisons be made between owners of Government bonds
and others after Government made the first conditions on which the
bonds were bought? W.W. N.J.

Congratulations to Mr. Morgenthau on courageous stand to tax slacker
capital. Mrs. C.S.C. N.Y.
December 27th, 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.
Telegram from London

dated December 23rd, 1940.

Naval.

1. British destroyer mined and sunk in Mediterranean on December 22nd; two destroyers (ex U.S.A.) have arrived at the United Kingdom from Canada.

2. Shipping Casualties.

British ship of 5,000 tons reported being attacked by U-boat in eastern Atlantic on December 22nd.

3. On the same day an Icelandic trawler was bombed off west coast of Scotland and subsequently abandoned. The crew of thirteen picked up by tug was also bombed and machine-gunned five of the rescued crew being wounded.

4. On December 22nd British tanker 7,000 tons British ship 5,000 tons and a tug were mined in home waters.

5. During air raid on Liverpool on the night of December 21st-Dec, 22nd two merchant ships were sunk and six others damaged in docks.

6. Air photographs of viel taken on December 21 show battle cruisers Scharnhorst and Gneisenau armoured ship Lutzow; two old battleships three six-inch gun cruisers and a number of smaller warships present. Photographs also show eastern end of the canal congested with shipping probably owing to blocking of the canal referred to in the second paragraph of my immediately preceding telegram.

7. Eastern Desert and Libya. Reports up to midday on December 22nd indicate that re-inforcements are/
are steadily reaching our troops in Bardia area. A further seven guns have been collected from the enemy frontier post recently occupied by our troops and the total prisoners now estimated to be not less than 37,000. Intermittent shelling of Sollum has taken place from long range guns in Bardia area.

8. During December 20th December 21st Wellingtons successfully attacked Bengazi harbour and dispersed aircraft on enemy aerodrome. One Italian bomber shot down by Hurricane.


10. On December the 21st nine Gladiators engaged formation of 6 Italian bombers escorted by 50 fighters. Result of attack on bombers unobserved but eight Italian fighters shot down confirmed and three more unconfirmed. Two Gladiators shot down.

11. Italians now have four divisions and part of an armoured division of 18,000 Pogrades. They appear extremely anxious about this sector which covers the approaches to Albania. They have maintained strong resistance in Topoleno-Kalcyre area covering Valona. In mountainous central sector Italian resistance is weak and on the coast they are fighting rearguard actions only.

12. E. A. F. During the night of December 22nd/23rd 59 aircraft despatched to attack marshalling yards at Greymberg, docks and shipping at Boulogne and Flushing and industrial targets at Mannheim and Frankfurt. Aircraft from/
from fighter command also bombed targets in occupied France. Reports not yet available.

13. **German Air Force.** Heavy attack commenced at dusk of December 22nd against Manchester-Liverpool area. Approximately 210 aircraft engaged and 36 mine laying. A further 155 raiders were plotted south of a line Humber-Mersey.

14. Later reports indicate that raid on Liverpool night of December 21st/22nd caused more fires and damage than was at first reported. Road and rail traffic was badly dislocated and considerable damage done to ships and warehouses in dock area, public utility services industrial and private property. Parachute mines necessitated evacuation on fairly large scale. Casualties reported as 33 killed and 123 injured. During the same night four were killed and 155 injured in London.

15. The third successive raids on Liverpool on night of December 22nd/23rd caused fires in dock area and at one war factory. Main attack during this night was on Manchester, where 4-7 fires were started of which 7 were large. Extent of damage not yet assessed. Three unexploded mines reported included one in a ship in Manchester shipping canal.

16. Aircraft casualties in the above operations over and from the British Isles, enemy 2 bombers destroyed British 5 bombers (operations night of December 21st/22nd) three crew safe.
PERSONAL AND SECRET.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.
Telegram from London dated December 24th.

1. There was some activity by E-boats on night of the 23rd-24th. A H-4 trawler was sunk by an E-boat while sweeping off Yarmouth. About 23-15 a destroyer escorting a convoy engaged an E-boat in the same vicinity. The E-boat was driven off and destroyer sustained slight superficial damage. Five of her crew were wounded. About 23.00 a destroyer escorting another convoy engaged an E-boat off Lowestoft. The E-boat is believed to have been sunk or severely damaged.

A convoy of 19 ships has arrived from Gibraltar without loss, also 19 out of 21 ships from Halifax.

2. Libya. The latest estimate of Italian tankers still available in Cyrenaica is 74 medium 11-ton and 34 light 5-ton. Garrison of Bardia is thought to be 24,100 personnel, comprising regular, blackshirt and frontier guard troops, with 85 field and 45 medium guns; and of Tobruk 22,600 personnel comprising regular, blackshirt and frontier guard troops, with 135 field and 16 medium guns. Another division estimated at 10,600 strength is believed to be moving up from Aggedabia; this division may be without artillery.


Night of 23rd/24th. 42 aircraft sent to attack Mannheim area, Channel ports and aerodromes. Two heavy bombers also detailed to drop leaflets over Paris and Amiens. 4 bombers lost.

4. German Air Force.

Night of 21st/22nd. Liverpool. Number killed now reported 244. Hydraulic pressure restored at Gladstone and Canadian docks December 23rd.
5. **Night of 22nd/23rd.**

**Manchester.** A Chemical works and a gas works suffered some damage. There was no interference with production at Metrovick, but there is an unexploded mine in Trafford Park power station. Casualties 67 killed, 332 seriously injured.

6. **Night of 23rd/24th.** About 200 enemy aircraft were operating and a heavy attack on Manchester and Liverpool areas started at dusk. Many fires were started in south and centre of Manchester and at Trafford Park where several important factories are situated. The extent of damage cannot yet be assessed but position is reported improving. Some bombs also dropped at Southampton and dockyard area damaging torpedo depot but service casualties slight.

7. **Aircraft casualties in operations over British Isles.**

**Destroyed.** Enemy one bomber, one aircraft additional 22nd/23rd.

**British, 5 bombers missing.**
Telegram from London dated December 25th.

1. **Albania.**
   In Fpirus sector Greeks have advanced three kilometres beyond Himara and have captured complete black shirt battalion 29 officers and 679 other ranks.

2. **German Air Force.**
   Night of 23rd/24th.
   Manchester.
   Full extent of damage not yet assessed, but the situation much easier. All fires are under control.
   Utility services and water supplies are fairly satisfactory.
   Portsmouth.
   Total casualties reported: 4 killed 137 injured.
London, Filed 1645, December 27, 1940.

1. During daylight hours of Thursday, December 26, eight planes from the Coastal Command attacked docks and airfields in France. The Coastal Command also operated 18 special and routine patrols on this day and 31 patrols were dispatched by the Fighter Command. The night before only two British patrols were operated. During the night of December 23-24, Channel ports were attacked and the Dunkirk area was bombed by 40 British planes. Four British bombers were lost.

2. Severe damage was inflicted on a gas utility plant and a chemical factory in Manchester during the night of December 22-23; 392 individuals were seriously injured and 67 were killed during this raid. A total of 244 individuals were killed as a result of the raid on Liverpool during the night of December 21-22.

3. On December 23 the 23,000-ton British cruiser, Hood, on convoy duty in the Atlantic engaged a German cruiser armed with 8-inch guns 700 miles west of Finisterre, Spain. The German vessel suffered one hit aft, the funnel and possibly other hits and was driven off. The British cruiser had five casualties and suffered some damage. On December 24, a convoy arrived from Halifax. Only two of the 31 ships were lost. On the same day 39 vessels in convoy
arrived in Britain from Gibraltar with no losses. Certain new precautions are being taken for the protection of convoys in the Atlantic.

4. Our Office sources believed to be reliable indicate that an increasing number of men from the German Navy dressed in civilian clothes are in the area surrounding Funchal, and that some of the Germans in Portugal are being called back to Germany possibly for the purpose of getting new instructions. These developments may mean that Germany is preparing for an action against Portugal at some time in the future.

5. No unusual concentrations in any of the invasion ports and no indications of increased activity at Funchal along the coast were observed as a result of reconnaissances from the air on December 23. There had been an increase since December 21, however, in the activity in railroad yards in Funchal and Calheta.

6. German troops are reported by reliable sources to have sailed from Trinete for probable landing in Durango.

7. Additional movements into Durango during December are reported by sources in the War Office. The possible use of Durango as a jumping-off place for future actions is suggested by this development.

8. An Italian division, probably of 10,000 men, is believed to be on route for Agadir in the theater operations in southern...
CONFIDENTIAL

Lakes. Available Trench groups and gns in the Lakes theater are estimated on 6th June 25 medium guns, 117 Field pieces and 92,000 men are at Trenching 40 medium guns, 25 Field pieces and 92,000 men are at Trenching 24 Light trench and 54 medium trenches are at Observation.

[Signatures and stamps]

CONFIDENTIAL
German troops are moving south through Italy in an increasing number. It is reliably reported that a total of two Panzer Divisions will be sent to North Africa. However, to date there have arrived only a few. It is moreover understood that the plan of the Germans calls for 300 Stukas to be assigned to Sicily together with the necessary personnel. As regards these being advance elements of a major force, there is no indication as yet. With reference to the war in Albania, the Germans are giving no assistance.

FISKE

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