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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 20, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent, Financial Counselor of the British Embassy, called at the Treasury at 11 o'clock yesterday forenoon he showed me in confidence a cablegram which he had just received from London. It was to the effect that the British were planning to sell to us \$125,000,000 of gold at a South African port. Part of this gold was in Durban and part in Capetown, but the port of embarkation was indicated as the same port at which an American cruiser called some weeks ago. (I asked Mr. Pinsent to be sure that all of this gold was assembled there so that there would be no need to call at more than one port.) Furthermore, the message indicated \$105,000,000 of the gold was "switched" and that \$20,000,000 of it actually belonged to the British. (Pinsent explained to me that the \$105,000,000 was being switched against Belgian gold borrowed in Canada.) The French will thus acquire earmarked title to gold which the British borrowed from the Belgians in Canada. We shall thus be buying the total \$125,000,000 of gold directly from the British.

Shortly after Mr. Pinsent's visit I talked, at 12:10 p.m. yesterday, with Admiral Noyes. He had received from his man in London the same word to the effect that the cargo would contain \$125,000,000 of gold. His message from London also made certain inquiry in regard to the fuel which is desired at the South African port. He is replying directly on this latter subject. I repeated to him the message which Pinsent had given me, as above set forth, and told the Admiral that I had insisted to Pinsent that all of the cargo be assembled at the one port.

*J. M. S.*

British Embassy,

Washington, D. C.

March 20th, 1941.

Dear Cochran,

With reference to my letter of March 3rd regarding the basis of composition of the lists of securities believed to have fallen into enemy hands, I enclose a copy of the circular to banks and bankers of the 28th of June, 1940, to which I referred.

Yours sincerely,

(s) R. J. Stopford

Mr. Merle Cochran,  
Room 279,  
U.S. Treasury Department,  
Washington, D. C.

Duplicate to Mr. Pehle 3/24/41

NOTICE TO BANKS AND BANKERS

---

The Treasury have given notice that it is proposed to compile a list of numbers of bearer securities which there is reason to believe may have fallen into enemy hands. The list is being compiled by the Securities Control Office, Bank of England, E.C. 2, and full particulars, including names and addresses of beneficial owners, place of deposit, definitive numbers and denominations of such securities, should be forwarded to the Principal of that Office without delay:

- (a) In the case of securities issued in the United Kingdom through the medium of the Company's Secretary or paying Agent in this country, and
- (b) In the case of securities issued abroad through the medium of a Bank in the United Kingdom.

Bankers in many cases may be aware of the numbers of the bonds or warrants from which coupons have previously been sent to them for collection by persons residing in territory now occupied by the enemy. If they have no reason to suppose that the relative securities were removed from that country before the enemy occupied it, full details of the relative securities should be advised.

Purely domestic securities of enemy occupied territory or securities for which there is no market in the United Kingdom should, however, not be advised; neither should securities held on account of persons residing in enemy occupied territory which are physically held in the United Kingdom.

Bank of England,  
28th June, 1940.

Copy: b.j



OMW

PLAIN

London

Dated March 20, 1941

Rec'd 2:15 p.m.

Secretary of State,

Washington.

1099, Twentieth.

FOR TREASURY FROM BUTTERWORTH.

The following press release appeared in this morning's London newspapers describing the British Government's agreements just signed with the Council of Defense of the French Empire:

"The British Government has signed with General De Gaulle and the Council of Defense of the French Empire two important agreements, which are animated with the same spirit of friendly collaboration as the financial agreement concluded with the French Government at the beginning of the war.

"The first agreement provides for the credits necessary for financing the war effort of the Free French.

"The second deals with the financial relations and foreign exchange questions between the British Empire and the territories of the French Empire which refused to accept the armistice.

"In particular,

-2- 1099, Twentieth from London

"In particular, it fixes the rate of exchange between the French Colonial franc and the pound sterling at 176.625 which was the parity of the franc against the pound before the armistice.

"Each colony of the Free French Empire can freely dispose of the foreign exchange proceeds of its exports and gold production, under the control of the Council of Defense of the French Empire, which if necessary may use the surplus exchange resources of one colony in order to meet the deficit of another for the needs of the Free French forces as a whole and in the common cause of the Allies.

"The arrangement is complementary to the economic agreements which have been signed recently or are about to be signed and which secure for the produce of the Free French colonies the market which it has lacked since the loss of the French metropolitan market.

"It also gives these colonies access to the supply facilities which are available to the British Empire, thus enabling them to devote all their efforts to participation in the war, not only in a military but also in an economic sphere."

WINANT

HTM

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Thursday, March 20, 1941.  
3/19/41

Press Service  
No. 24-10

Secretary of the Treasury Morgenthau announced last night that the subscription books for the receipt of cash subscriptions to the current offering of \$500,000,000, or thereabouts, of 2-1/2 percent Treasury Bonds of 1952-54 closed at the close of business Wednesday, March 19, except for the receipt of subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery be made in registered bonds 90 days after the issue date. The subscription books will be closed for the receipt of subscriptions of that class at the close of business tonight, March 20.

The subscription books for the Treasury Bonds of 1952-54 and for the Treasury Notes of Series D-1943 for the receipt of subscriptions in payment of which Treasury Notes of Series B-1941, maturing June 15, 1941, are tendered, will close at the close of business tonight, March 20.

Subscriptions of any class addressed to a Federal Reserve Bank or Branch or to the Treasury Department and placed in the mail before 12 o'clock midnight of the respective closing days will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Monday, March 24.

-c2c-



MARCH 20, 1941

7 ✓

MAR 20 1941

- - HOUSTON ON DEFENSE FINANCING

LOUISVILLE KY - A P - THE NATION-S 15 000  
BANKS WILL SUPPORT FULLY THE GOVERNMENT-S PLANS  
FOR NATIONAL DEFENSE FINANCING P D HOUSTON  
PRESIDENT OF THE AMERICAN BANKERS ASSOCIATION  
SAID TODAY IN AN ADDRESS BEFORE AN A B A  
REGIONAL CONFERENCE

HOUSTON SAID THE BANKS WERE PLACING THEIR  
SERVICES AT THE DISPOSAL OF THE TREASURY  
DEPARTMENT BY OFFERING AID IN MOBILIZING THE  
NATION-S FINANCIAL STRENGTH AND IN  
DISTRIBUTING THE TREASURY-S NEW DEFENSE SAVING  
SECURITIES

-IN FINANCING A STUPENDOUS PROGRAM LIKE  
THIS -NATIONAL DEFENSE- THE GOVERNMENT MUST  
DO MORE THAN FIND DOLLARS- HE CONTINUED -  
-IT MUST FIND THEM IN SUCH A WAY AS TO  
SAFEGUARD THIS COUNTRY AGAINST X X X INFLATION  
- IT MUST DRAW UPON THE X X X ACCUMULATED  
SAVINGS OF THE PEOPLE AND SPREAD THE FINANCING  
X X X - IT MUST FIND THE DOLLARS IN SUCH A  
WAY THAT MILLIONS OF AMERICAN CITIZENS WILL  
HAVE A SENSE OF PARTICIPATING IN THE DEFENSE  
OF OUR COUNTRY-

-0-

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 20, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

Movement of High Grade Corporate Bonds

The market for high grade issues in the immediate vicinity of the new 2 1/2% taxable 11-13 year Treasury bond experienced a considerable revision downward in price during the last two days to bring yields more in line with this 2.50% coupon rate. Although trading activity in such corporate issues was rather limited, as has been true in the past, yields were variously increased from 0.12 to 0.25% above those existing on the day before the Treasury offering. This change may be the forerunner of a general revision of high grade corporate rates upward, although there is some feeling that the scarcity value of many of these issues may tend to keep prices relatively stable. Nevertheless, as of the close of business today yields on highest grade corporate issues in the 1951 - 1954 range averaged about 2.42% as compared with 2.26% on March 18th. The yield on the new Treasury 2 1/2% bond closed at 2.37% tonight.

The following table indicates changes in price and yield of selected high grade corporates in the 1951 - 1954 area between March 18 and March 20.

HIGH GRADE CORPORATES1951 - 1954 Maturities

<u>Maturity</u>	<u>Issue</u>	<u>Coupon</u>	<u>March 18</u>		<u>March 19</u>		<u>March 20</u>		<u>Total Yld Chg.</u>
			<u>Bid</u>	<u>Yield</u>	<u>Bid</u>	<u>Yield</u>	<u>Bid</u>	<u>Yield</u>	
1951	Beneficial Ind. Loan	2 1/4%	99 3/8	2.32	99	2.36	98 1/4	2.45	+0.13
1951	Liggett & Myers	5	126 1/2	2.15	126 1/2	2.15	123	2.40	+0.25
1952	Ches. & Ohio Serial	2	97 1/4	2.30	96 1/4	2.40	96	2.42	+0.12
1953	Standard Oil of N. J.	2 3/4	105 1/8	2.26	104 3/8	2.33	103 1/2	2.41	+0.15
1954	Shell Union Oil	2 1/2	96 5/8	2.81	96 1/4	2.85	96	2.87	+0.06





## THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

March 20, 1941

TO THE SECRETARY:*Your memo of March 17th*

The following agencies are spending money to train men and women in industry. Some of the programs involve direct spending for training by Federal agencies, such as the National Youth Administration and certain projects sponsored by the Works Project Administration; other programs are indirect, such as the Civilian Conservation Corps which to some extent involves the training of workers; and other programs are carried out by grants to States, for expenditures through State Colleges, schools, etc.

	<u>Appropriations for 1941</u>	<u>Estimates of Appropriations for 1942</u>
<u>Federal Security Agency</u>		
Civilian Conservation Corps . . . .	\$279,994,900	\$270,000,000
Expenditures for all purposes, including salaries, food, clothing, project supplies, etc.		
National Youth Administration		
Youth work and student aid programs . . . . .	( 95,984,000 22,500,000 <sup>1/</sup>	95,984,000
Defense activities . . . . .	30,535,375	100,000,000 <sup>2/</sup>
Office of Education		
Promotion of vocational education		
Grants to States for annual pro- gram under Act of 2/23/17 . . .	7,000,000	7,000,000
Further development of vocational education		
Grants to States for annual pro- gram under Act of 6/8/36	13,150,000	13,500,000

<sup>1/</sup> Supplemental estimate submitted Feb. 18, 1941.

<sup>2/</sup> Bureau of the Budget advises that supplemental 1942 estimates may amount to this figure.

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	Appropriations for 1941	Estimates of Appropriations for 1942
Office of Education (Cont.)		
Vocational Education, Defense Workers		
Grants to States . . . . .	15,000,000 )	—
Educational and Training, Defense Workers		
Grants to States . . . . .	26,000,000 )	—
Purchase of Equipment		
Grants to States . . . . .	8,000,000 )	—
Cost of short engineering course of college grade		
Grants to States . . . . .	9,000,000 )	100,000,000 <sup>3/</sup>
Cost of instruction for out-of- school rural youth, etc.		
Grants to States . . . . .	10,000,000 )	—
Cost of instruction of National Youth Administration project employees		
Grants to States . . . . .	7,500,000 )	—
Social Security Board		
Selecting, testing and placement of defense workers . . . . .	2,000,000	—
<u>Federal Works Agency</u>	<u>Project Limitation</u>	
Works Projects Administration		
Direct projects:		
Nation-wide project to train persons for manual occupations in industries engaged in pro- duction for national defense	27,603,020	29,000,000 <sup>4/</sup>
Connecticut-to operate a pro- duction and training project to engage in the making of certain crafts . . . . .	201,218	—
Nation-wide project to furnish trainees and train needy persons in the manual occupation of avia- tion ground service men, etc.	1,429,690	—
	<u>\$555,898,203</u>	<u>615,484,000</u>

<sup>3/</sup> Bureau of the Budget advises that supplemental 1942 estimates may amount to this figure.

<sup>4/</sup> This assumes a similar allotment out of 1942 funds when made available.

*WUB*

March 20, 1941

Ferdinand Kuhn  
Secretary Morgenthau

Please send Alan Barth down to Louisville right away so he can see what kind of a reception Marion Edwards gets when he presents our savings bond plan; also how good a public speaker he is and how he conducts himself generally.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 20, 1941.

TO Secretary Morgenthau

FROM Mr. Kuhn

Mr. Barth is going to Louisville tonight  
with Mr. Gale Johnston.

J.K.

March 20, 1941  
2:30 p.m.

GROUP MEETING

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

H.M.Jr: This is good, once in awhile, to have a 2:30 meeting and see who is back from lunch.

Thompson: The Undersecretary and Harry White and Cochran aren't back yet.

H.M.Jr: You see them come in with their chins covered with soup.

Norman, I didn't sign that order because I didn't have a chance to read it. I don't know what you are trying to put over on me.

- 2 -

Thompson: Just those two things.

H.M.Jr: Well, will anything happen if I don't sign them?

Thompson: Oh no.

H.M.Jr: I think we had better wait, but I want to talk to you about that. What else?

Thompson: That will be all right.

H.M.Jr: What else?

Thompson: I have three or four new allocations on this authorization thing.

H.M.Jr: How much extra does this give him?

Thompson: That is a full grade reallocation, thirty-two to thirty-eight.

H.M.Jr: All right on that. Where do I sign this?

Thompson: Right here. That is all I have.

H.M.Jr: Harold, did that go over all right this morning?

Graves: Just fine.

(Mr. White entered the conference.)

H.M.Jr: Very well indeed. (Laughter)

White: Just missed the last spoonful.

H.M.Jr: Or the last glassful. Perlmeter made a -- (Laughter)

(Mr. Cochran entered the conference.)



- 3 -

H.M.Jr: I didn't do this on purpose, pulling everybody out of the two hour lunch club. I am sorry. Wait until - we will give Bell the razzberry.

Thank Perlemeter for his suggestion, will you?

Graves: Yes.

H.M.Jr: What else?

Graves: I have nothing.

(Mr. Bell entered the conference.)

H.M.Jr: Good afternoon, Mr. Bell.

Bell: Good afternoon.

White: He is chairman of the three hour lunch club.

Bell: It was a good lunch, anyhow. (Laughter)

Sullivan: The service is getting terrible in these restaurants.

Bell: No service at all.

H.M.Jr: All right, Harold?

Graves: Yes.

H.M.Jr: The real purpose of this meeting was, I wanted to know whether anybody in the 9:30 staff has a cellar that stays at fifty degrees temperature where I could store my wine. Has anybody got a piece of cellar in their house?

Sullivan: How big a cellar do you need?

- 4 -

White: Do you keep an inventory?

H.M.Jr: About the size of the washroom.

Sullivan: I have got it.

H.M.Jr: Have you really?

Sullivan: Just about. I think. I have never measured it.

H.M.Jr: No stove? Do you know what the temperature is?

Sullivan: No, but it is in the southeastern corner of the cellar. (Laughter) I should think it would be cool down there. It is walled off. I can lock it and give you the key, and then they will never know who took that bottle.

H.M.Jr: Well, we will just see, you know. Have you any idea what the temperature is?

Sullivan: No. I will take it for you.

H.M.Jr: Would you?

Sullivan: Sure.

H.M.Jr: This would be a good time to take it.

Sullivan: What about the sun?

H.M.Jr: Is it fairly deep in the ground? This is important.

Sullivan: It is about eleven and a half feet.

White: Can't you build one in there?

- 5 -

H.M.Jr: Take a look at it, will you, and if you think it is a good place - what are the walls, are they stone?

Sullivan: Stone, and then this part is cut off.

White: What is the matter with some of the vaults downstairs if they don't have gold in them any more?

H.M.Jr: We have been all through those. We have explored the Treasury.

Gaston: They are heated, aren't they?

Bell: I don't think so.

H.M.Jr: Anybody else got any offers?

Sullivan: You asked me if I think it would be 52 in the summer time?

H.M.Jr: Yes. Would it go up to 60?

Sullivan: I don't know.

White: How are you going to take the temperature in the summer time, John?

Bell: Turn on the heat.

Sullivan: The way you do that, Harry, is wait until summer and then take it.

H.M.Jr: Take a look at it, will you, and if it is all right, would you tell Mrs. Klotz and I will move my few wine cases up there. I had it at a place where the man said it was air conditioned, fifty degrees the year around, and the boy went up there and looked at it and it was hotter than my cellar. My cellar has no place where I can keep it.



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Sullivan: I will take a peek tonight.

H.M.Jr: Thank you.

Thompson: The sun shines in the windows in mine.

H.M.Jr: All right. That is settled.

Bell?

Bell: Mr. Eccles called up and he said he had authority from his executive committee to spend fifty million.

H.M.Jr: Wonderful.

Bell: He could get another fifty million if you needed it.

H.M.Jr: Wonderful.

Bell: I think I ought to mention that both the Federal Reserve and the FDIC have somehow or other gotten onto the fact that we are going to circularize the banks and are asking for information concerning the holding of the securities. Eccles wants the Federal Reserve Banks to do that job in each district, and FDIC are not so sure they would like to do it, but they would like to help and either get the information from us or have us get it from them. George is inclined to go ahead on his program.

H.M.Jr: Which way is George going?

Bell: He is going to get it himself and process it here in the Treasury, but I thought they might mention it to you some time.

H.M.Jr: How do you feel?

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Bell: Oh, I don't have much feeling on it. George, I think, has got a good point. This is something new and he wants to experiment with it in different ways, the size of the banks, the size of the communities, and he probably could do a better job by experimenting here where he could look at it than having it done in the districts by a similar organization.

H.M.Jr: I am for George doing it. Let George do it.

Bell: O.K.

H.M.Jr: Got anything else?

Bell: I would like to have a minute if I could, some time.

H.M.Jr: Sure. One other thing. This thing that - I didn't read it. This thing that Jerome Frank sent over, is that control of the finances, private finances.

Bell: Somewhat along that line, yes.

It is about the same thing as a capital issues committee. I didn't read the executive order.

H.M.Jr: Is there an executive order?

Bell: There is a draft of an executive order attached.

H.M.Jr: What I was thinking was this. Don't you think we had better get a letter off to the President saying that before he signs anything like this we would like to have a talk with him?

Bell: Oh, I didn't understand that it was sent to the President. I think he wanted your comment before it goes.

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H.M.Jr: Well, I just wonder if he hasn't sent it to the President.

Foley: He made a speech at the War College, and he developed financing for defense and this was about a year ago.

Now, I think they have asked him to go further and make more concrete his suggestions and that is his memorandum and the document.

Bell: Doesn't he say in the last paragraph --

H.M.Jr: Yes, memorandum for the President, control of capital funds.

Bell: These are all drafts, I am sure.

H.M.Jr: Well, the easiest thing is to find out. I will make you a little bet of five to one he sent it to the President.

White: Well, he indicates in the letter that he isn't going to do anything until he hears from you.

Foley: That is right. He said this to the War College.

Bell: Well, we will get in touch with him anyhow. I thought we might take a look at it while you are away.

H.M.Jr: He says, "proposed memorandum to the President." I still make a little bet it is gone. But gents, if it has gone to the President, send a block signal to the President not to do anything until he talks to us, will you, please?

Bell: Yes, sir.



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H.M.Jr: Harold, everything in order? You know, we had a funny situation this morning, Harry. Normally when the press boys ask me twice a week what we are doing with China, I always say to see the Undersecretary, but he was sitting here this morning so I couldn't say it, so I said, "See Harry White."

White: Fine. I will fix it. (Laughter)

H.M.Jr: Anything else?

White: You got a letter from Welles last night which indicates that the negotiations with Mexico are much further along than we had thought, and they are asking whether the Treasury is prepared to explore the possibilities of some monetary arrangements, et cetera. I have drafted a letter which won't be --

H.M.Jr: I want to congratulate you and Mr. Foley on the successful seeds that you sowed on the beaches of Mexico and it comes back, you see, like manna from the sea, and here we are right on our way.

White: It didn't take long. I think that we earned our transportation.

H.M.Jr: I think so. (Laughter)

White: We have to collect from Mexico, though. We weren't sure whether we were working for the United States or Mexico.

H.M.Jr: Well, you see now. You will keep Mr. Welles in order while I am gone?

White: Well, the draft of the letter would indicate that you are prepared to explore it at the appropriate time.

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H.M.Jr: That doesn't answer my question. Will you keep Mr. Welles in order?

White: I will keep him just as much in order as anybody else has ever kept him. (Laughter)

H.M.Jr: Including Mussolini. George?

Haas: I have nothing.

H.M.Jr: Philip, what you want to say, can you say it semi-publicly or does it have to be whispered in my ear?

Young: Oh no, it can be quite public, I think. Last night you said you were considering the possibility of sending a letter to the Secretary of State with respect to this transfer of foreign purchasing. I wrote up a draft. I don't know whether you still want to send it or not.

H.M.Jr: Well, as far as I am concerned, it is not necessary. It is a question of how you feel.

Young: Well, certainly the State Department hasn't had any official notification, so far as I know, and all these fellows are going to turn up over there.

H.M.Jr: Well then, after this meeting, if you and Foley and Cochran could get together, whenever the letter is ready, let me know.

Now, in the room here, something has happened which couldn't happen, I don't think, anywhere else but Washington. Maybe it could happen somewhere else, I don't know. But as of last night, certainly, in talking with Young and Cox, Hopkins left his work amongst

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five or six people. That is about right, isn't it?

Young: Yes, that is right.

H.M.Jr: And that is the way Purvis said, who I saw at lunch, he understood it, and Purvis was just amazed when I told him that Colonel Donovan was taking over. So I got back to thinking, and so he said, "Well, all you must have done was to hypnotize him, because when I talked to him last night he had certainly no idea of taking over." So maybe I sold him instead of his selling me, but Purvis said Donovan had no idea last night he was to do all of this.

Young: Well, I understood Donovan to say this morning he was just taking over on this Middle Eastern list which he had, not on the broader problem.

H.M.Jr: I think he is taking over on the whole thing for Hopkins.

Young: I didn't get that impression at all this morning.

H.M.Jr: Didn't you? No? Well, we will see, anyway. You haven't heard from him further?

Young: No, I haven't heard anything.

H.M.Jr: Neither have I.

Foley: Well, Oscar said he left everything with Burns.

H.M.Jr: Well, certainly when Donovan left here, I gathered from him that the matter is entirely in his hands, and I called my people in and



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said to give him all the help they could. He is the first man I have talked to that I would be willing to really back. I saw what he did last summer. But what I said still holds true. Anything you can do to help him, because he certainly is - he has been for a week actually in the trenches up in Albania. He was down in Libya when they took that last town, whatever the last town was. He was with Wavell for over a week. He was with Eden in Cairo. He has been twice in England. He has been in Spain and he has been in Portugal. I think he knows more about the situation than anybody I have talked to by about a thousand per cent. And he is not discouraged.

White: That is all good preparation for Washington.  
(Laughter)

H.M.Jr: What do you mean, Harry?

White: I mean, he ought to be at home in all the fighting that is going on.

H.M.Jr: Well, he is a fighter, don't worry.

Klotz: I don't know what I am laughing at.

H.M.Jr: You are just laughing at Harry.

Anyway, any help that anybody can give him in this group, I would appreciate it. But you (Young) are going to draft a letter.

Young: I have one already drafted.

H.M.Jr: Well, let these two gentlemen take a look at it, will you? Then when you are ready, I will let you know, Bell. You and I will look at it after they get it done.

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Bell: O.K.

H.M.Jr: Anything else?

Young: No.

Kuhn: Do you want to see Allen Barth's surveys with the clippings while you are away?

H.M.Jr: Yes, please.

Kuhn: Would you like them oftener than once a week?

H.M.Jr: The clippings? Surveys? No, once a week.

Kuhn: Right.

H.M.Jr: You got my message?

Kuhn: He is leaving tonight.

H.M.Jr: I thought it might be worthwhile.

Kuhn: It is a good idea.

H.M.Jr: Anything else?

Kuhn: That is all.

Pehle: I have nothing.

Cochran: We are selling the bank of Brazil twelve million dollars of gold. It is evidently the proceeds of that transfer from the Yugoslav account.

H.M.Jr: And the gold will stay here?

Cochran: The gold is staying here, earmarked with the Federal.

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H.M.Jr: Anything else?

Cochran: No, sir.

Sullivan: Have you seen Dr. Gulick?

H.M.Jr: Have I? No.

Sullivan: He was due here Tuesday, and I telephoned New York and they said he was in Washington. He registered at the Hay Adams, but I haven't been able to reach him. Is it your understanding that the Carnegie Corporation are going to carry the charges here on everything except Dr. Gulick?

H.M.Jr: No, you were here --

Sullivan: That is right, and I don't recall that that was mentioned at all. The extent to which we were going to finance them.

H.M.Jr: I never - well, every discussion I had with him, you were present.

Sullivan: That is right, and there was no - there has been no understanding on that.

H.M.Jr: No.

Bell: I thought the understanding was that we would finance it so far as we could and somebody would finance the excess, either the - Gulick's organization or the Carnegie would help Gulick's organization.

Sullivan: That was all right up to the point where they said they had three hundred twenty-five thousand dollars. Then I began to think that they were going to do it.



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H.M.Jr: Somebody asked me to - my understanding was that we pay the \$22.50, but where the man got more than that, either Gulick's organization or the Carnegie would make up the difference. Is that right?

Bell: That is right. And then Carnegie would help Gulick's organization. They were not in the picture at all, so far as we were concerned.

Sullivan: That is all right. I just wanted it understood.

H.M.Jr: Well, if he doesn't show up, call up Randolph Burgess.

Sullivan: Bruere.

H.M.Jr: Yes.

Sullivan: He is the fellow who knows about it.

H.M.Jr: And ask him.

Sullivan: I will. Mr. Doughton called up yesterday afternoon. He was very, very much agitated and I went up and he was terribly disturbed about all the newspaper stories reporting a high Treasury official had said this, that and the other thing. The Republican members of the House are riding him on it, and I haven't seen him so disturbed about anything since the Pearson and Allen story last summer. He was very anxious that you should make - give a statement saying that the Treasury had not discussed this with anybody.

H.M.Jr: Discussed what?

Sullivan: Taxes, new tax policies.

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H.M.Jr: I said that. Henry Morgenthau, Jr. said we have no plan until after the first of April. There is no high Treasury official.

Sullivan: No. I understand that, sir, but there have been a lot of stories for the last two weeks --

H.M.Jr: Has there been anything since Monday?

Sullivan: Yes, the Tuesday papers have it.

H.M.Jr: Well, my Monday press conference quoted me verbatim. There is no high Treasury - look at my press conference Monday, what I said.

Sullivan: I understand that, but all of these fellows are writing stories which they attribute to the Treasury.

H.M.Jr: I haven't seen any.

Sullivan: There have been a lot of them.

H.M.Jr: I haven't seen any. I would like to see one. I would like to see one that says high Treasury official that has been written this week.

Schwarz: There was one Tuesday.

Sullivan: There was the Tuesday morning paper. There was the Sunday - there were the Monday afternoon papers. Mr. Doughton called in Mr. Cooper, who doesn't get excited, and he reached in his pocket and pulled out a long, long story from the Sunday Star.

H.M.Jr: No one has brought it to my attention.

Sullivan: Well, that is why I am doing so now.

- 16 -

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H.M.Jr: Well, I am not going to do anything about it, because I haven't - I talked on the record and my press conference is there and here I have got Schwarz and I have got Kuhn and no one has told me anything about it. I don't know what you are talking about.

Sullivan: I am just trying to convey to you the very great excitement of Mr. Doughton, who --

H.M.Jr: But give me something to show me what he is excited about. I made an on the record statement after talking to him Monday morning in which I said that we had nothing, and I talked to Mr. Doughton. It is all there. If you had gone up there - if you had talked to me before you went up there, I could have shown you my statement. He read me his statement over the telephone.

Sullivan: Yes, I knew about that.

H.M.Jr: I don't know what you are - when you come in, show me something about what high Treasury officials said. What does he hang this thing on?

Sullivan: There isn't anything that a high Treasury official has said, sir. It is these stories the newspapers are writing which they attribute to a high Treasury official.

H.M.Jr: Show me the story. Show it to them. I can't be bothered with it. I can't be bothered with Doughton. Doughton has nothing to hang his hat on as long as I haven't seen the story, and here is my press section and if they are not disturbed, I am not going to be disturbed.

Sullivan: All right. I am just reporting to you that he is very much so.

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H.M.Jr: Then let him call me up, John. I don't know what it is all about.

Sullivan: He called me because he thought you had left, and he asked me to tell you particularly that that is why he had called me.

H.M.Jr: Did you take up my press conference Monday to show him that?

Sullivan: No, I did not.

H.M.Jr: Well, I would have taken it up. You had better get a copy of my press conference.

Sullivan: I have it.

H.M.Jr: Then why don't you take it up and show him?

Sullivan: Because that doesn't answer his problem, sir.

H.M.Jr: Let's skip it.

Sullivan: It is all right with me. He is the fellow on whom we are relying. That is the reason I brought it up.

H.M.Jr: I don't know what you do up there, but when I talked to him Monday morning he was sweet as sugar, and if I was sent for and had this, here it is, I would show him what I said. That is what I am trying to get over to you.

Sullivan: I am writing him a letter and I am setting out what you said Monday, but that doesn't answer his objections. His objection is not what you said, his objection is that we are allowing to go uncontroverted, a lot of stories on a lot of tax things which he says is making a fool out of him before all the other members of Congress. That

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is why all of his talk about being a rubber stamp, that we are not consulting him. He says story after story appears which is attributed to the Treasury, and the Treasury doesn't deny it.

H.M.Jr: Well, Chick, would you please show me any stories? Have you seen any stories?

Schwarz: There were one or two.

H.M.Jr: Since his statement, since Monday?

Schwarz: Only one Monday, which the boys said they wrote based on Monday's conference which they thought was to clear up the atmosphere, that there - that nothing was being discussed. They said a high Treasury official said no unorthodox methods, or something like that, which was a conclusion they drew from Monday's conference. I feel that it is --

H.M.Jr: Have you talked with Schwarz about it?

Sullivan: Yes. I talked to him the minute I got back yesterday afternoon. I talked with Mr. Schwarz and Mr. Kuhn and Mr. Tarleau and Mr. Blough and Mr. Surrey. We prepared what we thought might be done this morning.

Schwarz: The boys told me that Mr. Doughton objected to the rumors about post tax legislation and in the next ten minutes he was dropping rumors himself.

H.M.Jr: Well, without seeing him, my own feeling is that I would forget it.

Sullivan: All right, sir.

H.M.Jr: What do you think, Ferdie?



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Kuhn: I think there have been many stories, many, many stories since your press conference of Monday, making it clear that nothing was going to be done until after April 1. I think that idea has gotten across. I think that is more - should be more important to Doughton than one story on Tuesday morning in the other direction. I think the papers have been good on the tax thing this week.

H.M.Jr: Do you think we ought to do anything more? Are you familiar with it?

Kuhn: Yes. I think if John agrees, it might be worth sending the transcript of what you said on Monday, and also the remark you made this morning saying that we are going to rest on our oars until we get an invitation from Mr. Doughton to go up and discuss the thing with him. You said that on the record this morning.

H.M.Jr: Can't do any harm. Send it up. Is that all you are going to do, is send it up?

Sullivan: That is all, I think, that can be done now. I don't see anything else that can be done.

Bell: Why can't John say in his letter --

Sullivan: I am going to talk to him and try to explain to him that we thought this was covered on Monday. If it were anybody but Mr. Doughton, I don't think we would be in this position. He feels it very keenly and the Republican members have been ribbing him unmercifully. I don't think there are very many other men up there who would have the same reaction to it at all.

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H.M.Jr: Well, I don't want to - well, the only thing I can think of is to send him verbatim what I said at Monday's conference and this press conference.

Sullivan: I will do that. That is all I have, sir.

H.M.Jr: I would keep away from him, John. That is all I can say.

Sullivan: Yes, but he called me. Oh, you mean from now on?

H.M.Jr: Well, I mean - I don't know why there is so much trouble. I never had any trouble with him. I don't - the trouble is - well, let's - anyway.

Sullivan: He called me. I didn't go up to him.

H.M.Jr: O.K.

What is it, Ed?

Foley: Here is the memorandum for the diary. Jim Forrestal wants one of our lawyers by the name of O'Dunne who has been working on the Associated Gas and Electric case. He thinks that in this investigation of the defense contracts which Truman is going to carry on, if Hugh Fulton, who is the assistant United States Attorney who handled the Hopson case up in New York was appointed counsel for Truman, that it would be well if he could have O'Dunne and have him familiar with the Navy contracts and procedure and then have O'Dunne taken over to Fulton so that he could carry it out. I am willing to let him go.

H.M.Jr: O.K. What else?

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Foley: That is all.

Gaston: Shall we wait until we get the Solicitor General?

H.M.Jr: He called me. I tried him all morning and now they say he is in and I am going to call him.

Gaston: You didn't want me to do anything about that Iowa thing, did you, about the Vice-President? I am inclined to just let it slide. George Brennan wanted you to know that he was in a receptive mood, and if there are any appointments to the Federal Reserve Board passed around - George Brennan of the Farm Credit. If it should come to your attention. He wasn't asking you to do anything, but if it came to your attention he wanted you to know that he was in a receptive mood.

H.M.Jr: Well, for those who I won't see again, I will try not to call you up; and I hope you all get a little vacation. I think the sun will be out.

I say, you will be calling me instead of my calling you. If you would confer with Mr. Bell and Mrs. Klotz before you call, I would appreciate it.

Gaston: If I get permission from Mr. Bell, you don't mind if I am out of town two or three days at a time?

Bell: That is the purpose of this statement.

H.M.Jr: I encourage each and all of you to get a little holiday. John, do you want to run down to Florida?



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Sullivan: I don't think I can, thank you very much, sir. She is coming home in two weeks from Saturday.

H.M.Jr: It is a good time if you want to run down.

Sullivan: Thank you, but it takes too long to get there.

H.M.Jr: You might settle your public relations troubles.

Schwarz: On a Florida beach?

H.M.Jr: All right.

March 20, 1941  
3:06 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton.

Bob Doughton: All right.

H.M.Jr: Bob?

D: That you, Henry? I thought you were away up in New York or New England or Canada or away down in Mexico or Florida somewhere.

H.M.Jr: Well, I can't be everywhere at the same time, so I'm still in Washington.

D: Well, you can come as near as anybody I know of.

H.M.Jr: I'm leaving tonight.

D: Well, I hope you have a wonderful trip.

H.M.Jr: How are you feeling?

D: Oh, about the same, Henry. Nothing to brag about and nothing to complain about.

H.M.Jr: Got any worries?

D: How's that?

H.M.Jr: Are you worrying about anything?

D: Well, no acute worries, no. I have plenty of chronic ones all the time.

H.M.Jr: Good. Well, I just wanted to know before I left whether you still were hitting on all sixteen cylinders.

D: Well, I talked with your right-hand man, John Sullivan, yesterday about these repeated stories in the press about the way you all are writing tax bills down there. He told you about it, didn't he?

- 2 -

H.M.Jr: Yeah. Well, you know it doesn't come from down here.

D: Well, I was sure of that. I've been sure of that all the time but they keep telling it does and it seems to me like - I don't know, I can't speak for you all down there, but if they kept quoting me and anybody on my committee of making a statement, I'd just call them down someday, pretty rough and hard. It is quite embarrassing to our folks, you know, although after I made my statement why that's dropped as far as I'm concerned.

H.M.Jr: Well, there's nothing more you want us to do down here is there?

D: How's that?

H.M.Jr: Is there anything you'd like me to do?

D: Well, didn't John tell you what I suggested?

H.M.Jr: Well, we're sending you up - I did say something this morning at my press conference, that we were doing nothing.

D: Well, that's the thing to do now. That's what I suggested - something of that kind - that these stories so far as the Treasury was concerned were entirely unreliable and without any ground.

H.M.Jr: Well, if you don't mind my saying it, I wouldn't take them so seriously.

D: Well, I don't, but my committee, you know, are both Democrats, of the majority and minority members and they keep muttering about it and seem to be embarrassed and worried about it and feel like that .....

H.M.Jr: Well, with your fine reputation you're above all of that.

D: How's that?



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H.M.Jr: With your fine reputation you are above all of that.

D: Well, I thank you, but it's all right. Whatever of course you think about it. It's very unjust to us all for them to keep doing that but what's the best treatment, of course, that's a matter for you to determine. Whatever you do about it will entirely satisfactory to me.

H.M.Jr: Well, John is sending you up a verbatim copy of what I said Monday and today at my press conference.

D: How's that?

H.M.Jr: John Sullivan is sending you up today a verbatim copy of what I said at my press conferences on Monday and today.

D: Yes. Did John tell you about our little short conference - not conference, but conversation he and Jay and myself had about tax procedure?

H.M.Jr: Yeah, he mentioned it.

D: Yeah. I think when the President gets back - we had one conference you know - it would be mighty fine for us all to get together again and get us started out and all as near headed in the same direction with the same objectives and the same thoughts as we can.

H.M.Jr: Well, we'll do it under your leadership.

D: How's that?

H.M.Jr: We will do it under your leadership.

D: Oh, no. Not my leadership. Leadership of you and the President, but we'll all work together. I'm not a leader; I don't lead in my committee; I try to work along with the boys, you know.

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H.M.Jr: Well, I'll take my leadership from you.

D: Oh, thank you, Henry. You're entirely too gracious and entirely too kind, but I appreciate the compliment just the same.

H.M.Jr: All right, Bob.

D: Well, a good time to you.

H.M.Jr: Thank you.

D: Good-bye.

March 20, 1941  
3:29 p.m.

Francis  
Biddle: I'm leaving town tomorrow.

H.M.Jr: Who is?

B: Yeah.

H.M.Jr: You are?

B: Yeah.

H.M.Jr: Well, who's going to be Attorney General?

B: McGuire.

H.M.Jr: Uh-oh.

B: What have you got on your chest?

H.M.Jr: Well, I've got this. I don't know whether you've ever heard of a man by the name of "Nucky" Johnson of Atlantic City.

B: Why, "Bucky" Johnson is the famous graft mayor down there.

H.M.Jr: No, Nucky. (Enoch).

B: Nucky , yes. I know all about him, yes.

H.M.Jr: Well, we're ready to go ahead and try to get the man indicted.

B: Yeah. Fine.

H.M.Jr: Now, what I'd like is before you go away, very much, because what we need is a judge from outside the state - we don't think any of the New Jersey judges will do - .....

B: I agree.

H.M.Jr: And what we'd like is if you'd see Herbert Gaston and Ed Foley and Elmer Irey and give them fifteen minutes to tell the story, because we want .....



- 2 -

B: I know the story pretty well now. I was at Atlantic City not long ago and went over the story with our agent down there.

H.M.Jr: Yeah.

B: I'll be very glad to see them and they can come over this afternoon at 4:00 o'clock if they can.

H.M.Jr: They'll be there.

B: 4:00 o'clock.

H.M.Jr: They'll be there at 4:00 o'clock.

B: Henry, is there any talk of difficulty with getting our opinions down and all that?

H.M.Jr: How do you mean?

B: For the defense? Harry said something to me day before yesterday which made me think .....

H.M.Jr: Harry?

B: Harry Hopkins - that our opinions weren't coming through with the type of zest that they wanted, but you know all of those fellows are awful kickers.

H.M.Jr: I don't know that I follow you.

B: Legal opinions from our office with respect to what you can do in the defense situation.

H.M.Jr: This is Harry Hopkins?

B: Harry Hopkins mentioned something about it.

H.M.Jr: I don't know what he's talking about.

B: I didn't either; he didn't specify, but you haven't heard anything of that kind.

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H.M.Jr:

No.

B: *uh-ho*

Right-o.

H.M.Jr:

But this thing I do. Now, one other think while I can.

B: *uh-ho*

Yeah.

H.M.Jr:

I'll ask Gaston to hand you this. I've got a letter - I'm just going to give it to you - from a man by the name of Ernest Bohn who runs the Cleveland Housing Administration, and he's interested in this new Federal judgeship in Cleveland.

B:

Yes.

H.M.Jr:

And he sent me this editorial that I'd like to hand you recommending Attorney Marc J. Grossman, and I'd just like to put it in your hands for whatever it is worth.

B:

Delighted. Will you send it over?

H.M.Jr:

I'll ask Gaston to give it to you.

B:

Fine. All right, Henry.

H.M.Jr:

And they'll be there at 4:00 o'clock.

B:

4:00 o'clock. That's fine.

H.M.Jr:

Thank you so much.

B:

Good-bye.

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Copy given to Mr. Bell 3/20/41

ack'd as filed 3/29

see reply dated 3/20 + Hyni  
further letter<sup>4</sup> saying  
material is being transferred



March 20, 1941

My dear Mr. Secretary:

In my letter to the President dated March 12, 1941, copy of which I sent to you, I recommended that all foreign countries outside the lend-lease area desiring to purchase military supplies in this country submit their needs to the Secretary of State.

I have instructed Mr. Philip Young, the Treasury member of the President's Liaison Committee, to accept no new business from such countries beginning today. It is my understanding that Mr. Young has already discussed this problem with Assistant Secretary of State Acheson in order that the transition with respect to both new and pending foreign purchasing operations may be consummated with as little difficulty as possible.

I have been informed that purchasing operations by Poland, Iceland, Greenland, Netherlands, Greece, China, British Empire, and Norway are interpreted to be within the lend-lease area and will be supervised by Mr. Harry Hopkins. The members of my office experienced in foreign purchasing operations will be delighted to assist representatives of your Department in connection with the foregoing.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

PY:bj

By Messenger 5/5

March 20, 1941.

Dear Nathan:

I received and read your letter of March 12th, and was very glad to see Mr. Istoric. After talking with him, I turned him over to several of my associates here in the Treasury who are now working with him to see what may be done. It was a pleasure to do this.

We are both so glad that you are getting better, and hope that the improvement steadily continues.

I am leaving this evening for Tucson, and Elmer will join me there in a few days.

With best wishes from us both,

Sincerely,

(Signed) Henry

Mr. Nathan Strass,  
Quarry Lake,  
Valhalla, New York.

CHP/cbe

March 20, 1941.

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Mr. Nathan Strauss,  
Quarry Lake,  
Valhalla, New York.

CHV/dhe



March 20, 1941.

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(Signed) Henry

Mr. Nathan Strawn,  
Quarry Lake,  
Valhalla, New York.

GHF/dhs

QUARRY LAKE

VALHALLA . NEW YORK

March 12, 1941.

Dear Henry:

The enclosed letter reached me this morning from my friend, Edward Norman. In case you do not know Mr. Norman, I may say he has given of himself, his time, and his means unstintingly for years in the interest of Palestine -- this despite certain grave differences of policy between him and the Zionist organization, from whom he holds completely aloof.

I do not know Mr. Istorik, however, I have sufficient confidence in Mr. Norman's judgment to believe that if you can find time it might be well worth while to see Mr. Istorik as Mr. Norman suggests.

I am working several hours a day up here at Quarry Lake and hope to be able to return to Washington and full time work within two or three weeks.

I cannot tell you how much I was pleased and touched by Eli's several visits.

Fondly,

Nathan

per H.S.S.

Hon. Henry Morgenthau, Jr.,  
2211 Thirtieth Street, N. W.,  
Washington, D. C.

Enclosure.

EDWARD A. NORMAN  
60 BEAVER STREET  
NEW YORK, N. Y.

March 11, 1941

Mr. Nathan Straus  
Quarry Lake  
Valhalla, New York

Dear Nathan:

For several months I have been in touch with Mr. Leo Istorik, the London Director of the Anglo-Palestine Bank. He is here in connection with arranging some financial matters for the Bank that I consider to be soundly conceived and of great importance, not only to the Jewish cause, but also to the British. Mr. Montague Norman, Governor of the Bank of England, has cooperated with Mr. Istorik in formulating these plans, and it was at the suggestion of Mr. Norman that Mr. Istorik came here. Mr. Istorik has been working here in cooperation with the British Embassy, and I believe has made progress with his plans.

Now Mr. Istorik tells me that he thinks the time has come when he ought to have a talk with the Secretary of the Treasury. He feels that it would be better if he were introduced to Mr. Morgenthau privately rather than through the Embassy, and for this reason he spoke to me, and that is why I am writing to you.

I have known Mr. Istorik for a number of years, and have the highest regard for him, and am sure that what he is working at deserves encouragement. Incidentally, he is a brother-in-law of Israel Sieff, of London, who is now here, and whom perhaps you know.

I would be most appreciative of any help you might give in arranging an appointment for Mr. Istorik with Mr. Morgenthau.

Mr. Istorik is now at the Shoreham Hotel in Washington, and Mr. Morgenthau's office could reach him there, or word could be sent to him through me.

With kindest regards and best wishes for your rapid and complete recovery,

Cordially yours,

*E*

EAN FSW



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 20, 1941.

The Secretary

FROM Mr. Foley

After the meeting in your office Bernstein spoke to Istorik for about an hour. Istorik had the following to say:

(1) The Anglo-Palestine Bank wanted to increase its liquidity to the extent of about £1,000,000 because of the possibility of the withdrawal of its deposits if the British position in the Middle East was weakened. Istorik asked Montague Norman for help and Norman suggested that Istorik try borrowing money in the United States.

(2) The Anglo-Palestine Bank wanted to sell increased shares in the Bank and also to sell certain of its non-liquid investments in Palestine. Istorik felt that there would be no market for such assets in the United States unless he tied in the Anglo-Palestine Bank's borrowing with borrowing by the Palestine Foundation Fund which had a branch in the United States and which branch received annually donations in dollars and would use such dollars to repay the loan. Istorik also felt that he would have a better chance of raising the money in this country if the borrower

- 2 -

were to be an American institution. It is for these reasons that the loan to the Anglo-Palestine Bank is tied in together with the loan for the purposes of the Palestine Foundation Fund.

(3) Istorik realizes that his proposition is not a business proposition in the ordinary sense, that the RFC or other United States Government agency would, in effect, be lending dollars to finance activities in Palestine of the Anglo-Palestine Bank and of the Palestine Foundation Fund, that there might be important and sound criticism if a United States Government agency were to engage in such a transaction, and that the British Government might use such a loan as a precedent to ask the United States Government to lend dollars against the stock and other sterling assets of other British banks.

(4) Istorik would, of course, like to have some private American business or banking institution buy or otherwise dispose of the shares of the Anglo-Palestine Bank, but apparently he feels this is unlikely and he feels that it would definitely hurt the position of the Bank if he were to try to dispose of the Bank's shares and assets on a philanthropic basis and be refused. He wished that he

- 3 -

had had better entree in American banking institutions and with other Americans who could be of help to him in this matter.

(5) Istorik did not seem at all surprised by the Treasury's reaction to his proposal. Ben Cohen had indicated to him that although the scheme was clever he didn't think the Government would support it. Istorik felt that his inability to raise the money in this country would help him with Montague Norman in that he could tell Norman of his effort to raise the money here and his failure to do so. Istorik felt that in view of the importance of the Anglo-Palestine Bank, the British Government and the Bank of England would have to lend the Bank help in a pinch.

Istorik indicated that he might call on Bernstein again in the near future to discuss the problem and hoped that he might have some opportunity, when the Secretary returned from his vacation, to discuss Palestine problems with him. Istorik wanted the Secretary to know of Montague Norman's friendly and helpful attitude with respect to the Anglo-Palestine Bank.

8.1.76.



March 20, 1941.

Captain Martin E. Metcalf, USN,  
Room 1704 Navy Department,  
Washington, D.C.

Dear Captain Metcalf:

At the request of Captain D. J. Callaghan, Naval  
Aide to the President, I am returning to you certain con-  
fidential papers which Captain Callaghan gave to Secretary  
Morganthau to read.

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston  
Assistant Secretary of the Treasury.

CC: Captain Callaghan,  
The White House.

Papers returned to me from Captain Metcalf to The Chief of Naval Oper-  
ations, dated February 19, 1941.  
Carbon of memo from P.R. Smith to Captain Metcalf, February 17,  
1941; subject: Inspection Trip to Halifax.  
Observations by Chief of Naval Staff of Canada, Ottawa on situ-  
ation regarding Naval control service in Ottawa area in the  
event of U.S. participation in war.  
Pages from The Star Weekly, Toronto, February 15, 1941, containing  
article entitled "Mounties of the Sea Lanes."

cc. Miss Chauncey

THE WHITE HOUSE  
WASHINGTON

Memo for Secretary  
Morgenthau.—

These are the papers  
about which I spoke  
to you over the phone.

If you will return  
them to Capt. Martin  
K. Weber, U.S.N.

Room 1104, Navy Dept.

when you are through  
with them I'd appreciate  
it.

Respy,  
D. C. Morgan

3-2-41 made  
19 Feb 41  
Op-388-0-cw

CONFIDENTIAL

February 19, 1941

From: Captain M. K. Metcalf, USN, (ret.)  
To: The Chief of Naval Operations

Via: Official Channels

Subject: Visit of certain officers to Halifax, Nova Scotia.

1. I have to report that the following officers visited Halifax, Nova Scotia, to study and observe the operations of the Naval Control System, routing and despatching of convoys, etc., from that point:-

Captain M. K. Metcalf, USN., Operations Officer,  
Naval Supply and Transportation Service Section  
of Ship Movements Division.  
Commander W.E. Hall, USN., Assistant Operations  
Officer, Naval Supply and Transportation Service  
Section of Ship Movements Division.  
Lt. Comdr. P. R. Smith, USNR., Assistant Operations  
Officer, Naval Supply and Transportation Service  
Section of Ship Movements Division.  
Captain M. Milne, USN., Port Director,  
First Naval District.  
Captain F. O. Reinicke, USN., Port Director,  
Third Naval District.  
Captain J. B. Will, USN., Port Director,  
Fifth Naval District.  
Captain E. M. Williams, USN., Port Director,  
Sixth Naval District.

2. The party remained in Halifax for two days and three nights, arriving at Halifax 10 February 1941.

3. Free rein was given all members of the party by the Royal Naval and Canadian Naval authorities. All publications pertaining to convoys were made available for study. The actual forming of a large convoy, together with routing and convoy



CONFIDENTIAL

instructions, was witnessed by all officers. All officers were present at a final convoy conference prior to convoy sailing.

4. The Naval Control System office at Halifax, under command of Commodore G. C. Jones, R.C.N., forms all convoys leaving Halifax, sets speed of convoy, inspects all ships of the convoy before sailing, ascertains that all ships are properly loaded, etc., and on instructions from Ottawa, sets time of sailing and routes to be followed.

5. The sea and air defenses of the harbor, the escorting vessels, the sortie protection, the channel sweeping, etc., are under direct charge of Rear Admiral Bonham-Carter, R.N., and his staff.

6. All convoys are under the direct command of a Commander, R.N. Reserve, who is charged with the maneuvering of the convoy, zig zags to be used, etc. The escort vessel acts as protection only and is in charge of all vessels that may be used for escort duty. An interesting phase of those officers detailed as convoy commodores is the fact that all Commodores are retired Royal Naval Officers of the rank of Rear Admiral, or above, who voluntarily accept a commission as Commodore, R.N. Reserve. This list includes a former Commander-in-Chief, Mediterranean Fleet, a former Commander-in-Chief, Asiatic Station, a former Sea Lord of the Admiralty, and others; their staff consists of two Royal Navy signalmen only and they are usually quartered on the largest ship of the convoy and mess with the ship's officers.

7. Appended hereto is a more detailed report submitted by Lt. Comdr. F. R. Smith who was made historian for the trip. The various Port Directors who were with the party have been requested to submit to me, any questions or recommendations they may see fit to make and if from their reports any pertinent recommendations seem necessary, they will be forwarded under separate cover.

M. K. METCALF

February 17, 1941

ConfidentialMEMORANDUM FOR CAPTAIN METCALF

Subject: Inspection Trip to Halifax

The party consisted of the following officers:

Captain Martin K. Metcalf, USN, Washington;  
Captain F.G. Reinicks, USN, New York;  
Captain M. Milne, USN, Boston;  
Captain J. B. Will, USN, Norfolk;  
Captain E. M. Williams, USN, Charleston, S.C.;  
Commander W. E. Hall, USN, Washington, and  
Lt. Comdr. P. R. Smith, USNR, Washington,

all of whom arrived in Halifax at about 9:30 pm. Monday, February 10, 1941, where we were met by Captain G.M. Read, USN, United States Naval Attache, Ottawa, Canada.

Captain Read escorted us to the Halifax Naval Station the next morning, where we met Comdr. Richard H. Oland, R.C.N., the Naval Control Service Officer, and his assistant, Comdr. Banyard. We were then introduced to Commodore G. C. Jones, R.C.N., senior Canadian naval officer, C.O. Atlantic Coast, and in charge of all Canadian activities in Halifax.

Comdr. Oland then arranged to form our party into two groups and turned us over to Lt. Lambkin who outlined his duties of instructing masters of merchant vessels engaged in convoy duty between Canadian and U.K. ports. His duties consisted mainly of checking with each master as to whether or not he had the required papers, forms, etc., in his possession and whether he was familiar with instructions contained therein, each master signing a form to the effect that necessary papers, documents, etc. were on board his vessel and that he understood them; thence to Lt. Buntain who further checked with each master as to physical characteristics of each vessel. Another officer, Lt. Stewart, had charge of upkeep and maintenance, and if a master reported trouble to vessel or machinery, Lt. Stewart would pass the information along to the engineer officers who promptly went into the matter in order to have the vessel ready to make her scheduled sailing date.



The next officer, Lt. Mitchell, had charge of convoy routing and gave the party a very interesting outline of the general procedure followed. Briefly, a convoy of merchant vessels would leave Halifax and proceed to a rendezvous well off shore, (these vessels had been originally loaded at American ports as far south as Savannah), where they would meet a convoy of merchant vessels which had been made up at Bermuda (these vessels had been loaded, in most part, at American gulf ports, Caribbean ports and/or ports in Northern South America, including the West Indies). The convoys would combine and proceed on specified routes under escort to a rendezvous in European waters, where they would again receive orders as to what ports they would proceed to. At this point, the armed ocean escort vessels would pick up a westbound group of cargo vessels, most of them in ballast, and proceed to the American ports. Considerable exchange of messages and accurate timing had apparently enabled east and westbound convoys to arrive at rendezvous as per schedule.

We were then turned over to Lt. Day who had charge of independent routing, that is, vessels that might become separated from a convoy and/or otherwise proceeding on their own. He outlined the general procedure to be followed advising them of the latest reports of locations of submarines or raiders.

The principles mentioned above are covered in the Naval Control Pamphlet, a copy of which is in this office. However, there are some additional papers copies of which, I understand, Captain Read is going to send to you in due course. The general talks given by the various Canadian naval officers to our party were given to us as if we were masters and/or agents of merchant vessels which were part of a convoy.

The next officer we met was Lt. F. B. Watt who has charge of the boarding parties which examine every ship entering and leaving the port of Halifax. This officer has a very interesting assignment and has a specially selected examining party of petty officers and enlisted men who board each vessel inward bound prior to their actually coming to anchor in their assigned berths. This is considered of primary importance to prevent a vessel from being brought into the port, which might be the cause of a serious catastrophe.

The entire vessel, deck, engine and steward's departments, receives a most thorough physical examination. Such inspection as is possible is made of the cargo and cargo holds and all papers pertaining to cargo are most thoroughly examined. The seaworthy condition of the hull and machinery is most carefully gone into to make certain that the vessel, as a whole, is fitted for the trans-Atlantic passage and every precaution is taken



to prevent a possible breakdown of machinery, which would cause a vessel to drop out of convoy and be alone; or possibly slow up the whole convoy or damage another vessel, such as has occurred with disabled steering gear, etc. Stores, bunkers, etc. are also very carefully checked, as well as the manner in which the vessel is stowed and whether or not everything is to the satisfaction of the master.

There is another interesting procedure followed by the boarding parties who, incidentally, are purposely made up of persons who speak Norwegian, Swedish, Italian, Greek, and/or other languages, depending upon the nationality of the vessel which they are boarding - this is done in order that members of the boarding party may carry on a friendly interrogation and more or less get acquainted with crew members of the various vessels, and by so doing they determine in a friendly manner the general crew morale aboard.

Comdr. Oland and Lt. Watt have found that this procedure has been most beneficial, although in some cases it has been necessary to use strong-arm methods with both the officer personnel and the unlicensed personnel. This, however, is not usual and has not occurred very much lately and our party was informed that very little trouble was found with the personnel on board the vessels. Probably a great deal to do with this is the fact that both merchant officers and men are receiving very large bonuses per trip for a safe passage across.

The general attitude of the Canadian officers mentioned above is most pleasant; they are a very cheery, efficient lot and all enjoy their jobs and work like a large happy family. The senior officer, I understand, is Rear Admiral Bonham Carter, R.N., who is the commander of armed R.N. forces, that is, the ocean escort. He, I understand, has a small yacht assigned to him for office quarters, etc. This vessel ties up at the Naval Station.

The day prior to the departure of a convoy, all masters are required to report to the Naval Control Office to attend a conference and receive their final instructions. This is after they have reported to their respective civilian agents and their vessels have been cleared in the usual manner through the customs and they are about to return to their vessels, having completed all shore duties in connection with their actual sailing.

Our party was invited to attend this conference which was held in a large room and attended by some forty merchant captains. Comdr. Oland had charge of the conference and gave the instructions. The conference was also attended by the commander of the senior armed escort vessel, who is a retired British naval captain returned to active duty; the escort vessel, in this case, being of

the 18,000 ton class of the Cunard-White Star Line, heavily armed with 6" guns and anti-aircraft guns, together with a full working crew, but no cargo carried. In connection with this vessel, we were also informed that her cruising speed is between 16 and 18 knots and that a large part of her cargo space was filled with empty steel drums to add to her floatation in case of torpedo and/or gun fire. The captain of this vessel was introduced to the conference and he very definitely stressed the fact of vessels maintaining the correct speed and position (approximately 9 knots for this class of convoy); also the seriousness of allowing any lights to show, particularly just prior to daybreak. He said that he had a short time before been forced to run close along side a tanker which, for some reason or other, was displaying a large light aft that may have been seen several miles; in fact, to draw the attention of the vessel's crew, he opened fire with a machine gun. The gun, however, was not actually trained on the vessel and he informed the conference that he hoped there would be no repetition of this action in the case of the present convoy. He stated that on several occasions he had been forced to run his vessel between the lanes of the convoy and therefore possibly cause damage to himself or others by collision, in order to give instructions to vessels that were not carrying out the orders.

Another officer who gave instructions to the masters was the Commodore of the convoy. Each convoy is in the charge of a naval officer who has the rank of commodore and who is stationed on the leading vessel of the convoy, which has good accommodations for this officer. The commodore gave very definite instructions to the masters as to how he desired the convoy to run, stating, however, that he did not deviate in any way from the instructions laid down in a book of instructions in the possession of each master.

Also attending the conference were two Canadian Air Force officers. We were informed that each convoy had an air escort for about the first forty-eight hours out of Halifax, as well as an armed escort of smaller vessels, several of which were in the port.

The meeting dismissed and Comdr. Dland specifically requested that all merchant captains return aboard their vessels promptly and remain on board all night, together with their crews, as the authorities could take no chances on any delay the next morning in case of fog or otherwise since each vessel must up anchor and proceed at a designated time, each master having received written instructions as to the time he was to proceed. In this connection the first vessel of the present convoy was to get under way at 11:00 the following morning, the others following in intervals of several minutes, proceeding toward the protected anchorage and the entrance to the harbor.



Our party was taken to the headland overlooking the anchorage in the lower basin of the harbor, which contained about seventy freighters of many nations, some large, some smaller, as well as several tankers. All vessels appeared to be loaded to the marks and standing by to proceed the next morning. In the inner harbor were several large passenger vessels, apparently standing by for a troop movement; one battleship which, I understand, was the H.M.S. Royal Sovereign, also a large armed fast liner, both of which were camouflaged, black, gray, etc; the other troop vessels had black hulls and tan upper works. All cargo vessels of the convoy were mostly gray or black; all attack marks painted out, as well as the majority of names. The British vessels had a gun aft and probably a machine gun or so around the bridge.

Part of the party made an inspection of the Corvette Orillia, a vessel about 225 feet long, of large beam, drawing about 15 feet. Commander Captain Briggs; 6 officers and 50 men in the crew. The vessel's speed is 16 knots, had been built at Ontario, Canada, and was of gunboat type, equipped with one 4" gun forward, anti-aircraft guns and a pom-pom gun, depth charges, two "Y" guns and two tracks for same over the stern; a large winch aft and two davits for mine sweeping equipment. This vessel is single screw, 4 cyl. triple expansion engine, 2600 IHP., reciprocating auxiliaries, 2 generators, and special equipment for de-gaussing; two 3-furnace single ended Scotch boilers (pressure 225), oil burners Howden system forced draft; separate fire rooms, separated from the engine room by a watertight bulkhead; fuel oil is carried in side tanks in the way of the boiler room. The vessel's fresh water supply is limited and an evaporator and distiller fitted of about 25 ton capacity. The vessel has very rugged machinery throughout and all steam operated. The steering gear is aft, being the conventional two cyl. reciprocating engine operating a worm to a geared quadrant of very reliable type. This is controlled by a hydraulic telemotor system from the pilothouse.

The crew accommodations in a two deck forecastle forward are very good - hammocks are used instead of bunks. The captain's and officers' cabins are very good. An oil burning galley is amidships, which requires that the food be carried to both officers and enlisted men, which, of course, could be improved upon. However, the general layout is quite good. A substantial windlass is fitted on the raised forecastle head, and the large raised gun platform immediately abaft same.

The general construction of the vessel's machinery, fittings, etc. appears to be very good. They are lightly built but should be



excellent sea boats and should stand up very well. I was informed that the full speed revolutions of the main engines are about 175 and the engines turning inward make the engine room not too liveable due to throwing oil. There is one magazine forward and one aft.

This vessel is fitted with anti-submarine detectors "ASDIC", which apparatus is over the pilothouse on the upper bridge connected to a streamlined housing, containing sending and receiving microphones, which is about three feet deep and secured to the vessel's keel by two heavy tapbolts. This device, they tell us, can be removed and hoisted on deck at sea, or vice versa. It seems, however, that it would be particularly subject to damage by ice. We were given a demonstration of its workings, the intent being to locate a submarine and to proceed to her position on bearings taken, in order that depth charges may be dropped. A well equipped school is maintained at the Naval Control Station with a duplicate set of the entire gear aboard ship, in order that armed escort vessels may have special ASDIC operators. This equipment is claimed to have been quite efficient in the locating of submarines.

Our party was given access to various publications, copies of which I believe will be forwarded to this office for future reference, and the Canadian officers were most courteous. We joined them at lunch one day at the Officers Club and our party, in turn, invited them for dinner at the Nova Scotian Hotel the last night we were there. These officers were most cooperative in all respects and seemed very pleased that a delegation of American naval officers had taken the trouble to come up to look over their activities.

As a summary - the Halifax Naval Control Service officer personnel has a rather broad job but they do not have any responsibility as to what kind of vessels are going to carry cargo, what cargoes are carried, etc. There is only a small number of vessels loaded in Halifax which work, of course, is done by the agents and the local stevedores. The primary job of the control service is to receive the vessels which are fully loaded, stored, prepared, manned, etc., and to see that everything is in order for the proposed trip; any discrepancies they will endeavor to correct.

Ordinarily a vessel which has been loaded at a southern port prior to arriving at the convoy port has been thoroughly taken care of by her agents, classification surveyors, etc., and has had a sea trip of some hundreds of miles and normally upon arrival at Halifax would be able to continue for the comparatively short trans-Atlantic passage, so that the Halifax people only have to generally check up, and should a vessel for some reason have mechanical or

over troubles and be absolutely unable to sail, she would be hauled over to a lay-up anchorage, when worst comes to worst; her crew could be relieved and her entire cargo transferred to some empty vessel for shipment to U.K. The repair facilities at Halifax are very limited and the one shipyard there has one drydock about 520 feet long, which is working around the clock. As far as any suggestions of improving the routine carried out by their office, it would appear that they have done a very fine job and apparently overcome possible serious difficulties with convoy vessels' personnel by not having strikes or serious Union trouble. Usually a vessel would remain at anchor in the outer basin, which, incidentally, is a perfectly protected harbor from all sides, from four to seven days after arriving at Halifax. The only way that the officers and crew can go ashore would be by certified boats, which would be a long cold trip in the winter, and after they did get ashore, there is very little offering, there being no open bars permitted in Halifax. However, they seem to have practically no trouble in this respect - in our going around the town we saw no signs of any disorder, so it would appear that the officers and crew of the convoy vessels remain on board, which is not always the easiest thing to arrange without some difficulty with the crew of the average merchant vessel (about forty men per ship of this type). It was noticed that the streets were well populated by men in Canadian Army and Navy uniform.

The party left Halifax having spent two full days, Captain Milne staying over the third day to make a trip to examine the protective gate at the entrance to the harbor, as well as to see the convoy sail.

I am attaching a copy of the article from the Toronto Star Weekly, dated February 15, 1940, which mentions Comdr. Richard Oland, Naval Control Service Officer, and outlines activities at Halifax, together with a detail of the activities carried on by Lt. F. E. Watt who is in command of the boarding parties.

It is interesting to note that we were informed the ground work of the Naval Control Service in Halifax was commenced a little over three years ago as a result of the warship blockade of the situation.

F. R. SMITH



SECRET

OBSERVATIONS BY CHIEF OF NAVAL STAFF OF CANADA, OTTAWA  
ON SITUATION REGARDING NAVAL CONTROL SERVICE IN OTTAWA  
AREA IN THE EVENT OF U.S. PARTICIPATION IN WAR.

---

1. The Naval Control Service now controlled from  
Ottawa consists of:

- (a) The Canadian and Newfoundland Naval Control Service  
Officers (8 main ports and reporting areas).
- (b) The Consular Shipping Advisers at 13 ports in the U.S.A.  
and 5 sub-ports administered by Consuls under district  
Consular Shipping Advisers.

2. FUNCTIONS INVOLVED.

Broadly, the control of the Naval Control Service  
amounts to the following:

- (a) The passing out of route instructions and orders, information  
of minefields and safe channels, etc., which enables N.C.S.O.'s  
and C.S.A.'s to route and instruct individual ships or convoys  
as required.

NOTE - N.C.S.O.'s and C.S.A.'s on the East Coast are kept  
up to date with information which enables them to route ships  
direct to Newcastle (north about) Thames via Channel (this  
route is at present in abeyance), Iceland, Gibraltar, Sierra Leone,  
Capetown. N.C.S.O.'s and C.S.A.'s on West Coast can route ships  
to Japan, Hong Kong, Singapore direct and (via Torres Straits),  
Sydney, Hobart and New Zealand.

- (b) The passing of information regarding the movements of ships.

This is broadly:-

- (1) From individual ports to London and Ottawa.



SECRET

-2-

- (II) From Ottawa to adjacent Intelligence Areas.
- (III) The warnings given to N.C.S.O.'s and C.S.A.'s of anticipated arrivals at their ports passed by Ottawa and in certain cases, direct from one port to another.

(c) The Administration of N.C.S.O.'s and C.S.A.'s

In Canada, the N.C.S.O.'s are administered through the Naval Officer in Charge of their port.

In the U.S.A., the C.S.A.'s are part of the Consul's staff and are administered by Ottawa.

1. CONVOY ASSEMBLY

Convoys are at present assembled at Halifax, Sydney and Bermuda and practised staffs are stationed at these ports.

In addition, the C.S.A.'s at New York and Norfolk have been given instruction in this work at Halifax and special Books of General Instructions and Summaries of Special Signals Affecting Convoy Assembly are kept up to date in Ottawa, ready for issue to any ports which may have to assemble convoys in future.

Certain U.S.N. officers have also been given convoy instruction in Halifax and the U.S. Navy Department holds a copy of the Book of General Instructions mentioned above.

IMMEDIATE PROVISIONS.

At any moment the existing organization could take control of U.S. merchant ships in the same manner in which Norwegian and Netherlands ships were included in the organization. The only steps necessary to do this would be:

- (a) Inform N.C.S.O.'s and C.S.A.'s.

SECRET

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- (b) Order U.S. Masters to call at British Consulates and Control Service Offices for route instructions.

5. CONVOYS.

The order to take control of U.S. merchant ships having been given, U.S. ships could be directed to convoy assembly ports as desired.

6. In the event of a U.S. port being allocated to convoy assembly, it is probable that the need for assembly at Bermuda would cease and the trained Bermuda staff would be available to assist in establishing the routine at the U.S. port in question.

7. PROBABLE SITUATION IN U.S.A.

It is obvious that in the U.S.A., the U.S. Navy would desire to set up their own control service, but in the interests of smooth working during the transition, it is suggested that U.S. officers should first work through our existing offices and then as soon as convenient, the British staffs would transfer to the newly established U.S. Naval Control Office at the port to act as liaison officers and general assistants to the U.S. staffs for British ships.

It is assumed that the U.S.N. would desire to open up more control ports in the U.S.A. than we have at present. In due course we should probably be able to spread out our existing staffs in order to have a liaison officer in all U.S. Control ports.

8. ROUTE INFORMATION TO U.S.N. CONTROL PORTS.

Under these circumstances the question would arise as to how the U.S.N. control ports were to be supplied with their routing information, etc.



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This could be done either:

- (a) By the Admiralty through Ottawa, as at present, all such information being, of course, repeated, to Washington.
- or (b) By the Admiralty through Ottawa, thence to Washington for distribution.
- or (c) By the Admiralty through Washington, which would virtually mean the splitting of the existing Ottawa area into two parts, i.e. U.S.A. and Canada.

10. It is suggested that method (a) should certainly be used in the early stages of the system as it would make no real difference in the existing arrangement and this should be carried on until the U.S. ports were completely au fait with the work. Orders regarding American waters, and waters controlled by U.S.N., would, of course, be passed out by Washington direct, being repeated to Ottawa (for the information of Canadian ports) and to Admiralty for the information of adjacent stations.

11. It is for consideration whether this method or method (b) should not be standardised since Ottawa is well used to interpreting Admiralty orders to U.S. ports.

12. Method (c) has the disadvantage that at times, two different interpretations might be placed on the same Admiralty order. In any case it would involve a very close and constant liaison being maintained between Ottawa and Washington.

13. SHIPPING MOVEMENTS. (The Vesca System)

The U.S. authorities would naturally want full information regarding the movements of U.S. merchant ships.



**SECRET** This could be provided immediately and simply by a new and separate Vesca from all ports in the world containing daily information of U.S. merchant ships and sent direct to Washington, thus providing a world-wide picture of U.S. merchant ships. This would be supplemented by an additional copy of the normal daily Vesca from U.S. ports being sent to Washington. Information of anticipated arrivals at U.S. ports, could, in the early stages, be supplied by Ottawa or by C.S.A.'s direct under the existing system.

It would probably be desirable later to set up a Mercantile Movements Section in Washington and treat the U.S. ports as a separate "Intelligence Area" for Vesca signals. But if, or whilst, Ottawa were still the channel through which Route Instructions were passed, it would still be most desirable for a copy of U.S.A. ports' Vescas to be sent to Ottawa to enable routes to be checked as they are at present.

#### ADMINISTRATION

The administration of British Naval Control Liaison Officers in U.S. ports (ex C.S.A.'s) would either continue to be carried out by C.N.S., Ottawa, or by the Senior British Liaison Officer (if one were appointed) at Washington.

#### SUMMARY

It is convenient to summarize the suggested arrangements under two headings:

- (a) Early Stages - The situation to be assumed immediately the U.S. desired their Merchant Navy to participate.
- (b) Final Arrangements - To be gradually assumed as experience was gained, staffs augmented, etc.

**SECRET**

These suggested arrangements are shown in the  
appended tabular statement.

SECRET

EARLY STAGES

FINAL ARRANGEMENTS.

Routing Ships and  
Assembling Convoys  
in U.S. Ports.

British Staffs under  
U.S. auspices.

U.S.N. Staffs with  
British Liaison Officers.

Passing out route  
instructions, mine-  
fields, etc., to  
U.S. ports in  
U.S.A.

Admiralty  
through  
Ottawa or  
thence  
direct to  
ports

Admiralty  
through  
Ottawa to  
Washington  
thence to  
ports.

As in "Early Stages"  
or  
Admiralty through  
Washington and thence  
to ports.

Reporting Movements  
of U.S. ships.

Additional Vesca from all  
ports giving movements of  
U.S. ships only and sent  
to Washington.

Ports in U.S.A. to send )  
additional copy of daily )  
Vesca to Washington )

(Ports in U.S.A. to send  
(copy of Vesca to Wash-  
(ington and possibly  
(additional copy to Ottawa  
(for checking routing.

Movements into U.S. )  
ports sent out to ports )  
from Ottawa, repeated )  
Washington. )

(Movements into U.S. Area  
(to be passed to Washing-  
(ton by Area from which  
(ships are coming. Washing-  
(ton to inform ports  
(concerned.

Administration of  
British C.S.A.'s  
in U.S.A.

C.N.S. Canada

C.N.S. Canada or Senior  
Liaison Officer, Washing-  
ton.



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# TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 20, 1941

TO Mr. White

FROM Mr. Kamarch

Subject: Weekly Report on Significant Military Developments

1. The British are now using 150 bombers a night consistently in raids against Germany with sporadic peak raids of 300. The Germans are using 250 bombers with sporadic peak raids of 400.

The British have about doubled the number of bombers they are using against Germany compared to the number they used in September. The Germans, on the other hand, have only slightly increased the number of bombers used against England.

2. The British are still using only Gladiator fighters against the Italians in Albania. The Gladiators are outmoded, four-gun, biplane fighters with a top speed of 250 miles per hour. According to the results of the aerial fighting, however, the Gladiators are still good enough to dispute superiority of the air with the Italian air force.

The Gladiators were the only planes available to the English in Egypt last summer. The victorious English Libyan army of the last few months, however, won its triumphs by using Hurricanes to win unchallenged command of the air. The fact that Gladiators are still the only planes mentioned as taking part in the Albanian fighting would indicate that any English supplies from Egypt recently transported to Greece are being held in reserve for use against the Germans.

3. There is not more than one German division (mainly motorized) in Tripoli. This would mean that not more than 15,000-20,000 Germans are in Tripoli. The Italians probably have 70,000 men here. Some German reinforcements were necessary to replace the vital motorized components lost by Graziani in the Libyan campaign and also to stiffen the Italian resistance. The dispatch to Tripoli of much more than the small number of German troops necessary for these purposes is not likely. Too large axis forces in Tripoli would overburden the tenuous line of communications from Italy and would merely increase the vulnerability to English attack.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: March 20, 1941, 7 p.m. Rec'd 11:20 a.m., 21st.

NO.: 325

The following is from Matthews for the Treasury.

The Foreign Exchange Office has just issued an instruction under which the maximum amount of foreign currency which banks in the unoccupied territory may sell to a foreigner proceeding abroad is reduced to the equivalent in value of 5000 francs; it formerly was 25,000 francs. This new regulation is intended primarily to conserve the foreign exchange holdings of the banks, but it is also designed to end abuses.

On March 17 an arrete of the Finance Ministry became effective reducing the interest rates on short term government paper for the second time since the beginning of 1941. Hereafter instead of a 3.25 percent yield for two-year Treasury bonds, it will be 3 percent. There has been a reduction in the rate for one-year Treasury bills from 2.75 percent to 2.50 percent, and in the rate for six-months Treasury bills from 2.25 percent to 2 percent. Instead of 2 percent on 75 to 105 day bills, the rate will be 1.75 percent.

The "easy money" conditions now prevailing in France have made this action possible. Increasing amounts are being invested by banks in short term issues of the government, fared with steadily rising deposits as a result of the considerable sums which the German army of occupation is paying out, and a relative scarcity of commercial paper.



- 2 -

Yesterday morning the ban was lifted on transactions in variable revenue securities on the Paris bourse. However, stocks in French-owned companies which operate abroad will not be quoted for the time being. The stockholders' syndicate several days ago sent back to Paris the French securities which had been held in this area since June for the account of customers residing in the occupied zone.

Several reliable banking sources have told me that a bargain recently struck between Bouthillier and the Germans was responsible for the "reopening" of the Paris bourse. This action was at first opposed by the Finance Minister but favored by the Germans. It was in return for this action that the German authorities agreed to withdraw their opposition to the French proposal for registration of all stocks. Reference - telegram of December 10, 11 a.m., no. 1411 from the Embassy.

END MESSAGE.

LEAHY.



MAR 20 1941

My dear Mr. Welles:

Reference is made to your letter of March 15, 1941, calling attention to Mexican proposals of February 17, 1941, requesting the cooperation of this Government in connection with the sale of silver produced in Mexico and in the stabilization of the Mexican peso. It is noted that you wish to know whether the Treasury Department will be willing to discuss the possibilities of arrangements relating to the purchase of silver and of a stabilization operation.

When the State Department considers the time appropriate during its negotiations with the Mexican Government, the Treasury Department will be glad to undertake discussions with representatives of the Mexican Treasury for the purpose of exploring the mutual monetary problems of the two governments with special reference to stabilization and silver.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Sumner Welles,

Acting Secretary of State.

FAS:esh  
3/20/41

*Bullett*  
File to Mr. Thompson

C O P Y

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DEPARTMENT OF STATE  
Washington

In reply refer to  
RA

March 18, 1941.

My dear Mr. Secretary:

Reference is made to conversations between officers of the Treasury and of this Department with respect to the informal discussions now in progress with the Mexican Ambassador regarding a wide variety of problems. In the course of these conversations a copy of the Mexican proposals of February 17, 1941 has been made available to Mr. Harry White.

Among other things, the Mexican proposals request the cooperation of this Government in connection with the sale of silver produced in Mexico and in the stabilization of the Mexican peso. These are subjects which, of course, fall within the province of the Treasury and regarding which negotiations would have to take place between your Department and financial representatives of the Mexican Government.

It would be very helpful to the Department if in any further informal discussions which it carries on with the Mexican Government at this time it were in a position to state that you would be prepared, at the appropriate time, to discuss with representatives of the Mexican Government the possibilities of arrangements relating to the purchase of silver and of a stabilization operation. I would appreciate an indication of your views in the circumstances.

Sincerely yours,

(Signed) Sumner Welles.

Acting Secretary.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 20, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£100,000
Purchased from commercial concerns	£ 3,000

Most of the £100,000 purchased by commercial concerns is being used to pay for the importation of jute and liquor.

Open market sterling remained at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 1,000
Purchased from commercial concerns	£ 3,000

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	14-15/16% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2315
Brazilian milreis (free)	.0505
Cuban peso	5-1/16% discount
Mexican peso	.2066

In Shanghai, the yuan was unchanged at 5-13/32¢, and sterling was also unchanged at 3.91-1/2.

A few days ago, the Federal Reserve Bank of New York received an order from the Central Bank of Turkey to sell 5,000,000 French francs at best. The Federal submitted an application to the Treasury for a license under Executive Order No. 8389 as amended, permitting the execution of this order. Pending the receipt of such a license, the Federal has made inquiries in the New York market, and has found that the banks are willing to purchase French francs at rates ranging from .0218 to .0228.

We sold \$499,000 in gold to the Bank of Portugal, which was added to its earmarked account.

No new gold engagements were reported.



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In London, both spot and forward silver were again fixed at 23-1/2d, equivalent to 42.67¢.

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

We made four purchases of silver totaling 301,000 ounces under the Silver Purchase Act. Of this amount, 251,000 ounces represented sales from inventory, and the remaining 50,000 ounces consisted of new production from foreign countries, for forward delivery.



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MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, March 20, 1941

SPECIAL BULLETIN  
No. 32  
G-2/2657-231

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 M.I.D. (9-19-40) M-B-M.

ACCOUNT OF OPERATIONS BETWEEN MAY 10  
AND THE ARMISTICE AT COMPiegNE

SOURCE

In November, 1940, the chief of the French Second Bureau, who corresponds to the American G-2, rendered an account to the Vichy government on operations between May 10 and the armistice at Compiegne. This report, translated and considerably reworked, is presented here with an introduction prepared in the Military Intelligence Division.

CONTENTS

1. INTRODUCTION
2. REPORT OF THE FRENCH G-2
  - a. General Foreword
  - b. Opposing Forces
  - c. Allied Plans of Operations
  - d. Estimate of the Maneuvering Possibilities of the Enemy
  - e. Allied Operations
    - (1) From the Meuse to Dunkirk
    - (2) The Somme and Champagne
    - (3) The Withdrawal Maneuver
  - f. The German Maneuver as Seen by the French
  - g. Summary and Conclusions

\* \* \*

Two maps are attached.

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CONFIDENTIALACCOUNT OF OPERATIONS BETWEEN MAY 10 AND THE  
ARMISTICE AT COMPIEGNE1. INTRODUCTION.

The French G-2's account of operations, presented herewith, brings out these salient points:

a. The Germans obtained strategical surprise through the factors of rapidity and power.

b. French GHQ knew before May 10 that the Allies were greatly inferior in combat strength to the Germans, but the full degree of inferiority was not recognized.

c. Political as well as military factors were involved in the French decision to advance into Belgium.

d. The Allied forces moved out from behind their prepared defenses without any intention of seeking a military decision, but with the sole purpose of extending their passive defense system over a part of Belgium.

e. The general line which the Allies hoped to defend had not been fully organized in advance.

f. French distribution of forces was extremely defective.

The account states that on May 10 the number of divisions available to the Allies on the Northeast Front was 104. There were 67 French infantry divisions, as well as 13 fortress divisions, three armored divisions, three light mechanized divisions, five light cavalry divisions, and three infantry divisions in GHQ reserve. In addition, the British had ten divisions available. The report adds, however, that initially only 46 divisions - two armored, three light mechanized, four light cavalry, 27 infantry, and ten British - met the enemy west of the Moselle. None of the totals includes the 22 Belgian and the nine Dutch divisions.

Examination of the map indicates that GHQ controlled some 21 divisions, although this fact is not clear from the report. In the Maginot Line there were about 25 divisions in addition to fortress troops whose strength was probably equal to that of about nine divisions.

From the distribution of troops, it appears that the French High Command did not expect the Germans to make their main effort where they did, but the French seem to have determined correctly the direction of the German main effort by May 11. The initial distribution of forces and the rapidity of the German movement were such that

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little could be done in time.

In particular, French armored and light mechanized units were widely dispersed over the front, and 75 per cent of the French tanks were not in armored formations. These tanks - 34 battalions - appear to have been largely frittered away; no very strong tank mass could be constituted for the decisive action, although French GHQ seems to have recognized the need for such an armored mass.

There is no indication that GHQ sought to facilitate rapid movement of its reserves to the decisive point. Orders for reinforcement of the hinge at Sedan stated that the four divisions of a first echelon were to arrive over a period of six days, while the six divisions of a second echelon were to arrive over a period of eight days.

The extreme weakness of French aviation, particularly as regards bombers, is made clear in the report, but there is no indication that GHQ fully recognized what repercussions this weakness would have upon the action of other arms or upon the operations as a whole.

Complete details of French strength and frontage near Sedan are not available, although the report shows that the Second Army had five infantry divisions and some fortress troops to hold 70 kilometers while the Ninth Army had seven infantry divisions, including one fortress division, to hold a front which was 75 kilometers in width but which would expand to 90 kilometers when the army's left wing had pivoted to Namur. The German main effort struck the left of the Second Army and the right of the Ninth, just short of the pivot of the French-British advance into Belgium. Thus, the main bodies of French troops had not left their prepared defenses in the area where the effort was made.

It appears that Gamelin insisted on the Breda maneuver - the movement into Holland - despite the objection of the commander of the Seventh Army. There is also an intimation that General Georges, Commander of the Northeast Front, opposed the movement, at least passively. The result of this plan was that the Seventh Army, originally intended as a reserve behind the Allied left, was committed initially. Incidents such as this lend weight to reports that complicated command organization resulted in considerable friction.

As a result of the nature of French dispositions, the Germans generally met the French in greatly superior force. They were able to strike locally with a powerful armored force at weak parts of the French position in terrain favorable for German tactics

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but unfavorable for the French. French GHQ lacked means for intervening rapidly and effectively although the direction of the main effort was known.

2. REPORT OF THE FRENCH G-2a. General Foreword.

On May 10, 1940, France had been on a war footing for more than eight months. The sudden attack which had been feared at the beginning of operations had not taken place because of the campaign in Poland. Mobilization and concentration had been effected without difficulty and without intervention by enemy bombing aviation.

During the winter of 1939-1940, training for reservists, who constituted the major part of our effectives, was somewhat improved, and the program for equipping our units with armored, antitank, and antiaircraft materiel was in progress. Because of the fact that construction of this type of materiel had just been started, the few units which had any of it at all had only small amounts.

During the same period, the Germans made considerable progress in training of effectives and in development of materiel. They increased their number of large units from about 140, which were probably set up upon mobilization to more than 190. They reconditioned armored and motorized materiel which had been damaged in Poland, brought their large mechanized units up to strength, increased from six to ten the number of their armored divisions by providing tanks for the four light divisions already in existence.

The spring, therefore, found us making great improvements, but it would be several months before we could come up to the mark. The German Army was greatly superior in both men and materiel.

b. Opposing Forces.(1) The Allied Armies.(a) The High Command.

From the beginning of the war until January, 1940, GHQ at La Ferte-Sous-Jouarre ensured execution of the orders of General Gamelin, Chief of Staff of National Defense and Commander-in-Chief of the Land Forces, and of General Georges, Assistant to the Commander-in-Chief and Commander of the Northeast Theater of Operations. The Chief of the General Staff was at La Ferte with General Georges.

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On January 18, this organization was changed, with the following results:

General Gamelin, Commander-in-Chief of the Land Forces, was stationed at Vincennes with his cabinet. He had GHQ at his disposal, but by order of the Chief of Staff, this headquarters was located in the region of Montry, 30 kilometers west of La Ferte.

General Georges, redesignated Commander-in-Chief of the North-east Front had a headquarters entirely distinct from GHQ, but the Fourth Bureau, equivalent of the American G-4, remained common to both headquarters in order that supply and transport might be unified.

(b) Inter-Allied Cooperation.

In principle, the British Expeditionary Force was immediately under the Commander-in-Chief of the Land Forces, but Gamelin tacitly authorized Georges to settle directly with Lord Gort on means of carrying out the Gamelin decisions. This double subordination did not result in major inconvenience because of the fine spirit of cooperation shown by Lord Gort. He recognized the authority of General Georges from the beginning of the war, and even passed into Belgium under the orders of the general commanding the First Group of Armies.

No agreement could be reached with the Belgian High Command, however, regarding organization of the command in case Franco-British forces should penetrate into Belgium at the request of the Belgian King.

General Gamelin intended to settle the important question of organization of the Inter-Allied Command when the time came.

(c) Ground Forces.

Large Units. On May 10 the French Army had, in principle, the following forces in the different theaters of operations:

	( 67 infantry divisions plus staffs and corps
	( troops for 23 army corps;
	( 13 fortress divisions plus staffs and corps
	( troops for 5 army corps;
Northeast Front . . . .	( 3 armored divisions;
	( 1 cavalry corps composed of 3 light
	( mechanized divisions;
	( 5 light cavalry divisions and 4 cavalry
	( brigades.

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Southeast Front . . . . . ( 2 army corps composed of 7 divisions,  
 ( including 1 colonial division;  
 GHQ Reserve . . . . . ( 3 divisions stationed in rear of the  
 ( Northeast Front, but destined eventually  
 ( to reinforce the Southeast Front;  
 North Africa. . . . . 3 army corps composed of 8 divisions;  
 Near East . . . . . 1 army corps composed of 3 divisions;  
 Norway . . . . . 3 light divisions.

The 67 infantry divisions on the Northeast Front comprised 31 active divisions, of which seven were motorized; 20 divisions formed upon mobilization and constituting Series A, First Reserve; 16 divisions formed upon mobilization and constituting Series B, Second Reserve.

A much greater reorganization than had been effected was contemplated for fortress troops. The five army corps on the Northeast Front were not complete with respect to service troops; they included no organic corps elements, such as general reserve or corps artillery. Infantry fortress divisions, which had partially taken the place of fortified sectors, were also incomplete with respect to service troops. Thus, although there was a theoretical increase in the number of our large units as a result of these beginnings of reorganization, there was no increase in the actual power or value of our formations.

The situation was serious for the colonial divisions. Their number had just been increased from six to eight. In each of six of these divisions, two regiments of seasoned white troops had been replaced by two regiments of colored troops, some of whom had only recently been levied. On May 10, three of the seven colonial divisions on the Northeast Front had not even completed the amalgamation of their elements. Some of them, as one might have expected, gave a very poor account of themselves.

Our armored divisions had been created very recently. Each consisted of only two battalions of B tanks - 70 tanks - and two battalions of light tanks - 90 tanks. Two of the divisions had had but a few weeks of training, and the third was just being completed. At the beginning of the battle they suffered for lack of cohesion and combat practice.

In addition to French troops, the Allied forces under the

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Commander-in-Chief of the Northeast Front were three British army corps, consisting of ten infantry divisions, and a division from the Polish Army.

The power of the British divisions, five of which were regular and five territorial, was about equal to that of a similar number of French divisions. They were fully equipped with modern materiel, but the training of troops and cadres, especially in the territorial divisions, was far from good. A British armored division was to arrive late in May at Pacy-sur-Eure, where it would complete its training. Its materiel was neither very abundant nor more than lightly armored.

The Polish division was incomplete, and its training had not been finished.

Belgium set up 20 infantry divisions, of which six were active, and two cavalry divisions. Materiel was incomplete and not sufficiently modern, while the training, morale, and value of large units was not uniform.

Holland furnished eight infantry divisions and one light division, but these were not capable of offering long resistance to the German Army.

French General Reserve. In the French general reserve there were 34 tank battalions in addition to the twelve which were used in the armored divisions. Among the 34 battalions were six employing Model F. T. tanks and one employing Model F. C. tanks. Both of these types were obsolete.

Troops for Norway. There were three light divisions of a special type available for use in the Norwegian theater of operations on May 10. These had been rapidly organized while the reinforcement of armament equipment - unfortunately too slow - was in progress, and while the High Command was endeavoring to increase the number of our large units. Formation of these units not only deprived us of two normal divisions and four companies of tanks, but involved changes within about ten divisions.

Antitank Armament. When the invasion of the Low Countries began, each division was equipped with its battery of eight 47-mm. guns, but the far greater requirements for 25-mm. guns had by no means been met.

Antiaircraft Armament. In each of 22 divisions, specialized antiaircraft armament included three sections of 20-mm. Oerlikon

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machine guns, each section having 12 guns; in each of 13 divisions it included a battery of six 25-mm. antiaircraft guns. Other divisions had no antiaircraft armament on May 10, although ten additional batteries were emplaced on May 12.

In the army echelon, 39 general reserve batteries, each having six 25-mm. antiaircraft guns, had been distributed among the armies. There were also 33 groups, or 99 batteries, of 75-mm. guns. Of this number, 19 groups, or 57 batteries, were equipped with World War motorized guns which possessed good ballistic qualities up to 5,000 meters, but whose transport materiel was worn out and sometimes incomplete.

Finally, 163 Territorial antiaircraft defense batteries were emplaced in the zone of the armies on the Northeast Front. The majority of the guns in these batteries had old ballistic qualities, including a ceiling of 5,000 meters, and no transport materiel.

(d) Aviation.

On May 9, the forces available to air zones of operations, corresponding to army groups deployed on the front, were as follows:

NORTHERN ZONE (1st Group of Armies)

	Air Forces for Cooperation	Reserve Air Forces
Reconnaissance	4 Groups	1 Group
Observation	17 Groups	1 Group
Pursuit	4 Groups	7 Groups
Bombing		2 Day Bombing Groups 2 Night Bombing Groups 2 Assault Bombing Groups

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	Air Forces for Cooperation	Reserve Air Forces
Reconnaissance	3 Groups	1 Group
Observation	15 Groups	
Pursuit	3 Groups	4 Groups
Bombing		4 Night Bombing Groups

SOUTHERN ZONE (3rd Group of Armies)

	Air Forces for Cooperation	Reserve Air Forces
Reconnaissance	1 Group	
Observation	4 Groups	
Pursuit	1 Group	1 Group
Bombing	1 Group	1 Group

The numbers of French planes available at the front on May 10 were as follows: 560 modern pursuit planes, 31 day bombing planes, 64 obsolete night bombing planes, and 300 modern reconnaissance planes.

British air forces based in France on the same day comprised ten bombing squadrons of 160 planes, of which eight squadrons were equipped with obsolete Battles and two squadrons were equipped with modern Blenheims; ten pursuit squadrons of 130 planes,

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and the observation aviation of the B.E.F. The 130 planes of the pursuit squadrons were reduced to 40 after May 20.

Stationed in Great Britain were the Bomber Command and the Fighter Command, which served to reinforce units based in France or to execute missions for the benefit of the land forces from bases in England.

(e) Defensive Organizations.

The Maginot Line. In the principal line of resistance and rear areas of the Maginot Line, the winter and spring program of improving permanent fortifications called for installation of armor plate and special armament. This work was considerably handicapped by lengthy delays in manufacture. The program also contemplated the construction of works such as defiladed entries and supplementary premises, but these had not been started on May 10.

Positions were reinforced by construction of concrete field works for the purpose of increasing the depth of the organizations and the density of arms under light concrete. Detailed programs for this work were made up by the armies upon a basis of technical recommendations made by the Inspector General of Engineers. There were plans for concrete blockhouses of all types, as well as for antitank obstacles, generally in the form of ditches. Troops in the intervals were to be protected by trenches, communication trenches, shelters, and other features of terrain organization, but since concrete work was given priority, none of these works had been completed by May 9.

On the Saar Front the weakness of peacetime organization was remedied by construction of important casemates and by reinforcement of inundation areas. Slow production of armor plate also hampered this work.

Outposts were discontinuous organizations consisting of wire entanglements in front of ground shelters along the line of contact and the line of resistance. Special efforts, including construction of concrete blocks and antitank obstacles, were made in connection with outposts near Longwy and Steinseltz, region of Seltz, and along the Rott Line.

The Meuse, the Ardennes, and the North Front. The program of the First Group of Armies was to reinforce light peacetime works by means of rather large blocks for protection against 210-mm. armament, while the program of the large units in line was to multiply the small works.

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Although the winter program was handicapped by bad weather, it was well on its way to completion.

The works of the Givet Salient had not been improved, since priority had been given to work on the main line of resistance. The spring program contemplated reinforcement of this part of the front by civilian labor, but very little progress had actually been made.

The Second Position. The second position was to include a continuous reserve line along the entire front. Work on this position, entrusted to the Fortified Zone Study Committee, had been started by civilian contractors in the following areas: Region of the Flanders Heights; La Capelle; the Signy-L'Abbaye-Omont-Stenay-Mangiennes-Spincourt Line, Zone of the Forest of Remilly, and the line running: Pond of Pischwald-Saar Union-Butten. On May 10 the work yards were in full swing, but few actual results had been seen.

Belgian Works. Peacetime works included fortifications at Liege, Namur, and Antwerp; organization for defense of the Albert Canal; establishment of a zone of massive demolitions in the Belgian Ardennes, and the starting of an antitank obstacle on the edge of Gembloux. This obstacle was moved to the region of Perwez by the Belgians shortly before May 10.

The Armies going into Belgium were to carry out a plan of demolitions to protect their defense on water lines - the Dyle, the Charleroi Canal, and the Meuse - and to hold up the enemy's advance in the passive zones, such as Semoy.

The Dutch Lines of Defense. These lines, based upon water lines and inundations, were as follows:

The covering line on the Yssel-Meuse cut, characterized by demolitions.

The first line of resistance, including the Grebbe Position and the Peel Position, situated on both sides of the rivers along the Eem-Amersfort-La Grebbe-Grave-Mill-Deurne-Weert Line. The defensive organizations of the Peel, consisting of light works above ground, were the subject of contradictory estimates. Their right flank did not have liaison with the Belgian defenses.

The "Holland" position, a redoubt encircled by the sea and the line of inundations extending Amsterdam-Utrecht-Gorinchem.

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Some works and inundations in Zeeland to support the defense of the islands.

Intermittent works between Peel and Zeeland, south of the rivers.

(2) The German Armies as Seen by the French High Command.

The total number of divisions set up by Germany upon mobilization was estimated at approximately 150, divided as follows:

56 active divisions, of which six were armored divisions, one was a light division, and one an SS division;

40 reserve divisions;

34 Landwehr divisions;

19 divisions made up of replacement units.

After the outbreak of hostilities, there were three new series of divisions, nine in September, 19 in the period from November to January, and 15 in the spring of 1940. In addition, four light divisions had been converted into armored divisions by addition of tank units.

Thus on May 10, 1940, the Germans had available ten armored divisions of approximately 300 tanks each, and about 180 infantry divisions, of which five were motorized. Undoubtedly these divisions differed somewhat as regards strength and equipment.

Of the total German strength, about 56 active divisions were shock units and about 50 other divisions seemed suitable for offensive operations. In short, German troops available for offensive battle in the spring of 1940 exceeded, according to the estimates of the French High Command, 100 divisions.

At the beginning of May, information collected by the French High Command indicated that the general distribution of German forces was as follows:

110 to 127 divisions on the Western Front;

27 to 36 divisions in Poland, Bohemia, and Austria;

15 to 23 divisions in Scandinavia and on the northern coast of Germany;

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12 to 22 divisions in the Reich.

On the active front from the Moselle to the Rhine, however, only 13 second rate divisions were identified, and only five to six divisions held the Rhine front itself.

All the German divisions suitable for offensive operations seemed to be available.

The success of armored divisions in Poland had confirmed the conviction of the German High Command that mechanized formations would be called upon to bring about a lightning decision in the war. For this reason the aims of the Germans, as far as armored forces were concerned, seemed to be rapid reconditioning of materiel damaged in Poland; use of the Czech plants, Skoda and C.K.D., for the production of improved medium tanks; perfection of the heavy materiel, armed with 75-mm. or 105-mm. guns, which had been tested before the war; energetic training of greatly increased personnel, and conversion of light divisions into armored divisions.

On May 1, the German Army probably had available 7,500 tanks of different models. These constituted ten armored divisions - about 40 battalions - and 25 to 30 general reserve battalions which could be used as replacements for losses suffered by armored divisions.

German combat aviation was estimated on May 10 at 1,500 pursuit planes and 3,500 bombing planes.

According to information gathered during the second fortnight of May, the German High Command used for the offensive west of the Moselle on May 10 an army of operations whose minimum strength was as follows:

34 army corps organic elements;

10 armored divisions;

107 infantry divisions, of which 43 were active and 64 were reserve; 45 of the latter had been initially in GHQ reserve.

At the beginning of May, certain of these large units had still been in training at camps in the interior of the country at such places as Arys, Frankfort-on-Oder, Kustrin, Grafenwoehr, Bruck Leitha, Neuhammer, and Ohrdruf.

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There were two German army groups, including a total of six armies and two groupments of armored and motorized forces.

To this army of operations, the French High Command originally opposed the following French forces:

2 armored divisions;

3 light mechanized divisions;

4 light cavalry divisions, and

37 infantry divisions, including the 10 British divisions,

as well as:

20 Belgian infantry divisions;

2 Belgian cavalry divisions, and

The Dutch Army.

c. Allied Plans of Operations.

(1) Intervention in Belgium and Holland.

(a) General.

Of all the hypotheses made by the French High Command with regard to a German attack in the northeast theater of operations, the one considered most likely, even in peacetime, was the hypothesis of an aggression against Belgium and Holland.

The plan in force upon mobilization contemplated that our left flank armies would defend the position of resistance organized in French territory and marked by the bridgehead of Montmedy-Mezieres-Revin-Rocroi-Maubeuge-Bavai-Conde sur Escaut-Lille-Les Monts-Dunkirk.

In case authority to penetrate into Belgium were given, the First Army was to straighten its left around the pivot of Conde and occupy the Middle Escaut in liaison with the Belgians defending the bridgehead of Ghent and the strong point of Antwerp. The High Command understood that this penetration into Belgium could be effected only upon the request of the Belgian government, either as a preventive measure or after the frontier had been violated.

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CONFIDENTIAL(b) Defense of the Frontiers.

From the beginning of our operations in the Saar, the Commander-in-Chief of the Land Forces foresaw the eventuality that the main body of the German forces would turn upon us. On September 26, 1939, the Commander of the Northeast Theater of Operations gave the following personal and secret instructions:

On October 1 the First Group of Armies, withdrawn from the Southeast Front, would take over the front from Rochonvillers to the North Sea.

On October 3 the British Expeditionary Force would go into line in the Lille Sector.

The Seventh Army, a reserve unit on the left of the formation, would be introduced if the threat became more clearly defined.

The defense of the frontier position of resistance was to be ensured in any case by the Second Army, the Ardennes Army Detachment, and the First Army of the B.E.F.

If authority to penetrate into Belgium were given, the B.E.F. and the Seventh Army were to move to the Middle Escaut and organize it defensively.

In case of particularly favorable circumstances, cooperation of the French and Belgian Armies was to be sought on the position of the Albert Canal and on the Meuse from Liege to Namur. On September 29 and 30, the Commander-in-Chief of the Land Forces emphasized the necessity of accepting combat only at fortified positions and the prohibition on penetrating deeply into Belgium unless the Belgians requested our help. These orders are explained by the fact that the Belgian Government wished to maintain strict neutrality. In fact, two Belgian divisions were placed in the Ardennes and two others between the Sambre and Escaut as covering forces to oppose France.

(c) The Escaut Hypothesis.

On October 24, 1939, the Commanding General of the Northeast Theater of Operations defined conditions for intervention of Franco-British forces in Belgium. Instructions called primarily for occupation of the Middle Escaut and contemplated a thrust on the Antwerp-Namur line. The latter could be effected only if it were possible for us to arrive in time on a prepared position, or on one

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which we should have time to organize.

Assistance from the B.E.F. to the extent of two army corps of two divisions each was assured for the purpose of establishing an organization in Belgium, for it was to the interest of both France and Great Britain to protect Flanders. The number of large units mobilized in the Belgian Army had been increased to 16 infantry divisions, and the army was clearly oriented to face north and east.

The French military attache in Belgium reported that a spirit of neutrality prevailed, but that close collaboration with the Belgian Staff did not seem indispensable for carrying out the maneuver successfully.

The alert of November 11, 1939, caused the entry into line of the French Seventh Army on the left of our formation.

(d) The Holland Hypothesis.

On November 8, 1939, the French High Command became concerned about the possibility of an invasion of Holland as a prelude to a direct attack against Great Britain. In such an event the plan was to move to the mouth of the Escaut, occupy the Island of Walcheren and the Woensdrecht Salient, and, in Belgium, to reach the line Antwerp-Louvain-Wavre-Namur for the purpose of ensuring greater liberty of action for our rear and our left. Our action was to be subordinated to the wishes of the Belgian government, and this maneuver was to be carried out according to the plan contemplated in previous instructions.

(e) The Dyle Hypothesis.

The intention to penetrate into Belgium beyond the Escaut took shape after the alert of November 11, which foreshadowed a German attack in the near future. Meanwhile, the attitude of the Belgians towards us had changed. We knew that the Belgian Army included 18 divisions and that it had the intention of establishing a continuous obstacle from Wavre to Namur and extending towards the south the position Antwerp-Louvain-Wavre (Dyle). This would bar entry at Gembloux.

On November 17 the Commander of the Northeast Theater of Operations defined the methods by which we were to occupy the position Antwerp-Namur. Pivoting around Revin, the left of the Franco-British formation would move toward the north. The Ninth Army, which had formerly constituted the army detachment of the Ardennes,

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would hold the Meuse above Namur; the First Army would bar entry to Gemblous; the B.E.F. would hold the line of the Dyle; the Belgian Army would connect the Dyle from Louvain with the fortified position of Antwerp, and the Seventh Army, placed in reserve, would be ready to support the extreme left of the formation. In order to save time, the movement would take place directly from our frontier position without a stop on the Escaut.

(f) The Albert Canal Hypothesis.

On January 10, 1940, after studies ordered by the Commander-in-Chief of the Land forces had been completed and after recommendations had been made by the First Group of Armies, the Commander-in-Chief of the Northeast Theater of Operations issued directives concerning eventual occupation of the Albert Canal. The idea was to reinforce progressively, prudently, and according to circumstances the occupation of the canal from the Dyle.

(g) The Breda Maneuver.

The Commander-in-Chief of the Land Forces insisted on March 12 that the Commander-in-Chief of the Northeast Front make a new study and reconsider the mission of the Seventh Army. This army was not only to occupy the Maritime Escaut, but it was also to debouch north of Antwerp for the purpose of securing the lower Escaut and ensuring liaison between the Belgians and the Dutch.

(h) The New Dyle Hypothesis.

In view of the Breda maneuver, a new draft of the Dyle hypothesis was made on March 20. The Dyle maneuver was considered most probable of realization, and the Breda maneuver would be carried out only if orders to penetrate into Holland were given.

The general formation along the Meuse from Namur to Antwerp was not modified. The Seventh Army, previously in reserve on our left, was charged with debouching northeast of Antwerp in the direction of Breda, at the same time making sure of the Maritime Escaut.

The cavalry, recently reorganized, was to protect the movement of the main bodies as follows:

The 1st Light Mechanized Division would ensure protection of the Seventh Army in the direction of Tilburg;

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The cavalry corps consisting of the 2nd and 3rd Mechanized Divisions would move in the general direction Bavai and St. Trond, north of the Sambre-Meuse Ridge;

The 1st and 4th Light Cavalry Divisions would move in the general direction of Dinant and Laroche, south of the Sambre-Meuse Ridge;

The 2nd and 5th Light Cavalry Divisions, would move in the general direction of Carignan and Bastogne. They were in liaison, by way of Arlon, with the 3rd Light Cavalry Division operating in the Grand Duchy.

In spite of the difficulties foreseen by the Commanding General of the Seventh Army in the execution of the Breda maneuver, the Commander-in-Chief persisted in his view that it was necessary to give a helping hand to the Dutch. This maneuver, defined in an instruction dated March 21, was to be used when the Germans attacked on May 10.

(1) The New Escaut Hypothesis.

Reconsideration of the Dyle hypothesis resulted in a revision of the Escaut hypothesis. The purpose of this was to cover the possibility that German forces would precede us in Belgium and that we would not be able to move our formation in due time to the Louvain-Namur position.

The problem involved new data. The B.E.F. had increased its strength from four to nine infantry divisions, and a new light mechanized division had been organized. A decision to occupy the mouth of the Escaut had been made.

The general formation was not modified except that the B.E.F. was to occupy the entire Middle Escaut from Maulde to the bridgehead of Ghent and that the Seventh Army was to occupy the Maritime Escaut. North of the Sambre-Meuse Ridge, the three light mechanized divisions would be moved to a line from the Willebroek Canal to the canal from Brussels to Charleroi. South of the Sambre-Meuse Ridge, the 1st, 2nd, 4th and 5th Light Cavalry Divisions would be moved to the Sambre below Charleroi, to the Meuse, to a point above Namur, and to the line of the Semois.

(2) Intervention in Luxembourg.

Intervention in Luxembourg offered the advantage of ensuring

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better protection of the industrial region of Longwy, situated in front of our fortified position.

In case the enemy should penetrate into the Grand Duchy, the Third Army was to be entrusted with the following missions:

Its cavalry units - the 1st Light Cavalry, one brigade of Spahis, and one groupment of reserve cavalry - were to be pushed ahead as quickly as possible in the direction of Luxembourg for the purpose of gaining contact with the enemy. They were to effect certain vital demolitions in liaison with the cavalry elements of the Second Army.

Outposts close to the frontier were to be occupied for the purpose of gaining contact as far forward as possible.

Resistance was to be offered in advance positions, including Longwy, in order that possession of this region might be retained as long as possible.

These missions immobilized permanently large cavalry units and caused troops taken from three divisions to enter the line at the advanced post of Longwy. The divisions occupied the position of resistance, and troops taken from them had a total strength equal to that of one division.

(3) The Maginot Line.

The purpose of the Maginot Line, as viewed before the war, was to permit covering forces to hold their ground in case of a sudden attack. A short distance in front of the line of actual fortifications there were advance posts, more or less fortified, which barred the approaches.

After our offensive of September, 1939, the fortified position between the Rhine and Moselle afforded the advantage of a glacis as much as ten kilometers deep in certain places. The High Command decided to occupy the glacis, establish a system of outposts, and form a covering position for the purpose of permitting execution of works reinforcing the main position. These works were undertaken at first in intervals or in rear of works constructed in time of peace, but later the Commander-in-Chief of the Land Forces insisted upon increasing to the front the depth of the position. At certain selected places, strong points were organized. These constituted the real advance posts of the position of resistance.

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The defense of the Maginot Line between the Rhine and Moselle devolved upon the Second Group of Armies, which included the Third, Fourth and Fifth Armies. Aimed chiefly at the main lines of approach, the maneuver of this group tended to block any attack on the fortified position in national territory and to reestablish the integrity of this position wherever it might have been penetrated.

The battle was conducted according to the following directives:

In advance of the fortified position - that is, in front of its outer edge - outposts formed a covering position whose garrison was organized in two echelons, one for contact and one for support. The strength of these two echelons was not to exceed 1/3 of the infantry and 1/5 of the artillery of the divisions in line.

The contact echelon, made up of small posts along the general line of the frontier and slightly in rear thereof, had a mission of surveillance.

The support echelon, formed by centers of resistance, occupied an intermediate line marked by strong points of the terrain. Its normal role was to stop enemy incursions, and in case of attack, it was to have a temporary resistance mission. A withdrawal order could be given to it only by the army commander.

The fortified position included a main line of resistance made up of fortifications, a checking line, and an antitank barrage in rear of the position. The battle was to be fought on the line of the fortifications.

The fortified position was covered at certain points by outposts or strong points. When these could be closely connected with the position of resistance and given the benefit of its fire, their garrisons were assigned the mission of resisting without thought of retreat.

After the period of movement of September, 1939, frontages allotted to large units in the field corresponded to those that would be used in a static defensive combat situation. Approximately 16 infantry divisions were in line between Longuyon and the Rhine. It had been estimated that if there was to be defensive combat on the fortified position, it would be necessary to reinforce fortified sectors with an average of two infantry divisions each. There were nine fortified sectors from Longwy to the Rhine.

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Combat frontages were not only maintained once the October threat had disappeared; they were even increased progressively to facilitate service in outposts and to speed up passage of our large units into a "seasoning" sector. A plan of relief for our large units contemplated a sojourn of about one month in a sector for each of them.

Each frontage involved a strip of terrain more than ten kilometers deep and gave the formation the following aspect:

Infantry divisions superposing fortress troops - that is, about two divisions per fortified sector - each had their three regiments abreast. In each regiment, the battalions were successive - one in the outposts, one on the position of resistance, and one in reserve or engaged in fortification work. This schematic formation was in reality far more flexible than it would seem because of the use of reconnaissance groups, groups of volunteers, battalions of machine gunners, units of pioneers, and the like. First echelon battalions, nevertheless, had large fronts to watch and hold, and they alone bore the brunt of winter operations.

The High Command attached special importance to the maintenance of our outposts in the density existing at the end of December, 1939, and they maintained this density until April, 1940. At that time the withdrawal of several large units from the Lorraine front seemed advisable in view of the general situation.

The Commander-in-Chief on the Northeast Front informed the Second Group of Armies that it was desirable to give a certain stability to our first line formation and that, at the cost of strict economy, the armies supported by our fortified position would be deployed to ensure the freedom of action indispensable to our large maneuvering units.

Approving the first phase of the withdrawal plan submitted by the Second Group of Armies, the Commander-in-Chief on the Northeast Front prescribed the withdrawal of two divisions and contemplated placing a third division in reserve as soon as a British division had been engaged in the sector of the Third Army.

On April 15 the deployment of the large units in the zone of the Second Group of Armies, excluding fortress units, was as follows:

In line:           22 infantry divisions, 20 of which were  
                          between Longuyon and the Rhine

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In reserve: 6 infantry divisions

Total: 28 infantry divisions

On May 10 the withdrawals effected in execution of the orders of April 16, which corresponded to the first phase of the retreat plan of the Second Group of Armies, had modified this distribution as follows:

In line: 18 infantry divisions, 17 of which, including the British 51st Division, were between Longuyon and the Rhine

In reserve: 7 infantry divisions

Total: 25 infantry divisions

At the end of this first phase, the front was short three divisions, but the total number of large units available to the Commander-in-Chief had been increased by that number. The 7th and 14th Infantry Divisions had been placed in GHQ Reserve, zone of the Second Group of Armies, and the 36th Infantry Division had been practically replaced by the 51st British Infantry Division. In the same zone, the number of large units in GHQ Reserve ready to be moved to another destination had been increased from three to five.

In a second phase, which had not started on May 10, three new divisions were to be taken from the Second Group of Armies and were also to be placed in GHQ Reserve.

d. Estimate of the Maneuvering Possibilities of the Enemy.

The end of the campaign in Poland made available the greater part of the German forces. The question with the French was how and for what purpose they would be employed. The hypotheses to be considered were air offensive on the Northeast Front west of the Rhine; intervention in Southeastern Europe, or an attack through Switzerland, possibly in liaison with Italy.

Of these eventualities, the last two were never confirmed by what was known of the formation of the enemy forces, and the first remained most probable. As a matter of fact, the German forces necessary for a Holland-Belgium-Luxembourg operation had been in assembly west of the Rhine since mid-November.

During the winter, the main object of the French intelligence plan was to determine possible variations in the strength of

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these enemy forces, to keep an eye on their stations, and to watch especially for any closing of the formation toward the frontier which would increase the possibility of attack. Special attention was given to the situation of the armored divisions, basic elements of any offensive action.

From the very beginning of 1940, the German High Command had available on the Western Front a mass of from 106 to 120 divisions. All the large armored and motorized units seemed to be assembled there. Further, a certain number of large units were either stationed or training in the interior of the Reich. Operations in Norway did not alter this situation to any great extent.

The form of the German operation on the Northeast Front and the point where the main effort would be made had not been determined, but it was known that a direct attack on the Maginot Line would demand the emplacement of materiel and personnel. No serious indications of such emplacement were observed.

On the other hand, the following operations were always possible:

(1) An attack on Belgium and Holland for the purpose of outflanking the Maginot Line from the north and conquering bases from which Great Britain could be attacked.

(2) An operation in Holland alone, which might possibly furnish bases without Franco-British intervention.

Although definite information as to the enemy plan of operations had not been obtained, an examination of the known formation of German forces on the Dutch-Belgian frontiers showed important concentrations between the Moselle and the Rhine at Wesel. There were approximately 50 divisions in first echelon.

Serious alerts took place November 12 and January 15, but information regarding a German offensive on the Western Front became frequent and definite only after April 15. About May 3 the immediate threat to Belgium and Holland became more and more apparent, and on May 10 the German attack debouched from the North Sea to Luxembourg.

e. Operations.

From the French point of view, the battle which started May 10, when German forces invaded Holland, Belgium and Luxembourg

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and which ended with the Armistice of June 25, may be divided into three distinct phases.

The first, which lasted until the end of May, started with the forward movement of our formation on the Antwerp-Namur-Mezieres Front. This front was soon compromised by an enemy break-through in the direction of Mezieres and Calais which resulted in the separation and envelopment of our left wing. While most of the remainder of our forces in the north were, at the cost of their materiel, embarking at Dunkirk, we were able to constitute from Montmedy to the Channel a front resting on the cut of the Aisne prolonged by the Ailette and, insofar as possible, by the Somme from St. Simon to the sea.

The second phase lasted from June 5 to June 11. It corresponds to the Battle of the Somme and Champagne, and, because of lack of means, our dispositions were overextended. There was no spirit of retreat, in spite of the fragmentation certain to occur in our armies should the front be disrupted.

The third phase lasted up to the armistice and included the deep withdrawal maneuver imposed on our entire formation by German forces exploiting their successes.

(1) From the Meuse to Dunkirk.

(a) May 10.

During the second part of the night of May 10, many bombing attacks were launched against the north and northeast of France, as well as against Holland. Extensive landings were effected at Dutch airdromes, most of them preceded and accompanied by release of parachutists and supported by activities of the Fifth Column.

At dawn a large number of German troops crossed the German-Luxembourg frontier, and elements of apparently lesser strength penetrated into Belgium.

At 6:30 A. M. General Camelin telephoned to General Georges that the Belgians had requested our help, and orders were given for action on the Belgium-Holland-Dyle maneuver hypothesis. As a result of the lessons of previous alerts, the First Group of Armies prescribed the application of measures codified in instructions issued to every echelon. Cavalry units penetrated immediately into Belgium to cover installation of main bodies on the selected position - Dyle-Namur, the Meuse at Dinant, and Mezieres.

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In principle, the main bodies were to effect their movements by night in order to escape the activity of enemy aviation. Emplacement of their essential elements was not to be completed before May 13, but it was hoped that the time necessary for completion of these movements north of the Meuse would be ensured by resistance along the Albert Canal. South of the Meuse, however, the necessity of checking the German advance as far forward as possible in the direction of the Meuse at Dinant, which the main bodies could occupy in force in 48 hours, was obvious from the first day. It was for this reason that the Commanding General of the Northeast Front intervened to push the cavalry of the Ninth Army forward beyond the Meuse.

(b) May 11-12

The unexpected collapse of resistance along the Albert Canal in the region of the Maastricht Canal on May 11 resulted in the High Command's prescribing that on May 12 the First Group of Armies order the cavalry corps to engage vigorously the enemy armored elements on the plateau of Tirllemont. With the same object in view the efforts of bombing aviation were directed against the German columns debouching south of Maastricht.

It became obvious as early as May 11 that the enemy was making a vigorous effort south of the Meuse. The cavalry of the Second Army was violently attacked by important armored elements and thrown back on the Semoy.

On the same day, after having sent to the rear of the First Group of Armies the units which were to constitute its reserves, the High Command decided to direct an armored division of the general reserve and three infantry divisions towards the hinge of Sedan-Mezieres and the second position of Thierache. These movements started May 12, and the arrivals were to be echeloned from May 14 to May 17. Larger forces - one armored division and five infantry divisions - were to be moved in the same direction on May 13 and to be on the ground May 21.

(c) May 13.

The Seventh Army, subjected to bombing and tank operations in Holland organized the line connecting WUEST WEZEL and the Turnhout Canal. The British Army had its three infantry divisions in first echelon on the Dyle in Belgium.

The cavalry corps, attacked in force, was obliged to withdraw at the end of the day in rear of the Perwez obstacle. The units

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of the First Army, meanwhile, continued their movement into position. Further south the Meuse was crossed rapidly at Dinant by the first enemy elements on the morning of May 13.

The Commander of the Ninth Army gave his attention to his left, where he was to attempt to reduce the bridgehead of Anhee - first with all the infantry and tank units he could muster, then with an armored division.

During the afternoon, an attempt at infiltration was made in the region of Montherme. This was easily contained. The enemy, however, crossed the Meuse in force at Sedan, debouched from Flize and Nouzonville in the direction of Liart, and attacked in the rear all organizations of the Ninth Army occupying the first position.

(d) May 14.

There were now two necessities - first, to hold firmly the pivot of Sedan and keep the enemy from widening the breach and out-flanking our fortified system between the Argonne and the Meuse; second, to fill the breach between the Oise and the Bar Rivers by occupying the second position.

The solidity of the pivot south of Sedan was maintained in spite of the fact that the left divisions of the Second Army gave way and the enemy continued his strenuous effort with varied intensity until the beginning of June.

It had been hoped that the front on the second position could be united between the organizations of Rocroi and the Heights of Sedan, but it soon became apparent that the contemplated concentration as planned would be outdistanced by the enemy. It was necessary, therefore, to gain time, to remain on the south flank of the enemy advance, and to assemble the necessary means of bringing together the two parts of our formation.

In the North the enemy gained contact on the entire front between Antwerp and Namur, and it became urgent to relieve the First Group of Armies of the mission of carrying out the maneuver on the Meuse and Aisne, as well as to place a new Army in the breach. For this purpose, the Second Army was placed under direct orders of the Commander-in-Chief of the Northeast Front as early as May 13, and on May 14 the army detachment commanded by General Touchon was given the mission of reestablishing the unity of the front between the First Group of Armies and the Second Army.

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(e) May 15-16.

To avoid the break-through which was looming, it was necessary to check the advance of armored units engaged in the region between the Hirson-Liart Railroad and the Aisne at Chateau-Porcien. This operation could be entrusted only to units of the same type. Efforts were made on the one hand to reassemble them on the left wing of the Ninth Army, consisting of the 1st and 2nd Armored Divisions, and on the other to form additional units of this type for the benefit of the Touchon army detachment. This detachment was de Gaulle groupment, which was to later become the 4th Armored Division.

This operation, contemplated for May 17, was to include a main operation in the direction of Marle and Signy l'Abbaye, and two secondary operations towards Nisy-le-Comte, Chaumont-Porcien, Vervins and Liart. It was aimed particularly at gaining control of road junctions of Hirson, Aubenton, Rumigny, Liart and Chateau-Porcien. Meanwhile, reserves were to continue to be brought up on the flanks of the breach.

The organic large units of the Seventh Army - brought back from Holland - with the exception of the 60th and 68th Infantry Divisions, were directed toward the right of the First Army Group, which was located in the region of Cambrai and Roye. Reserves were brought up by rail as far as possible, although some came by motor transport. It was thus possible to prolong the partitioning on the Aisne at Rethel, and at one time there was a plan to reach the right of the Ninth Army by way of the Marshes of Pierrepont.

(f) May 17.

In Holland, the situation of the Seventh Army's forces in the Islands of Beveland and Walcheren became critical as a result of the vigorous advance of the Germans in Beveland. This island finally had to be evacuated. Further, it was contemplated that Walcheren would be abandoned when a landing of enemy elements was reported.

The Belgian Army, which had retired to the entrenched position of Antwerp, was not attacked. During May 15 and 16 the First Army and the B.E.F. were withdrawing to the rear of the Charleroi Canal, very strongly pressed by the enemy. On several occasions the tanks of the cavalry corps were able to reestablish local situations.

At the end of the night it appeared that offensive operations contemplated between the Sambre and Aisne could not give the desired results anticipated because the Ninth Army did not have the necessary

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armored equipment. In fact, the 1st Armored Division had suffered considerably, and the 2nd Armored Division had the majority of its units placed on the bridges of the Oise and the Sambre Canal. During the day, while the Maubeuge Salient and the line of blocks still seemed to hold, the line of resistance was overrun farther to the south, and General Giraud was obliged to shift his defense to the Sambre and the Oise Canal between Berlaimont and Moy.

On the Aisne, on the other hand, the de Gaulle groupment started from the region of Liesse and attacked at dawn. It advanced satisfactorily; its tanks reached Montcornet at about 12 o'clock and held without any great reaction on the part of the enemy.

(g) May 18.

In Holland, the Island of Walcheren was evacuated.

In Belgium, the situation of the Belgians, the British, and the French First Army was fairly good, although the troops of the First Army were exhausted. The cavalry corps had helped considerably in breaking off the engagement and in the establishing of the First Group of Armies on the general line Alost-Ath-Mons-Maubeuge. It was to be regrouped on May 19 and moved to the right of the formation.

Farther south, the enemy endeavored throughout the day to undermine the defense of Maubeuge and to cross the Sambre Canal. At the end of the day he had penetrated into the forest of Raismes. In the region of Le Cateau, his attempts towards Cambrai failed in front of the 1st Light Mechanized Division.

On the Oise, taking advantage of the bridgehead secured towards Ribemont the previous evening and forcing the passages at Mont d'Origny, the enemy pushed forward in the direction of St. Quentin and Peronne, which he reached at the end of the day. He crossed the Somme at Peronne and at Pont-de-Brie, where passages guarded only by regional elements.

The delays necessary for permitting arrival of large units capable of uniting the Ninth Army with the line of the Somme - delays which were increased by the action of enemy aviation on communications - killed the hope that we could stop the onrush of the armored divisions along a united front. The idea now was to canalize, to slow down this onrush, and to take measures to cope with the worst - that is - the outflanking of the Somme and the advance on Paris.

Consequently the Sixth Army and the de Gaulle groupment

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were ordered at 10 o'clock to act on armored elements north of the Serre and to slow down their advance toward the Oise; the Seventh Army brought back from Belgium was ordered to join the right of the Ninth Army on the Oise from La Fere, and, if possible, from Ribemont; and the Second Army was ordered in the evening to prolong the obstructions and barrages of the Somme.

(h) May 19.

In Belgium the withdrawal operations of Allied forces left personnel exhausted. At the end of the day the Belgians were on the Canal from Terneuzen to Ghent and on the Escaut from Ghent to Audenarde; the B.E.F. was on the Escaut from Audenarde to Amulde; the French First Army held on its left the strong point, Conde-Valenciennes, and on its right, in the region of Maubeuge, it endeavored to force the passage and reach the Escaut. The cavalry corps was being regrouped in the region of Douai and Arras.

In the region of the Somme, the enemy reached Peronne and the southeast approaches to Doullens.

The Seventh Army received the mission of organizing without delay the defense of Paris through the gap of the Oise. It established itself on both sides of the valley, its right on the Ailette, its center on the Oise at Chauny and the Crozat Canal, and its left on the Somme at Ham and Peronne.

Farther to the East, the 4th Armored Division, formerly the de Gaulle groupment, attacked from Laon to the North in order to act against the flank of enemy columns. Having advanced successfully to the Serre, the division was stopped and subjected to heavy bombardment. By withdrawing on the heights of Laon, it was to protect the assembly on the Aisne at Berry-au-Bac and on the Ailette of arriving reinforcements.

A solution to the painful question of uniting the two ends of our formation became more and more necessary. The First Group of Armies was urged to group on its right wing a force built around large armored units capable of opening a way toward the South. Before the forces necessary for effecting a joining maneuver could be assembled, care had to be taken to avoid being outdistanced on the cut of the Somme, from which a mechanized maneuvering mass destined to envelop our formation could debouch.

Information indicated that the enemy had limited his action to deployment on the Aisne and the Somme in a curtain of decreasing

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density from east to west. This was destined to protect the operations of his armored forces in the direction of northern ports. A covering force on the Somme at Peronne, at Amiens and ultimately at Abbeville could be expected to gain the time necessary for a later debouching toward the North.

(i) May 20-22.

Efforts were made to assemble on the Somme all elements which could be taken from the Second Group of Armies or from the interior, and to constitute on the extreme left a covering groupment based upon cavalry - either mechanized or horse elements - reinforced by British units stationed in the West and the British division previously engaged in Lorraine.

At the same time, the Third Group of Armies, charged with coordinating operations on the Somme and Aisne, received the special mission of reducing bridgeheads which the enemy had conquered south of the Somme from Peronne to Abbeville. Unfortunately the means provided for this purpose permitted neither successful execution of this task nor capturing the necessary passages for an ultimate debouching in the direction of Bapaume and Albert.

On the other hand, the efforts of the First Army Group and the B.E.F. to conquer the necessary exits for their maneuver toward the South were fruitless, and we had to abandon the hope of unifying our formation before the arrival of the main bodies of German divisions in second echelon on the Valenciennes-St. Quentin front. The pressure of the enemy was increasing around the units of the First Group of Armies. On May 22 the First Army held the Escaut while the Canal of St. Omer, Bethune, and La Bassée were defended only by miscellaneous elements, frequently weak ones.

Farther to the West, enemy armored vehicles were at Noeux-les-Mines, south of Bethune. They were approaching St. Omer by the way of Montreuil and Lumbres and arriving south of Boulogne, where the 21st Infantry Division, having recently landed, was engaged at Neufchatel, Samer, and Desvres.

(j) May 23-June 4.

Up to May 25, the First Group of Armies still hoped that the operation contemplated towards the South and prescribed by General Weygand could be carried out. This operation was to be effected on May 26 by three infantry divisions attacking between the North Canal and Escaut in the direction of Marchiennes and Peronne and supported

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to the west by two infantry divisions in the direction of Bapaume. The cavalry corps was to connect the attack with troops forming a barrage at the Bassees Canal.

Late on the day of May 25, however, the serious situation of the Belgian Army, which had been violently attacked in the region of Courtrai, became apparent. Two of the divisions which were to attack had to be recalled to the North. Under these conditions, the Commander of the First Group of Armies decided that the attack would not take place and that it was advisable to organize the withdrawal of forces as a whole with a view to occupying a wide bridgehead covering Dunkirk by the Canal of the AA, the Lys, Ypres, Dixmude and Nieuport.

On May 28 the Belgian Army capitulated.

Pressed on their left as a result of this defection and deprived on their right of the assistance of the B.E.F., which was withdrawing and embarking at Dunkirk, our forces in the North remained alone to face the enemy in heroic combats. Only part of them were able to embark; the last moved out under fire during the night of June 3-4.

(2) The Somme and Champagne.

It was obvious as early as May 26 that the situation was critical. Fifteen French divisions, three light mechanized divisions, and nine British divisions were about to disappear in the North. On the Aisne and the Somme a line of about 20 divisions was stretched from the Argonne to the sea. Facing us, a victorious enemy had employed only part of his troops, and he would soon be able to turn his main forces against us.

(a) May 26-27.

It was to be expected that after a short delay the German High Command would direct its efforts to the south, but no definite information as to where the enemy would make his new attack was yet available. It might follow the shortest route to Paris - that is, through the Oise Valley - accompanied by an outflanking movement and followed by an exploitation south of the Somme, Amiens and Abbeville, as well as by a powerful action on the Laon-Soissons axis. Such operations however, would call for numerous preparations, and it did not seem possible that these could be made in the immediate future.

An offensive seemed more probable between the Argonne and

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Chiers and on the Aisne at Attigny, where enemy pressure was relentless.

Finally, the forcing of the Aisne between Berry-au-Bac and Attigny might occur shortly and open the way for deep exploitation by armored detachments across the plains of Champagne.

Maintaining liaison with the fortified system of Montmedy and Longuyon, and well protected on the Aisne at Rethel and Berry-au-Bac, the French High Command devoted its efforts to organization of a strong defense of the Oise valley and endeavored to assemble its maximum forces gradually from the extreme left to the sea. The Commander-in-Chief of the theaters of operations as a whole notified the armies that the battle on which the fate of the country depended was to be fought on the occupied positions without any thought of retreat.

It was obvious, however, that whatever respite might be given the High Command, there could not be an assembly of troops in sufficient numbers along the entire front. It was necessary therefore to make dispositions that would enable prolongment of struggle. With the idea of directing the efforts of all units towards the front, the Command took upon itself the organization of necessary security in rear areas.

For this purpose, natural strong points and defensive lines dividing the future battlefield throughout its depth were to be occupied and organized by the large units in reserve as they arrived. In the intervals, or near zones which were unoccupied because of a shortage of means, groupments were to be built around armored units and given the mission of attacking the flank of the enemy exploitation detachments.

The Forest of Compiègne was to be organized and prolonged beyond the Oise by the obstacles of the marshes of Clermont and the valley of the Therain in the region of Beauvais. At the extreme left, groupments based upon light mechanized divisions or armored divisions were to defend the cut of the Bethune River and both sides of Formerie Ridge. In rear, the obstacle of the Seine was to be organized from Meulan to the sea and prolonged by the valley of the Oise and the defensive position of Paris, while in the center, the Mountain of Rheims was protected to the east by the canal from the Aisne to the Marne.

The Argonne, to the right, was strongly held throughout its depth, and from it a groupment including one armored division and

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units of a light mechanized division would be ready to debouch from Grandpre towards the West. Between the Mountain of Rheims and the Argonne, the cuts of the Marne at Chalons and Vitry, the Ornain from Vitry to Revigny and the upper Aisne were to be organized to complete closing of the plain of Champagne.

On May 27 the enemy attacked without tanks our position between the Meuse and Chiers, particularly in the region of Inor. He was contained, but in the evening a straightening of the line enabled him to reach the northern edges of Inor and Olizy-sur-Chiers.

(b) May 28.

The staff of the Fourth Army was withdrawn from the Lorraine front and placed in reserve in the region of Troyes, while the Third Group of Armies was ordered to reduce enemy bridgeheads south of the Somme.

(c) May 29.

Although the battle was to be fought on the occupied positions and without thought of retreat, further instructions defined the maneuvers which the armies would have to effect in case the enemy should break through their formations. The purpose of the instructions was to facilitate the best use of strong elements which were being organized in the rear areas.

If the enemy directed his efforts toward Paris and extended them more or less to the sea, the Third Group of Armies was to concentrate its resistance on these lines of approach: Amiens-Paris, Laon-Paris, and Rethel-Chalons. It was to take advantage of natural defensive lines in its rear areas and hold on the line Aisne at Soissons-Oise at Compiègne-Creil-Clermont-Beauvais. This line could be extended if necessary to the Epte and the obstacle of the lower Seine.

If the enemy directed his efforts between Montmedy and the Aisne at Rethel, the Second Group of Armies, holding the positions of Montmedy-Longuyon on the one hand, and the heights north of the Argonne on the other, was to use the compartment of the Aisne at Vouziers and the heights of the Meuse at Dun to bar the direction Sedan-Clermont-en-Argonne.

If a deep break-through prevented execution of these measures, the Third Group of Armies, covering the capital, was to reestablish itself on the Paris position prolonged to the West by the Lower Seine

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and to the East by the Marne. The maneuver of its right was to be covered on the line of the Vesle and the Marne Canal to the Aisne. The Second Group of Armies, tying its right and center to the fortified position, was to fall back on its left to the line Longuyon-Verdun-St. Mennehoult-Chalons, or, at the worst, on the Orne, Verdun, Ste. Mennehoult and Chalons.

At the junction of the two army groups between the Argonne and the Mountain of Rheims, a groupment of forces was to be emplaced in such a manner as to form a barrage on the axis of the enemy's eventual effort. Laborers were sent to the rear areas of the armies with a view to preparing the maneuvering position which had been planned.

(d) June 1-4.

This period was marked by the preparation for the battle which was anticipated. Attempts were made to reduce the bridgeheads of the Somme, but the enemy, fully aware of their importance, had concentrated defense means and antitank weapons upon them, and our successes were limited.

In addition to preparing new obstacles, we set up new divisions with training battalions, effectives who had recuperated from the battle of May 10, and brigades which had been destined for Norway and repatriated from England. Materiel - particularly anti-tank weapons - was not available in sufficient quantity to equip these new units.

There was indication of an eventual threat on Paris by two wing operations, one along the coast and the other on the plains of Champagne against Rheims.

In order to avoid charging the same authority with defending in two directions, the Command was reorganized with a view to clearer definition of missions. The Third Group of Armies, comprising the Sixth, the Seventh, and the Tenth, was charged with defense of the front from the Mountain of Rheims to the sea and with barring the direction Amiens-Paris. The Fourth Group of Armies, entrusted to General Huntziger and comprising the Fourth and Second Armies, was to bar the direction Rethel, Chalons and Sedan, Bar-le-Duc. The Second Group of Armies continued to defend the fortified regions.

(e) June 5.

The enemy offensive was launched on June 5 from the Aisne

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at Bourg et Comin to the sea against an organized but very much extended formation, especially on the extreme left.

Stopped the first day at the debouches of Peronne, the enemy made an effort south of Amiens, where he succeeded in advancing. On the extreme left, British contingents organized their defense on the Bresle, abandoning the passages of the lower Somme.

East of the Oise, our line on the Ailette, which was too sparsely held, gave way and our defense had to be moved back on the Aisne, which was soon crossed. Under enemy pressure, the Sixth Army no longer could expect to reestablish the situation before reaching the line of the Marne at La Ferte.

(f) June 9-11.

The withdrawal in the direction of the Lower Seine was effected through successive use of delaying positions at the Bresle and Bethune Rivers, Clermont, and Beauvais, then through withdrawal on the position of Paris.

Throughout this battle the Command endeavored to carry out the maneuver as planned. It tried to occupy the rear barriers - lower Seine, Marne, Ornain - with units recently reconstituted and hastily brought up. Elements of these units came from the Alps Front or from North Africa.

A large part of the Tenth Army, driven back to the sea in the region of St. Valery-en-Caux, was lost insofar as any later maneuvering was concerned.

(3) The Withdrawal Maneuver.

(a) June 11-12.

The enemy succeeded in crossing the lower Seine on June 11, although the center of the Third Group of Armies - the Army of Paris and the Seventh Army - held its own on the position of Paris. The Tenth Army, which had lost the greater part of its forces in the rear of the Bethune River, risked being separated from the remainder of our forces. The center of the Sixth Army, on the Marne at Chateau Thierry, was broken, while the enemy, penetrating deeply into Champagne, broke up the Fourth Army and compromised the retreat of the right of the Sixth Army.

It then became obvious that the problem was no longer one

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of a military character. In spite of all, however, the struggle had to be continued. There were two alternatives - either to remain united on our fortified position insofar as possible and have our formation fall back on the pivot Longuyon-Argonne, or to abandon the fortified position and endeavor to retreat with our entire force, covering the heart of the country as long as possible.

The first alternative afforded us the advantage of retaining a formation supported by fortifications. It abandoned to the enemy, however, practically all our national territory and left to the army only the prospect of capitulation in the East or partial refuge in Swiss territory.

The second alternative, difficult to execute, could lead only to the division of our formation, but it permitted covering the heart of the country for a longer period. It gave hope of preventing capitulation of the main bodies of our remaining forces. This solution was adopted, and necessary instructions were given to the groups of armies on June 12. The Second Group of Armies had been notified on June 11.

The withdrawal was to end on the left at the Orne River and at the hills of Alencon and the Perche; in the center and to the right on the shortest and most economical front constituted by the Loire River from Tours to Briare, the Morvan Hills, the Cote d'Or and the Jura in the region of Champagnole and of the Rousses. An intermediary stage, however, was necessary. It consisted of a regrouping of the center and right on the Orleans Canal, the Loing, the Seine, the Aube, the Marne at Vitry, the Moselle at Toul, Epinal, and Belfort.

During this maneuver - executed for the most part by troops who were exhausted, who had suffered heavy losses in effectives and in material, and who were under the pressure of aggressive motorized units - it became imperative that we act quickly. That is why all available motor transport was distributed among the armies. We must also maintain the unity of the formation to avoid its being split and encircled. While it appeared that the center - the Army of Paris, the Seventh Army, and the left of the Sixth Army - well consolidated could carry on without serious fissures, the same was not true of the left and the right.

To the left, the divergent axis of withdrawal given to the Tenth Army for extra-military reasons - constitution of the redoubt of Brittany - did away with the hope of maintaining unity with our Loire Front if the enemy should push forward in the direction of Saumur or

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Angers. The Command endeavored, however, to maintain in the interval between the Tenth Army and the Army of Paris units capable of delaying such separation. These units were light mechanized divisions and armored divisions.

To the right everything depended upon the rapidity with which the Second Group of Armies could break off, shift to its left the necessary forces for its protection, and thus parry the deep exploitation started by the enemy in the direction of the southeast.

(b) June 13.

The High Command urged the Second Group of Armies to hasten execution of its withdrawal - particularly that of its left in the Argonne - and prescribed organization of antitank obstacles and of a barrage position throughout the depth of the withdrawal zone, especially between the Loire and Jura, where the situation was the most threatening.

(c) June 14-15.

While the Tenth Army was withdrawing on the Orne and on Alencon, a rapid penetration was being made by enemy armored forces which had broken through our Champagne formation. Moving through the partitioned section of the Ornain and Meldancon, which was weakly held by elements of the Third Army, they reached Gray, Vesoul, and the Doubs River and then moved towards the Belfort Gap and the Vosges.

(d) June 15.

The Second Group of Armies was outdistanced while hastily constituting covering forces on its extreme left. Strongly attacked on the Sarre during its withdrawal and exposed to an attack debouching from the Rhine in Upper Alsace, it formed a square, under the orders of the Commanding General of the Third Army, in rear of the Moselle at Toul, Frouard, the canal of the Marne to the Rhine between Nancy and Sarrebourg, the crests of the Vosges, the Upper Moselle, and the Meuse at Neufchateau. This ended June 22 in the triangle Portieux, Donon, and Corcieux.

A fraction of the Eighth Army grouped around Belfort endeavored to force a passage north of the Doubs in the region of Baume-les-Dames. On June 18 it obtained permission to take refuge in Switzerland if necessary.

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While the partition and encirclement of our right was taking place, the Tenth Army on our left was submerged by the sudden thrusts of armored forces on Cherbourg and on Brest. In the center, in spite of strong enemy pressure to the East, the Third Group of Armies withdrew in order on the Seine and the Loire.

It was soon obvious, however, that the retreat would have to be continued toward the Massif Central - thanks to the assistance of successive valleys of the Cher, the Indre, the Creuse, and the Vienne - in order that a double threat might be escaped. This threat was constituted as follows:

To the West, from the forcing of the Loire at Saumur and Angers, in spite of the splendid conduct of elements hastily grouped on the left bank of the river and of the delaying action of the cavalry corps;

To the East, from the deep thrust towards the Morvan, and shortly afterwards towards the Haute Loire and Allier; this thrust was made by large motorized and armored units which had broken through the formation of the Sixth Army south of the Marne at Chateau Thierry and which had encountered only the remains of units and regional elements hastily engaged to defend river crossings.

The Command was endeavoring to delay encirclement. To the West it prepared and took advantage of cuts of the Charente and the Dordogne Rivers. To the East it ordered the Commanding General of the Fourth Group of Armies, who had under him the Commanding General of the Fourth Army, to bar the approaches of the Massif Central to enemy forces debouching west of the Allier River in the general direction of the southwest. Meanwhile the Commanding General of the Second Group of Armies, having the Second Army at his disposal, covered the north flank of the Army of the Alps and took over the defensive sector of the Rhone. He also barred the Rhone routes which led through the high valleys of the Loire and the Allier to the rear areas of the Massif Central and of the Army of the Alps.

The Army of the Alps, attacked by Italy on its normal front, was obliged to guard its flank on the Lower Isere and to cover progressively its rear areas on the east bank of the Rhone. The splendid resistance of our troops, whose outpost fortifications held their ground, denied the enemy the crossing of the Isere at Voreppe and enabled the Army of the Alps to come out of the struggle intact.

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At the time hostilities were about to cease, the High Command issued its last instructions. The withdrawal of the Third Group of the Armies on the Dordogne, whose passages were held and whose course was marked by demolitions below Bergerac, was to be covered on the left - on both sides of the Garonne - by the strong points of resistance of La Baise and the Lower Lot, and on the right by the delaying action of the Second Group of Armies covering the approaches of the Ridge of Naurouze between the last spurs of the Massif Central and the sea.

Conclusion of the armistice on June 25 ended this hopeless maneuver, carried out with remnants of units whose movements were made painfully on roads congested by refugees.

f. The German Maneuver as Seen by the French.

It was obvious from the outset of 1940 that the formation of the German forces was definitely planned with a view to offensive operations on the Western Front. Their total strength had been increased to 150 divisions and later to 190 divisions, of which ten were armored divisions.

The center of these forces was particularly oriented toward Luxembourg, Belgium and Southern Holland. Practically all the large units of the regular army - that is infantry divisions, armored divisions, and motorized divisions - and a large number of the divisions set up upon mobilization were assembled in the region situated north of the Moselle and on both sides of the Rhine above Mainz. Some were perfecting their instruction and completing their training, while others held the Siegfried Line north of the Moselle and improved their defensive organizations. The contact front, facing our positions, was held only by divisions constituted upon mobilization.

Germany was thus preparing for a powerful mass of attack capable of speedy intervention in Luxembourg, Belgium, or Holland. As early as April, many signs of preparation for a German attack north of the Moselle were noted - particularly the following:

- (1) Construction of bridges or landings on the Moselle and the Rhine.
- (2) Movement and assembly of armored forces in the region between the Moselle and the Lower Rhine.
- (3) Closing-in of the German formation west of the Rhine toward its western frontiers.

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- (4) Distribution of maps of Luxembourg and Belgium to the troops.
- (5) Increase in the number and size of the depots for materiel and ammunition west of the Rhine.
- (6) Improvement of roads leading to the western frontiers.
- (7) Interruption or reduction of passenger and freight traffic on the Reich's railways.
- (8) Withdrawal of German funds in Holland.
- (9) Reinforcement of anti-aircraft measures in large German towns.

These signs became more clearly defined and supplemented in the beginning of May. Preparation of many crossings over the Oure, the Sure, and the Moselle above Trier were particularly noted. News from Luxembourg, Belgium, and Holland proved the state of anxiety prevailing in these countries as a result of the ever-increasing German mass.

The German offensive was about to take place. It was actually launched on the morning of May 10.

Information gathered on May 11 indicated that "wing elements directed on Luxembourg and Holland were to constitute secondary masses only," and, as a matter of fact, it was confirmed on May 12, 13 and 14 that the center of gravity of the German attack was south of the Meuse in the direction of Bouillon. Sedan seemed to be most seriously threatened.

The crossing of the Meuse by the Germans on May 15 brought up a new problem. Was the German mass planning to move South to take the Maginot Line in rear, or was it planning to advance straight to the West in order to effect separation of the Group of Armies of the North from the main forces of the French Armies?

On May 16, all reports indicated that a bold exploitation was being made by the German armored forces in the direction Sedan and Guise. A German document, found during the night May 16-17, showed the march direction of the divisions of the Von Kleist Group - the 1st, 2nd, 6th, 8th, and 10th armored divisions and the 2nd, 13th and 29th motorized infantry divisions - and stated that all German armored divisions were to advance straight to the west. Any remaining doubt as to the axis of the effort of the German masses which had crossed the Meuse was thus dispelled.

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Laon, St. Quentin, Cambrai, Arras, Amiens, and Abbeville were successively reached by the advancing German mass of the Von Kleist group, while the protection of this movement was insured from the south by motorized divisions, which were relieved by infantry divisions as they advanced.

The German effort was oriented more and more toward the northwest, and on May 20 definite information indicated that the German armored mass, having effected the separation of the northern forces from the main bodies of the French armies, was turning towards the north in the general direction Boulogne and Calais, in order to annihilate the Allied forces in the north.

The first phase of the German maneuver ended in front of Dunkirk.

It was obvious on May 26 that the armored divisions had been withdrawn from the north and reassembled in the region of Montreuil and St. Omer and that motorized infantry divisions fighting on the Somme had been relieved. Thus a new mass was being constituted immediately after operations in Flanders.

On the other hand, definite signs of the preparation of an offensive began to appear June 1 on the northern bank of the Aisne from Pontavert to Vouziers; the contact was closing in on the Moselle and Rhine front, and assembly of materiel and effectives was noted in front of the Rhine. It was obvious that the enemy was preparing to launch powerful offensives from the sea to Switzerland within a short time.

Movements and assemblies of large armored units were located north of the Somme and east of Hirson. They indicated that the enemy effort would be made, on the one hand, on the Somme and, on the other, in Champagne.

A very violent offensive was launched June 5 from Abbeville to the junction of the Ailette Canal with the Aisne. Two mechanized masses, identified near Amiens and Peronne, shook the French front south of these two regions. Along the front of attack, approximately forty infantry divisions were either advancing in rear of the mechanized masses or endeavoring to break through the French Front.

Information soon indicated that the armored mass which had been debouching from the region of Amiens towards the south was now turning towards the southwest, then towards the west in order to encircle our troops retreating from the lower Somme toward the

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lower Seine. The mechanized mass operating south of Peronne seemed to have the mission of reaching the region of Montdidier by way of the right bank of the Oise, with the west of Paris as its objective.

East of the Oise enemy attacks, at first repulsed, later succeeded in reaching the plateaus north of the Aisne, and then in crossing the river itself. East of the confluence of the Aisne and the Ailette Canal, the many signs of an early attack, which had been reported June 1, became confirmed. On the morning of June 9, the enemy attacked on a front extending to the Meuse.

General Guderian's armored mass, identified since June 2 in the region of Hirson, was engaged June 10 on the Champagne Front. Its action, obviously oriented to the southeast, was designed to bring about, by an outflanking movement to the east, the fall of the Mountain of Rheims. Then it was to carry out to the south, by way of Chalons and Chaumont, an outflanking movement of our Lorraine and Alsace forces. At the same time many signs of preparation for an attack were disclosed on the Lorraine and Alsace fronts, particularly in the regions of Huningue and Neuf-Brisach. An attempt to cross the Rhine appeared to be imminent on June 13.

Estimates of German forces now available indicated that the German High Command had about 20 divisions in the Black Forest. Further, about 30 divisions were available for the battle or for movement in a new direction. Thus approximately 50 new divisions could be engaged against the French armies, which for some time had put all available forces in line.

On the morning of June 14, the First German Army attacked on the Lorraine front, and the following day the Seventh Army crossed the Rhine above Neuf-Brisach.

Fronts were being disrupted on all sides; German advances were increasing and tending to encircle our forces in the west and in the east; the Atlantic Coast was quickly occupied, and in the rear the three and a half divisions of our Army of the Alps engaged 29 Italian divisions.

The armistice was signed before a German Army whose forces were impaired by exhaustion and losses but whose men were exalted by victory and still capable of powerful and prolonged efforts.

E. Summary and Conclusions.

This study is not intended as a historical document giving

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a complete and accurate picture of operations. Too little time has elapsed since the armistice, and insufficient testimony has been given. This work constitutes merely a guide for more exhaustive studies; it may, however, warrant certain conclusions as to the reasons for German victory,

On May 10 the Allied armies included 104 divisions on the Northeast Front. Of this number, 29 were immobilized because they were fortress divisions or because they were second line divisions made up of old classes. Thus there remained 75 divisions capable of participating in active operations. Ten of these were British. Against these large units, the German Army could put into line 190 divisions, of which 140 were capable of participating in active operations. Numerical inferiority was still greater insofar as tanks and aviation were concerned.

After losses in personnel and materiel suffered in the north, there remained on June 4, the eve of the second German offensive, over 43 Infantry divisions, three armored divisions and three cavalry divisions from Longuyon to the sea. The mechanized equipment of these units was greatly reduced. On the same date, the German Army had reconstituted its ten Panzer divisions, and the enemy could choose its zones of attack. To support our fortified position and to oppose a possible attack through Switzerland, there remained but 17 fortress divisions and divisions made up of old classes.

These figures show that the superiority of the Germans in effectives, mechanized units, and aviation was unquestionable and that it constituted one of the principal military causes of our defeat.

However, each time the French could oppose equal means, they held their own and proved their valor as well as the effectiveness of their materiel, unfortunately insufficient in numbers. A number of examples will give proof of this assertion.

First of all, in the open, when the Germans used neither tanks nor aviation, they encountered great difficulties.

(1) In the Argonne - first between May 15 and 20 and later about May 22 - three or four French divisions held their ground successfully against approximately eight or ten German divisions. The losses of the enemy were very heavy and his gains were limited during this period to a few kilometers of terrain.

(2) On the Chemin des Dames, two French divisions held

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for two days, beginning June 5, against five German divisions operating without tanks but supported by a strong aviation.

(3) Farther to the east, the Fourth Army, in spite of its feeble means - six infantry divisions, two of which were light divisions of two regiments each, 1 armored division, and one light mechanized division, very much reduced and including but 150 tanks - checked for 48 hours on June 9 - 10 an adversary who employed exceptionally strong forces. His strength included 12 infantry divisions, four Panzer divisions, and two motorized infantry divisions. In addition, he had absolute mastery of the air.

Second, modern French materiel had good qualities which were recognized even by the Germans themselves.

(1) The reconnaissance regiment of the 3rd Light Mechanized Division left the region of Cambrai May 10. At the end of the day it had reached the Albert Canal after a journey of more than 200 kilometers. It went into action the same evening.

(2) The combat brigade of this same division - that is, the tanks and artillery - left the region of Cambrai May 10 for the position Wavre-Namur which constituted its first objective. This stretch of 150 kilometers was covered without incident; the materiel arrived in perfect condition and the different elements of the brigade fought each of the following days against the German Panzer divisions.

(3) It was ascertained that tonnage being equal, French armored tanks always proved superior to German materiel; the enemy's very heavy losses in light and medium tanks have confirmed this.

On June 6 a French second lieutenant of artillery saw one of our B. tanks immobilized because the tank commander was wounded. The officer entered the tank, found out how to operate the 75-mm. gun, started the vehicle, and came back shortly afterwards, having destroyed three German tanks.

In the region of Montcornet, Aspirant X, whose tank had been stopped by a breakdown, remained at his post and succeeded in putting out of commission eight German tanks and numerous cars before he was obliged to destroy his own tank and abandon it.

In the 1st Armored Division on the evening of May 14 a battalion of heavy tanks went into position at approximately 8 P.M. The next day at 8 A.M. it was attacked by enemy tanks four times

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as numerous. The German tanks, however, were immediately blocked by the first of our tanks and were obliged to turn back. At 11 o'clock a new enemy attack, supported by a violent aviation bombing and by heavy artillery, was no more successful than the first. Finally the tank battalion had to withdraw, but only when threatened with encirclement.

(4) Means for increasing the mobility of the 47-mm. guns were still being tested at the end of May, but when circumstances made it necessary to use these guns as antitank weapons, they were mounted on cross-country tractors and protected with light armor.

As a rule, batteries of these "tank chasseurs" could not be organized in time to render the services expected of them, but it is interesting to report the results obtained by one of them in a few days of campaign. Formed on May 30 at Versailles, the battery commanded by Second Lieutenant B. went into action on June 5 in the region of Molliens-Vidame. The same evening it opened fire at 2,000 meters against enemy tanks. Two tanks were destroyed by the first shells fired by two of the guns of the battery, and two other tanks were put out of commission shortly afterwards.

The next day this battery went into action in the same region - the region of the Abbeville Road - to check the attack of about 50 tanks, several of which were as heavy as 30 tons. It carried out its mission with complete success, destroyed ten enemy tanks, and suffered no losses itself. On June 7 toward Campaux, where Second Lieutenant B.'s battery had been ordered to withdraw, five German tanks were destroyed.

(5) Batteries of 75-mm. guns were used for direct fire against tanks. In the region of Aumale, the 1st Battalion of the 72nd Artillery Regiment, firing at short range, put 30 German tanks out of commission. One of the three batteries destroyed 19 tanks.

(6) Fortifications of the Maginot Line brilliantly resisted the enemy. The Chappy Farm was subjected on June 21 to a violent four-hour preparation of heavy artillery fire which did not harm any of its weapons. The two-battalion infantry attack which followed the bombardment failed completely, and the enemy suffered such losses that in the afternoon he had to ask for a suspension of arms in order to remove his dead and wounded.

The Maginot Line fulfilled its mission completely until June 27, two days after the armistice, when it ceased firing upon receipt of orders from the French High Command. All the works

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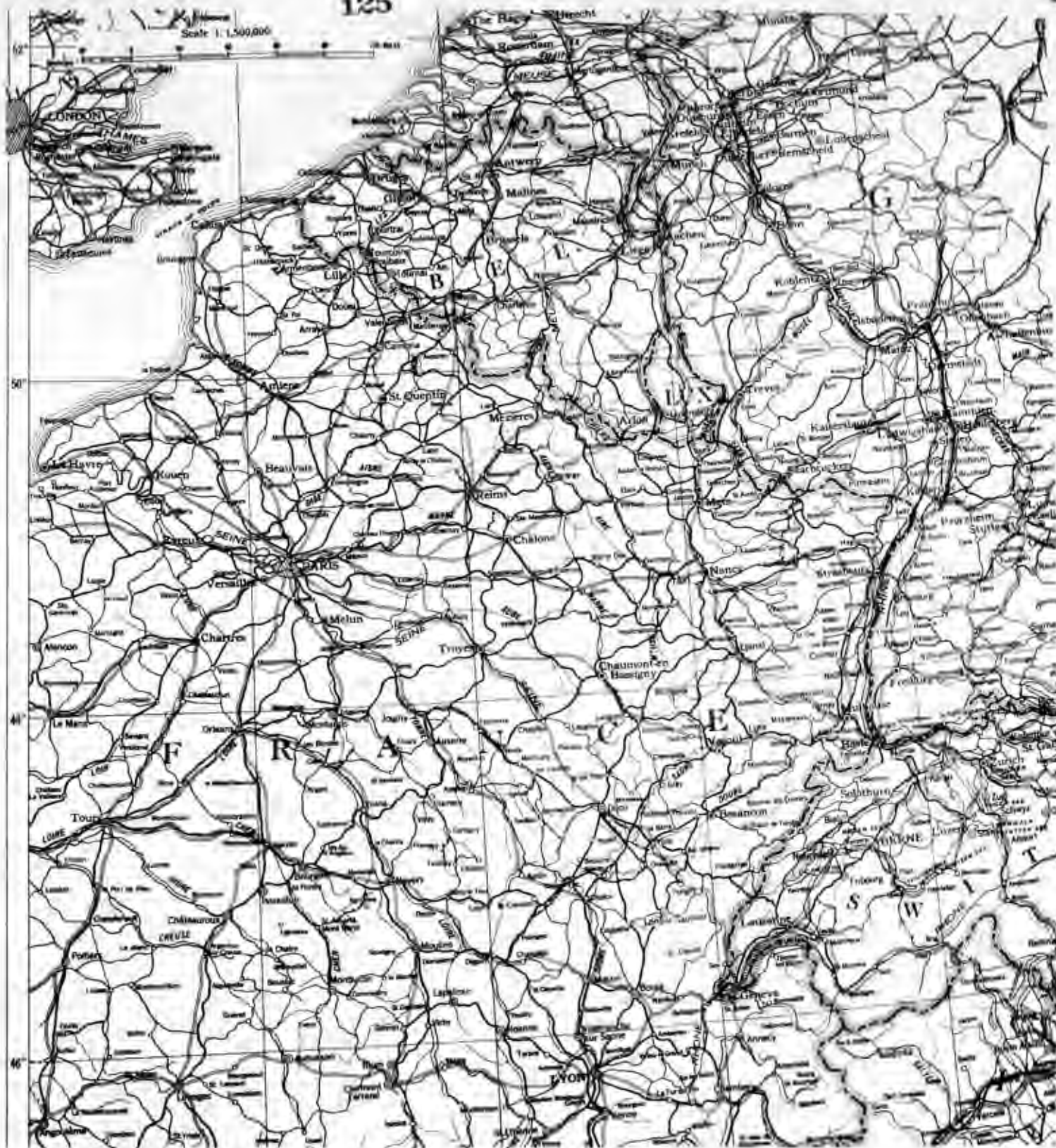
CONFIDENTIAL

were intact when the fortifications were turned over to the German military authorities.

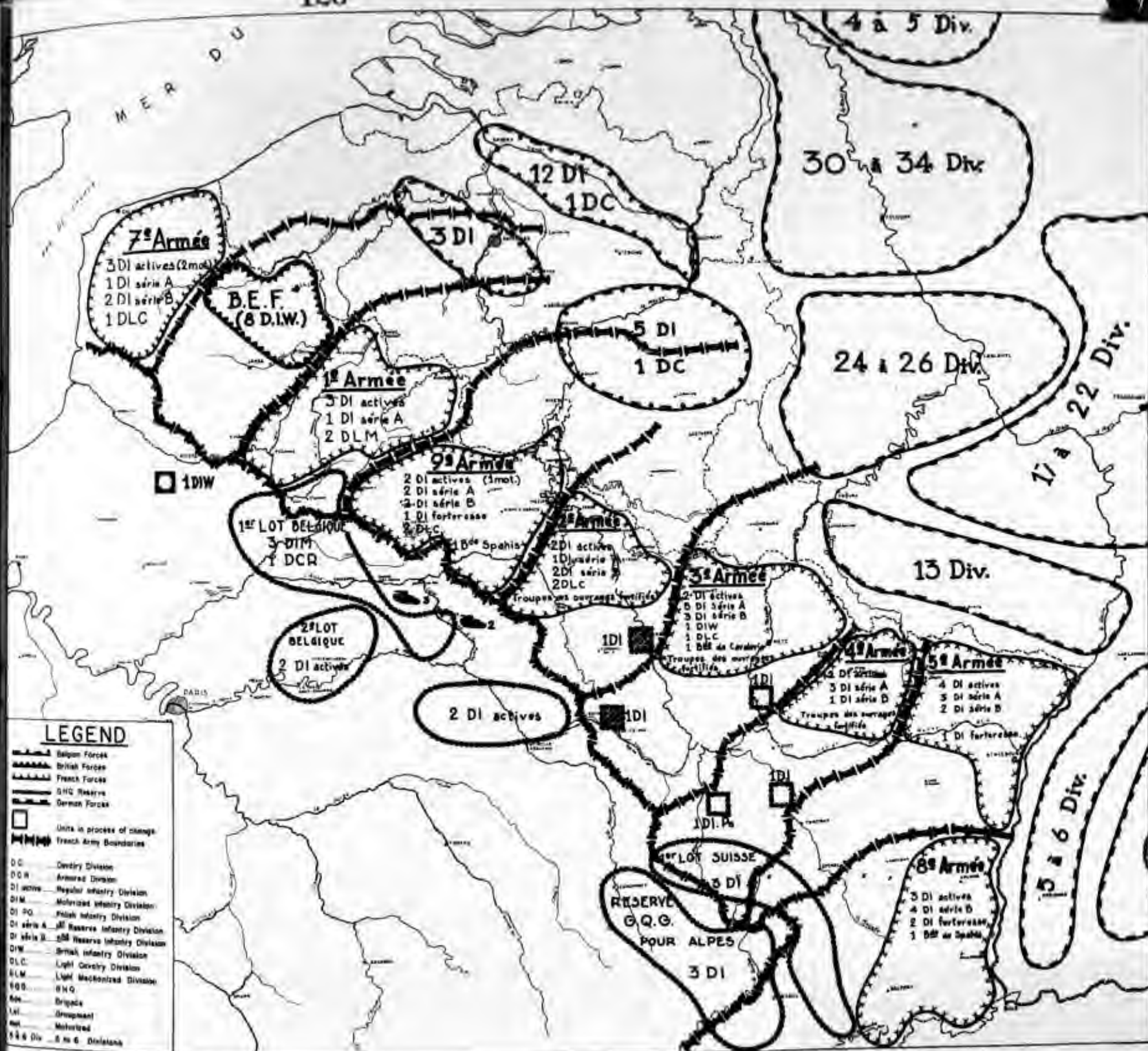
The French Army suffered a defeat which it would be ungracious not to admit, but at Rethondes, at the time of the signing of the armistice convention, Chancellor Hitler said "The French Army fought valiantly." This was an unquestionable tribute paid by the adversary himself.

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RESTRICTED

G-2/2657-220  
No. 344

M.I.D., W.D.  
March 20, 1941  
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Last night the German Air Force attacked the dock area and the East End of London with a force estimated at 400-500 bombers. It was the most severe raid on England of 1941. Severe damage is indicated, much of it from numerous fires.

British. Last night the R.A.F. operated normally against Germany, the main effort being directed against Cologne.

II. Balkan Theater of War.

Ground: Albania. The Greeks report the repulse of Italian attacks in the central and northern sectors.

Bulgaria. No change.

Air: No reports of activity.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. The British report the capture of important positions south of Cheren and the repulse with serious losses of Italian counterattacks.

Air. The R.A.F. supported the attack on Cheren in considerable force and also raided widely in Ethiopia and Libya.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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Memorandum of Cecil Hadingham  
Received at the War Department  
at 8:17, March 20, 1941.

London, filed 13:30, March 20, 1941.

1. British air activities over the Continent.

a. Day of March 19. Raids were carried out against German merchant shipping. The results of these raids were not reported.

b. Night of March 18-19. R.A.F. operations were as follows:

(1) German and Dutch airfields, including Eindhoven, were attacked by lone British planes;

(2) Petroleum storage facilities at Rotterdam were attacked by 20 medium bombers;

(3) Wilhelmshaven was attacked by 45 medium bombers;

(4) Kiel was attacked by 100 heavy bombers.

c. Night of March 17-18. Bremen was attacked by a force of bombardment planes.

2. German air activities over England.

a. Night of March 19-20. London was subjected to a severe raid of four hours' duration. Every five or ten minutes a formation of approximately six German planes was over the city. In the southeastern and southern sections of London there was severe damage to private property.

b. Day of March 19. A small number of German planes penetrated the coast lines of Norfolk, Devon, Kent and Suffolk. Only slight damage resulted from these attacks. Other small groups of German planes were engaged in reconnaissance over British waters and in patrols over the Dover Straits.

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c. Night of March 18-19. An aggregate of 350 German planes were over England.

Against London, Southampton and Bristol - 60

Against airfields in Norfolk, Suffolk and the Midlands - 250

On Scarborough and Hull - 120

The raid on Hull resulted in a large number of casualties and serious damage to private properties. Royal Air Force night fighters were in the air but were unable to intercept the German attackers.

5. Aircraft losses.

a. British

Day of March 19 - 0

Night of March 18-19 - 1 bomber

b. German

Night of March 19-20 - 1 by anti-aircraft and 1 probable by British night fighters.

Day of March 19 - 2 and 1 damaged.

Night of March 17-18 - 5 night fighters by British bombers.

4. Activities of the Royal Air Force in Middle Eastern theaters were as follows: two Axis cargo boats at Durazzo, Albania, were torpedoes by British aircraft and it is probable that two others were also hit with torpedoes; an Italian cruiser at Valona, Albania, was hit by a British aerial torpedo; on the night of March 16-17 large fires were started at Tripoli, Libya, during a British bombing attack on that port.

5. During the recent Italian offensive in Albania Italian casualties amounted to at least 25,000 and more than 3,000 Italian soldiers were taken prisoners.

6. A German Focke-Wulf long range bomber operating about nine miles west of Blackhead Bay on the west coast of Ireland attacked two British trawlers. One was sunk and the other was damaged.

**SECRET**

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Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
G-3

**CONFIDENTIAL**

Perceptions of Gado Radiogram  
Received at the War Department  
at 12:00, March 21, 1941.

London, filed 14:00, March 21, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 20. German merchant shipping along the coast of Holland was the target of British bombing raids and the city Lorient was also attacked. These raids were apparently not successful.

b. Night of March 19-20. A total of 38 British heavy bombers were over the Continent. Two attacked oil installations in Rotterdam and 36 attacked Cologne. The British maintain that the attacks were successful.

2. German Air Activity over Britain.

a. Night of March 20-21. The number of German planes over England was much less than during recent nights. Scattered raids were carried out in all parts of southern England but the principal actions were against London and Plymouth. The extent of the damage done has not yet been determined.

b. Daylight of March 20. Only a few German planes were active and most of them were engaged on reconnaissance and patrol missions.

c. Night of March 19-20. An aggregate of 300 German planes were plotted over England. Some of these planes were active over South Wales and Cheltenham but the large majority of them, 250 planes, carried out severe attacks on London's East End and the water-front areas. Major fires were started at 16 points and 1600 fire pumps were in operation throughout the entire night. Several manufacturing plants and other types of industrial properties and six gas installations were severely damaged. Approximately 700 civilians had to be evacuated permanently from the areas affected. However the casualties that resulted from these attacks were relatively few when

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considered in the light of the severity of the raids.

3. Aircraft losses. No losses were reported for either side.

4. Activities of the Royal Air Force in Middle Eastern theaters were as follows: in Albania, the city of Topoloni was bombed by British planes; in Libya, British bombers attacked the city of Sirte, the airfield at Tunes (Tunz Hassan) and the harbor of Tripoli; in other Middle Eastern sectors planes of the Royal Air Force were used in support of land forces.

5. The British War Office believes that the negotiations between Yugoslavia and Germany will reach a crisis on March 23 or 24. According to information in the possession of the War Office Yugoslavia was informed by Turkey on March 19 that Turkey would be willing to consider an attack on Greece by Germany as a cause for war provided that Yugoslavia was willing to do the same.

6. Fifteen 105mm guns and fifteen 75mm guns are being placed aboard a ship in a port in Spain which has already been loaded with a large quantity of military equipment. These military supplies are destined for the Canary Islands.

7. At a point in the Mediterranean about 100 miles off the Libyan coast at Tripoli two troop transports with full loads were sunk by British torpedoes.

8. Nazi forces in Bulgaria are receiving large quantities of equipment designed for use in tropical countries.

9. There is an increasing demand on the part of the British laboring classes and other civilians who have been bombed by the Germans and whose homes in London and other British cities have been destroyed that the Royal Air Force and the British government retaliate with more frequent and more severe attacks on Berlin and other metropolitan centers in Germany.

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On the morning of March 21 stories appeared in the Lord Secretbook newspapers which may be the beginning of a newspaper campaign aimed at the same results.

**SCALAN**

**Distribution:**

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Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
6-5

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**SECRET**

By authority A. C. of S., G-2

Date MAR 22 1941 (BDH)

Initials

134

Paraphrase of Code Radiogram  
Received at the War Department  
at 10:08, March 21, 1941.

London, filed 14:20, March 21, 1941.

It was reported in our daily confidential cablegram of March 21 that there is a growing demand on the part of the British laboring classes for more severe and frequent raids on German metropolitan centers in retaliation for the heavy German raids on British civilian populations. However the Royal Air Force is unable to carry out raids on German cities equal in intensity to those engaged in by the Germans on British centers of population because of the fact there is an average of only about 350 trained British crews that can be used in such bombing and the number of British bombardment planes available with units is in the neighborhood of from 450 to 500.

**SCARLE**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Air Corps

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135

**Paragraph of Code Radiogram  
Received at the War Department  
at 21:01, March 21, 1941.**

Berlin, filed 17:16, March 21, 1941.

1. It is believed that Germany is giving first priority to the attack on England. Nevertheless, as is shown in the attached order of battle, there has been an increase in the German forces in the east. The reason for this increase is not known.

2. The distribution on March 20th is believed to be as follows:

West	Holland, Belgium, France	76	
North	Scandinavia	12	
South	Italy	10	
	Lybia	8	
	Total		18
East	Poland		70
Southwest	Rumania	20	
	Bulgaria	20	
Reserve	Germany		40
			<hr/> 256
	Total		256

**END**

**Distributions:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence

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**Telegraph of Code Radiogram  
Received at the War Department  
at 21:56, March 21, 1941.**

**Vichy, filed 21:10, March 21, 1941.**

**German intention to employ mustard gas is increasingly indicated. In the Calais and Boulogne districts, according to official sources, there are important stores of gas shells and a number of casualties were caused by this gas when a quantity of shells stored near Boullens was exploded by R.A.F. bomb.**

**EMERY**

**Distribution:**

**Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence**

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RESTRICTED

G-2/2657-220  
No. 345

M.I.D., W.D.  
March 21, 1941  
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Minor daylight activity on the 20th. Last night the Luftwaffe was over England apparently in less force than the preceding night and attacks were somewhat dispersed. However a heavy attack was made on Plymouth.

British. No operations over Germany last night. The German submarine base at Lorient was bombed.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. Only artillery activity reported.

Air: No reports of operations.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. The British announce they are steadily making headway toward Cheren in spite of heavy Italian counter-attacks.

Abyssinia (Ethiopia). The Italians are making a stand at Marda Pass in the vicinity of Giggiga which is the gateway to Harrar and the Addis Ababa-Jibuti railroad.

British Somaliland. British troops are reported to have occupied Hargeisa, about 95 miles southwest of Berbera, March 20.

Air: The British report strong support of the Cheren attack.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

At 11:00 this forenoon Mr. Playfair of the British Treasury Mission called on me by appointment. He let me know that Sir Frederick Phillips had gone to Ottawa for a few days. He will also spend some time at Montreal on a League of Nations Committee meeting. Playfair had received a cable from London to the effect that much of the gold which it is contemplating to sell to us is at Durban, and that it was a six days' haul from there to the port where our cargo carrier is to arrive. Would it be possible, therefore, for the vessel to proceed on to Durban as a second port of call? Playfair was also instructed to inquire as to whether we could confirm the date of arrival.

I told Playfair that I had very definitely let Pinsent know, in accordance with our understanding with our Navy, that all of the cargo should be assembled at the one port of embarkation which we have discussed. In Playfair's presence, I telephoned Admiral Noyes who confirmed this understanding and strongly insisted that the Navy would not desire to send the vessel up the east coast to Durban. I asked Playfair, therefore, to let his people definitely and finally know that there must be only the one port of call and that the Navy's information is that the vessel may be expected to arrive there on March 29.



## TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS  
Friday, March 21, 1941.

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated March 26, 1941, and will mature June 25, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, March 24, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on March 26, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.



MARCH 21, 1941

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BANKERS AID DEFENSE BOND MARKETING

DR W RANDOLPH BURGESS PRESIDENT OF NEW  
YORK STATE BANKERS ASSOCIATION ADVISED  
SECRETARY OF TREASURY MORGENTHAU TODAY THAT  
MEMBERS OF THE ASSOCIATION STAND READY TO GIVE  
-ALL OUT- AID IN THE MARKETING OF NATIONAL  
DEFENSE BONDS

MAR 21 1941

-0-

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 21, 1941.

TO

Secretary Morgenthau

FROM

Alan Barth

LEND-LEASE AFTERMATH: FIRST REACTIONSOPTIMISM

Enactment of the Lend-Lease law has been generally appraised in editorials as a momentous national decision. Regardless of misgivings as to the consequences, the very making of the decision has evoked a patent sense of relief and a noteworthy resurgence of self-confidence. Defeatism, perhaps the offspring of doubt, has been spontaneously displaced by an enlivening sense of national purpose and direction.

The President gave impetus to this sense of direction by putting the law into operation instantly and by his prompt request for an appropriation of seven billion dollars. His radio speech of Saturday evening gave it dramatic expression. The ensuing editorial comment was overwhelming in applause -- much of it with a "Damn-the-torpedoes" tone which bespoke the general eagerness for action. Direction, for the moment at least, seemed more important to the commentators than destination.

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The President boldly articulated popular hopes which for weeks had been submerged in apathy, uncertainty and even despair. He proclaimed that Democracy will win. And in the sudden ebullience which he engendered, the editorial writers have busily bolstered yearning with reason.

They found cause for cheer in the foreign reactions to the President's address. The disparagement of the President's promises by Axis spokesmen was interpreted as a kind of whistling in the dark, betokening essential weakness. The enthusiasm of the British reception was assumed to be the basis for heightened morale.

Even viewing the battlefronts, the editorial writers have at last been able to find causes for rejoicing. They hail the more ferocious British air raids over Germany. They take heart from the landing of British troops in Greece and predict that Turkey and Yugoslavia will stiffen their resistance to Axis pressure. Quite suddenly the aura of invincibility which it has been fashionable to spread about Hitler has been dissipated.

So, also, has the curious inferiority complex that Democracy cannot match Dictatorship in productive efficiency. The President's words, in a sense, flexed the industrial muscles of America and caused the editorial writers to rub their eyes in wonderment. They believe at last, not only that this nation possesses mighty



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resources, but that under forceful leadership it will mobilize them and make them effective. What was labeled wishful thinking has become conviction. The United States has been transformed by the events of the past fortnight from an immovable object into an irresistible force.

#### NATIONAL UNITY

The bulk of the opposition to the Lend-Lease bill has, for the moment, accepted the decision on the issue and is prepared to move along, at least temporarily, with the majority with more or less good cheer. Notable among the last-minute converts are the Scripps-Howard papers and even, in some measure, the Paul Block, Hearst and Patterson chains. Only a handful of intemperate bitter-enders follow the lead of The Chicago Tribune in an insistence that the Lend-Lease law will produce the downfall of Democracy.

A strong semblance of national unity has been achieved in the sense that there now exists a higher degree of united public opinion than at any time since the inception of the war. But a militant minority is still working in opposition to the national purpose. It is not likely to be overscrupulous in its efforts to undermine popular confidence in the President's leadership.

#### LEND-LEASE COSTS

There was neither amazement nor dismay in editorial reaction to the seven billion dollar appropriation request. Many

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commentators, indeed, assumed that this initial sum would constitute but a small portion of the total reckoning. Yet few of them conjured up the bugbears of inflation and financial collapse with which they were wont to greet past proposals of deficit financing for peacetime purposes.

#### BRITISH ASSETS

The confusion of editorial thinking has seldom been better revealed than in the reaction to the British sale of the American Viscose Corporation. Newspapers which had been clamoring for the liquidation of British holdings in this country were suddenly sobered by a concrete instance of what they demanded.

The disposal of this direct investment was widely applauded as evidence of Britain's willingness to go all-out in her own defense. It provided an answer to the querulous critics who have insisted that America was being swindled into paying for Britain's war. At the same time, however, it aroused fears for the financial future of the British and strengthened the sentiment for dealing with them generously. A number of editorials advance the thought that a wholly impoverished Britain is not likely to be a substantial customer for American goods when the war is over and may, indeed, become, through the necessity to barter, a dangerous competitor.

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Paradoxically, the Treasury Department, but a short while ago accused of pampering the British and conniving to ease their financial problems, is now cast in the role of tight-fisted banker. The press and public are learning to be gentle.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 21, 1941.

TO Secretary Morgenthau  
FROM Herbert Merillat

TAXING FOR DEFENSE: PRESS OPINION

Recent editorial comment on taxes has emphasized that the burdens of income taxpayers are relatively light now and will become much heavier in the near future. The newspapers, through news articles and editorials, have impressed upon their readers that taxes will increase greatly in the next year. Widely publicized comparisons of British, Canadian and American taxes have helped to show American taxpayers that they are relatively lightly hit at present. Stories of voluntary contributions for defense purposes by persons not liable for income tax have been given wide publicity and have been generally interpreted as showing that the public is willing to accept greater tax burdens in the cause of defense.

There has not yet been much expression of opinion as to what form additional taxation ought to take, but there has been plenty of speculation as to what form it will take. Many papers have featured reports based on "advance information" to the effect that responsible Congressional and Administration leaders favor raising

- 2 -

the additional revenue by increases in present taxes rather than by imposing untried taxes. Increases in the individual normal income tax rate and corporation income tax rates, further reduction of personal exemptions, and the widening of individual surtaxes have been reported as Treasury proposals. It is a bit early to tell whether newspaper speculation based on "inside information" will be cut down by Chairman Doughton's statement deploring the airing of tax suggestions in the press before they have been submitted to the Ways and Means Committee, or by your statement that the Treasury has not yet discussed tax recommendations with the Committee.

The proposal that two-thirds of the cost of the defense program should be paid by current taxation has been approved by newspapers commenting on it. It is generally agreed that it is desirable to place the defense program on a pay-as-you-go basis as far as possible.

There has been a scattering of comment from anti-Administration papers calling for drastic reduction of "non-defense" expenditures. At present comment on the President's public works proposal has not been canvassed. That proposal will likely focus attention on the question of government spending for other than direct military purposes.

- 3 -

GALLUP POLL

The Gallup Poll announced on March 16th indicates that the general public is badly misinformed as to the amount of income tax paid by persons in various brackets. Apparently the incidence of the surtax is not at all grasped. According to the Poll, a typical cross-section of people think that persons with an income of \$100,000 now pay combined Federal and New York income taxes of about \$5,000 and that they ought to pay about \$10,000. Actually, the present Federal tax alone, on an income of \$100,000, amounts to about \$40,000. These figures will likely be cited by opponents to increased income taxation of large incomes.

PORT OF NEW YORK AUTHORITY BONDS

The editorial columns have been surprisingly silent on the recent assessment of deficiencies against holders of Port Authority bonds. The Wall Street Journal confirms that municipal bond traders and holders of tax-exempt bonds are taking the Treasury move calmly, attributing it to Treasury assurances that no attempt will be made to tax interest on outstanding obligations. The expected squawk from the mayors has not yet come.



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Treasury Department  
Division of Monetary Research

Date April 3, 19 41

To: Secretary Morgenthau

Apparently Japan is deliberately letting her assets in the United States decline, and as part of the policy she is reducing her gold shipments to the United States.

MR. WHITE  
Branch 2058 - Room 210

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 21, 1941

TO Mr. White  
FROM Mr. Taylor

Subject: Japanese Gold Movements and Dollar Balances in the United States, January to March 1941.

1. Japanese gold shipments to the United States have fallen markedly so far this year in comparison to former years, as the following figures show:

	<u>Millions of Dollars</u>		
	1939	1940	1941
Jan.	37.8	37.7	6.1
Feb.	5.4	4.9	nil
Mar.	<u>11.4</u>	<u>5.8</u>	<u>nil</u> (to date)
Total	54.6	48.4	6.1

Silver shipments to March 12th totaled only \$1.2 million, less than half that for the same period in 1940 but about the same as in 1939.

2. At the same time Japanese dollar balances in the United States have been allowed to fall. No figures are available for 1939, but those for 1940 and 1941 show:

	<u>Millions of Dollars</u>	
	1940	1941
Jan. (1st week)	165	110
Feb. (1st week)	153	109
Mar. (1st week)	161	103

Whereas in 1940 Japan deemed it desirable to keep the balance up to about \$160 million, in 1941 she was content to allow the balance to fall as low as \$103 million.

3. It is quite likely that the explanation of these circumstances is Japan's reluctance to ship gold to the United States in order to augment her dollar balances as long as the threat exists that the United States may freeze Japanese funds. If this is the reason we may expect that Japan's dollar balances will be allowed to fall even more noticeably in the future.

152

U. S. COAST GUARD  
COMMANDANT'S OFFICE

21 March 1941.

Memorandum for - Assistant Secretary Gaston

CONFIDENTIAL

The attached correspondence is herewith returned  
as requested; its contents having been noted with  
interest.

*R. R. Waesche*

R. R. WAESCHE  
Rear Admiral, U.S. Coast Guard,  
Commandant.

*Miss Chauncey*



CONFIDENTIAL

March 20, 1941.

MEMORANDUMU. S. COAST GUARD  
REC'D COMDT'S OFFICE

MAR 20 1941

TO: Admiral Waesche  
FROM: Mr. Gaston

Please return the attached papers for the Secretary's  
files when you have read them.



## Enclosures:

- (1) Letter from Arthur B. Purvis to Secretary  
Morgenthau, dated March 18, 1941.
- (2) Memorandum on handling of transatlantic cargoes.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

154

TELEPHONE: REPUBLIC 7960



Box 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

March 18, 1941.

Dear Mr. Secretary:

You asked me on Saturday to let you have an interim statement prior to Sir Arthur Salter's arrival to take care of the Merchant shipping situation on the possibilities of -

- (a) more scientific loading of our merchant ships, and
- (b) arranging for individual ships to load at one instead of several ports.

You also mentioned the possibility of assembling convoys outside American ports.

I inclose a memorandum on the first two points as our shipping people in New York see it at this time. Items 7-c and 7-d contain the answers to the specific points raised. It may interest you to know that the actual average loading days for different types of cargoes -

2	days	for	sulphur or phosphate
5	"	"	grain
8/9	"	"	liners, including both discharging and loading
10/12	"	"	steel or steel and scrap
14	"	"	scrap

Yours sincerely,

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

### Handling of Transatlantic Cargoes

1. The British Ministry of Shipping has in the U.S. a Representative with a staff of practical shipping men having under constant review all Allied tonnage dispatched from U.S. ports.

2. U.S. shipping lines and agents are employed to load and dispatch ships and the Ministry keeps in touch with the line or agent to see that all means such as overtime work are employed to enable each ship to connect with the first possible convoy.

3. Loading time has varied from two days for sulphur and phosphate to fourteen for scrap. The overall average, including normal repairs but excluding major repairs and crew troubles, is about twelve days.

4. Delays due to crew troubles have not affected British shipping. Difficulties with Norwegian and Dutch vessels have disappeared. There are still some troubles with Belgian and Greek crews which would be helped either by amendments to existing laws or strict enforcement of others.

5. Major repairs are being carried out to an increasing extent on this side of the Atlantic to relieve congestion and eliminate danger on the other side.

6. Constant pressure is maintained for the purpose of bringing into war service more Norwegian tonnage and Dutch tonnage not essential to trade with Netherlands overseas possessions.

7. Steps as follows are being taken to conserve tonnage:

(a) Transfer of ships from the Pacific to the Atlantic and bringing Pacific coast cargoes across by rail.

(b) Chartering of American and other tonnage to bring cargoes from distant points to the nearest available trans-shipment port. In furtherance of this, Australian wheat is brought to Baltimore and oil from the Caribbean to Baltimore, Philadelphia and New York.

It is hoped that a modification of the Neutrality Act may permit the use of Halifax as another point of trans-shipment.

(c) Every effort is made to use the full capacity of ships. The only unscientific loading of which we are aware has resulted from our urgent demand for steel which has necessitated the loading of many ships



2.

with full cargoes of steel with resulting wastage in cubic capacity. This could be overcome with an increase in available ships.

(d) The majority of our ships load at only one port. Of those that load at more than one some are steel and scrap ships and other liners bringing cargoes inwards to more than one port.

Assistance in assembling convoys in U.S. waters would be very helpful and if escorts are available much time would be saved if we could have, as in the last war, fast and slow convoys from the U.S. Convoy arrangements for vessels loading at eastern Canadian points would still have to be provided either separately or by making contact at sea with convoys from the U.S. The whole question of convoys is handled by the British Admiralty as distinct from the Ministry of Shipping and we would appreciate an opportunity of arranging discussions with a view to improving the situation.

March 18, 1941

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March 18, 1941



*For Miss Channock*

# TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

# CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£157,000
Purchased from commercial concerns	£ 63,000

Of the £157,000 sold to commercial concerns, £99,000 is being used to pay for the importation of oil.

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Co.

In the open market, sterling was first quoted at 4.03-3/4, or 1/4¢ higher than yesterday's close. It remained at that rate throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£3,000

The Cuban peso, which improved from a discount of 6-1/2% to 4-15/16% in the week ended March 19, has since displayed an easier tendency. It was quoted at 5-1/8% today.

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	15% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2315
Brasilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was again quoted at 5-13/32¢, and sterling remained at 3.91-1/2.

We sold \$11,970,000 in gold to the Bank of Brazil, which was added to its earmarked account.

No new gold engagements were reported today.

- 2 -

In London, both spot and forward silver were fixed at 83-7/16d, representing a decline of 1/16d in each case. The U. S. equivalent of this price is 43.56¢.

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

We made one purchase of silver amounting to 75,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

The Bureau of Foreign and Domestic Commerce reported on March 20 a shipment of \$430,000 worth of foreign silver coin, sent by the Guaranty Trust Co., New York, to the Netherlands Indies Government, Batavia, Java. Including this shipment, a total of \$695,000 worth of silver coin has been shipped to the Javanese Government under its order to purchase \$2,100,000 in silver for conversion into coin.



CONFIDENTIAL

ROYAL GREEK LEGATION  
WASHINGTON

161  
SA

March 21, 1941.

My dear Mr. Secretary:

I thank you for your letter of  
March nineteenth.

I also wish to express my warmest  
appreciation for the kind interest you took in matters  
concerning my Government in these crucial days and  
to thank you for your valuable cooperation and good  
will.

Sincerely yours,



C. Diamantopoulos,  
Minister of Greece.

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



For Miss Chauncey

MAR 21 1941

My dear Mr. Secretary:

On December 31, 1940 you transmitted to this Department a copy of Mr. Herbert Hoover's letter to you dated December 20, 1940, with reference to a proposal involving the purchase of supplies of wheat in the Baltic States with frozen Belgian funds, for distribution and consumption within Belgium. Also transmitted with such letter was a memorandum prepared in the State Department commenting upon such proposal. No further word was received by this Department from Mr. Hoover with respect to the proposal.

However, a somewhat similar matter has now been raised with this Department. There is enclosed herewith a copy of a letter dated March 14, 1941, from Norwegian Relief, Inc. requesting the transfer of \$500,000 to the Stockholm Smakilda Bank, Stockholm, Sweden, such funds to be used for the purchase of grain from Russia for shipment to Norway. This Department has not been advised whether such grain would consist of supplies to be obtained from the Baltic States as was the case in the proposal advanced by Mr. Hoover. The previous license to which Norwegian Relief, Inc. refers in its letter was issued by this Department following the receipt of Under Secretary Wallen's letter of December 4, 1940.

There is also pending before this Department another application, No. NY 103767, covering a payment of \$50,000 out of frozen French Government funds in the United States to the American Friends Service Committee. Originally we were advised that such funds were to be used for the purchase of milk in Switzerland to be distributed to French children. This Department has now been advised by the American Friends Service Committee that if such funds are made available to it, part of such funds will be used to purchase in Portugal for shipment to France sugar, other foodstuffs, blankets and clothing.

These transactions are being referred to you in view of the important foreign policy considerations which are involved therein. This Department is not prepared to approve such transactions unless and until requested to do so by you.

Very truly yours,

(Signed) D. V. HELL

Acting Secretary of the Treasury.

The Honorable,

The Secretary of State,

Malacare

TO THE SECRETARY  
OF THE TREASURY  
FROM THE  
SECRETARY OF THE  
TREASURY

12 01 PM SS 9AM 1ND

THE SECRETARY RECEIVED  
DEPARTMENT

RLT:ugh 3/18/41

March 21, 1941

CONFIDENTIAL

Dear Mr. Knack:

Permit me to acknowledge, in behalf of the Secretary, the receipt of your letter of March 20, 1941, with which you transmitted your compilation for the week ended March 12, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which such expenditures were financed.

Faithfully yours,

H. Harle Cochran  
Technical Assistant to the Secretary

L. V. Knack, Esquire,  
Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

HMC:dm:3.21.41



FEDERAL RESERVE BANK  
OF NEW YORK

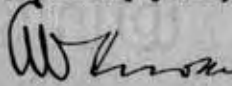
March 20, 1941.

CONFIDENTIAL

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

I am enclosing herewith our compilation for the week ended March 12, 1941, 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.

Enclosure

10 50  
MAR 21 1941

TO THE SECRETARY  
TREASURY DEPT  
WASHINGTON

MAR 21 1941

RECORDED

**ANALYSIS OF BRITISH AND FRENCH ACCOUNTS**  
(In Millions of Dollars)

Strictly  
Week Ended March 12, 1941. Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				DEBITS			CREDITS				
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of			Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
					Gold	Securities (Official) (b)	Other Credits (c)									
1939																
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	-	22.4	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1	
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	-	138.8	+ 35.3	68.6	61.8	105.4	76.2	35.0	41.2	- 12.4	
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	-	48.0	- 65.9	78.6			82.9	55.1	27.8	+ 4.3	
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	-	24.6	- 22.5	65.8	22.1	58.7	102.2	23.9	15.3	+ 22.4	
1940																
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	-	22.8	- 11.4	51.5	31.5	30.0	55.9	50.1	5.8	- 5.6	
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	-	51.6	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2	
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	14.0	19.1	- 21.5	99.6	55.9	63.7	105.0	75.4	29.6	+ 5.4	
Apr. 4 - May 1	115.4	25.1	87.3	86.4	46.8	20.0	19.6	- 27.0	64.8	29.4	55.4	78.7	60.7	18.0	- 6.1	
May 2 - 29	100.9	23.6	77.3	126.2	93.2	12.0	21.0	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 44.0	
May 30 - July 3	283.8	145.3	137.2	319.3	301.3	3.0	15.0	+ 36.1	56.7 (e)	127.3 (e)	29.4	345.1 (e)	335.6	9.5 (e)	+188.4	
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	5.3	1.0	3.2	3.0	0.2	- 4.1	
Aug. 1 - 28	251.1	180.2	80.9	294.8	257.4	1.0	26.4	+ 33.7	8.9	0.5	8.4	10.2	10.4	0.5	+ 2.0	
First year of war	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	856.3	416.6	449.7	1,095.3	900.2	195.1	+229.0	
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4	- 7.2	8.6	4.4	4.2	1.3	-	1.3	- 7.3	
Oct. 3 - 30	196.7	167.8	28.9	199.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-	
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1	
Nov. 28 - Dec. 31	234.6	205.8	27.8	198.0	111.4	26.0	60.5	- 36.8	2.1	-	2.1	0.6	-	0.6	- 1.5	
War ended through Dec. 31	1,782.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.6	878.3	421.4	456.3	1,028.4	900.2	198.2	+220.1	
Jan. 1 - 29	197.4	152.7	44.7	253.9	176.2	52.0	31.7	+ 62.5	1.7	-	1.7	0.2	-	0.2	- 1.2	
Jan. 30 - Feb. 26	164.5	137.8	26.8	101.4	26.6	26.0	48.8	- 63.2	0.2	-	0.2	0.2	-	0.2	-	
Feb. 27 - Apr. 2																
WEEK ENDED:																
Feb. 19	40.7	38.2	2.5	19.6	-	6.0	13.6	- 21.1	0.1	-	0.1	0.1	-	0.1	-	
26	40.0	27.0	13.0	44.5	26.5	4.0	13.9	+ 4.5	-	-	-	-	-	-	-	
March 5	56.7	49.0	7.7	50.1	24.8	19.0	6.3	- 6.6	-	-	-	-	-	-	-	
12	44.6 (f)	41.6	3.0	92.0 (f)	76.8 (f)	12.0	6.6 (g)	+ 50.8	-	-	-	0.3	-	0.3	+ 0.2	

Average Weekly Expenditures Since Outbreak of War  
France (through June 19) \$19.6 million

England (through June 19) 27.6 million  
England (before June 10) 54.9 million

Transfers from British Purchasing Commission to  
Bank of Canada for French Account

Week ended March 12 3 10.1 million  
Cumulation from July 5 \$ 144.9 million

(See footnotes on reverse side)



**ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS**  
(In Millions of Dollars)

Week Ended March 12, 1941.

Strictly  
Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA								
	DEBITS					CREDITS				DEBITS					CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits				
1939																		
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-	-	
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-	-	
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	-	+ 1.9	
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	-	+ 3.3	
1940																		
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	-	- 1.9	
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	-	- 0.9	
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	-	- 0.8	
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	-	- 0.2	
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	-	+ 1.4	
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 39.4	2.3	-	2.3	5.9	4.4	1.5	-	+ 3.6	
July 4 - 31	28.2	-	28.2	117.6	96.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	-	+ 0.4	
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	-	- 1.6	
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	-	+ 4.9	
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	-	- 0.7	
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	-	- 2.2	
Oct. 31 - Nov. 27	35.2	-	35.2	59.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	-	+ 0.8	
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	5.8	4.8	2.0	-	- 2.0	
War period through Dec.	477.2	16.6	460.6	707.1	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	-	+ 4.5	
Jan. 2 - 29	35.7	-	35.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	-	+ 2.0	
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	-	- 1.8	
Feb. 27 - Apr. 2																		
WEEK ENDED:																		
Feb. 19	12.9	-	12.9	4.5	3.7	-	0.2	0.6	- 8.4	0.2	-	0.2	0.3	-	0.3	-	+ 0.1	
26	7.9	-	7.9	3.0	2.6	-	-	0.4	- 4.9	1.2	-	1.2	0.2	-	0.2	-	- 1.0	
Mar. 5	13.6	-	13.6	7.7	4.3	-	2.3	1.1	- 5.9	1.8	0.8	1.0	6.6	6.4	0.2	-	+ 4.8	
12	8.5	-	8.5	14.4	2.6	-	10.1	1.7	+ 5.9	2.0	-	2.0	0.6	0.2	0.4	-	- 1.4	

Weekly Average of Total Debits Since Outbreak of War  
Through March 12, 1941 \$ 7.1 million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December 1940 amounted to \$334 million.
- (c) Includes about \$86 million received during October from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts during more recent months apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (f) Includes adjustment of \$3.4 million to allow for "overnight" item (to be deducted next week).
- (g) Includes about \$2.5 million received from accounts of British authorized banks with New York banks.

RECEIVED  
TECHNICAL ASSISTANT  
TO THE SECRETARY  
MAR 27 AM 11 25  
BANK OF CANADA



CABLE FOR THE PRESIDENT  
VIA NAVAL COMMUNICATIONS

CLEAR

March 22, 1941

BY DIRECTION OF THE SECRETARY I AM GIVING YOU THE RESULTS OF  
OUR RECENT FINANCING. CASH OVER-SUBSCRIBED APPROXIMATELY  
TWELVE TIMES AND EXCHANGES APPROXIMATELY NINETY-FIVE PERCENT  
OF TOTAL OUTSTANDING TURNED IN FOR THE NEW SECURITIES. THIS  
IS AN EXCELLENT SHOWING.

BELL

(Signed) D. W. BELL

Sunday morning. 2- 13-41

Dear Mr. Secretary,

The April issue of Fortune, just arrived, contains a tribute to you which is so good that I thought you'd like to read it, even on vacation. It appears in an article on "The State of Defense" which discusses, among other things, the new four-man Cabinet committee on Lease-Lend policy. After saying that Mr. Hull is old and worrisome, and unlikely to last, the article comes to you, as follows:

". . . There is also the Secretary of the Treasury, of whose fiscal follies many unkind things have been said. But during the educational era of the old Defense Commission, Mr. Morgenthau had the unadvertised job of handling all orders placed here by the British Purchasing Commission. It was a job about which he knew nothing, in the same sense that Lord Beaverbrook knew nothing about airplanes; and he was a quiet but decided success. More than any individual, he can take bows for forcing early expansion on the machine-tool and aircraft engine fronts. One day he called the machine-tool people in and asked them how things were going. Their reassurances seemed to please him; but since he had another appointment, he asked them to step into the next room. His other appointment was with the engine people, who admitted that they were way behind on their deliveries. 'Why?' he asked. 'Because we can't get deliveries on machine tools we ordered months ago,' they replied. 'But the machine-tool

people have assured me that their deliveries are right on schedule,' came back the Secretary. 'They are not and we can prove it,' shouted the engine people, pulling out formidable lists of machinery serial numbers and dates. By this time Mr. Morgenthau was ready to talk to the machine-tool men some more, which he did in front of their customers.

"Mr. Morgenthau, without setting up as an aircraft expert, has repeatedly reminded our aircraft and engine makers of the British point of view. By this February the British combat experience had led to a marked lack of British interest in the best American air-cooled engines. The British also admitted that Packard's new Rolls-Royce plant, which will not be in production for about six months, is of interest to them chiefly because of the ease with which it can be retooled for a later model. As tactfully as beggars can, the British are praising our plants but trying to get us to use their designs for the product.

"Therein lies the importance of Mr. Morgenthau's place on the new policy board. He provides continuity. Up to now he has been able to get customer courtesy for the British in Hartford, Paterson and points west. Under the lend-lease bill, their only claim to consideration will be combat experience. The Cabinet policy committee will have to sit in judgment over the representations of the British and the claims and prejudices of our aircraft industry, whose planes have



not yet been subjected so thoroughly to the acid test of war. On that bench Mr. Morgenthau is best suited to represent the British cause. . . "

*Greetings to you all!*

*F. K.*

## THE ECONOMIST

March 22, 1941

## Dollars, American and Canadian

The fact that the passage of the Aid for Democracy Act (the Lease and Lend) has not absolved the British Treasury from the necessity of increasing its supply of dollars by every possible means has been emphatically underlined by the news that the holding of shares in the American Viscose Corporation, owned by Courtaulds, Ltd., has been sold on behalf of the Treasury to an American syndicate who are to make a public issue of the shares. American Viscose is one of the earliest and most successful examples of direct British enterprise in American industry and, however good the monetary bargain, there will be a great deal of sympathy with Courtaulds over the loss of their child. It is, indeed, a sad event, though not one that is to be regretted, since it comes at a most appropriate hour to demonstrate that Great Britain is still ready for sacrifices of any kind to provide the sinews of war. There are already signs that the Lease and Lend programme is to be interpreted broadly — large transfers of cotton and tobacco are apparently on the agenda — but the shortage of dollars is as acute as ever. The appearance in the estimates of British dollar needs which have been published recently in the United States of substantial sums paid to Canada has naturally given rise to some discussion in this country. As was remarked in *The Economist* last week, "it is somewhat anomalous that a neutral should be providing munitions free of cash payment while gold or American dollars are still being paid to a belligerent." But it would be wrong to read into this anomaly, as is being done in some quarters, a suggestion that there is any hoarding of gold by Canada or any lack of financial co-operation at Ottawa. The gold or American dollars paid to Canada by the United Kingdom are needed to settle Canada's own adverse balance with the United States, a balance swollen by imports of raw materials and machinery for the rapidly growing Canadian armament programme. If Canada could obtain these commodities on lease-and-lend terms, the necessity would, of course, disappear. But the difficulties that have to be surmounted do not include any lack of cooperation on Canada's part, and it is a pity that the publication of partial statistics should have given rise to a false impression.

173

The goal is 3.58 million  
tons per month.



TELEGRAM FROM LONDON MARCH 22nd, 1941.

1. Naval. Last week the first occasion since the beginning of August 1940 on which imports in convoy into the United Kingdom exceeded one million tons.
2. During the week ending March 19th 822 ships conveyed and ten lost in convoy.
3. Two enemy battle cruisers and a destroyer reported by aircraft 130 miles West South West from Brest p.m. March 21st steering East. The weather has impeded further search.
4. Royal Air Force. March 21st. Nine medium bombers attacked enemy shipping off the Dutch and Belgian coasts; a direct hit reported on the stern of 5,000 ton tanker.
5. Night of March 21st-22nd. Eighty aircraft sent out - 66 to Lorient, 6 to Ostend - seven on mine-laying and one to drop leaflets over Brittany. Two not yet reported back.
6. German Air Force. Little activity.
7. Night of March 21st-22nd. About 170 employed chiefly against Plymouth.
8. Home Security. Plymouth. Night of March 20th-21st. Casualties estimated at 95 killed and 300 wounded. Night of March 21st-22nd. Many thousands of incendiary bombs dropped in addition to H.E's. Fires more serious than on the previous night, and direct water supply failed. Owing to dislocation of telephone service during previous night and to the movement of the report centre, details so far are incomplete but only slight damage to dockyard and Naval establishments reported. The municipal buildings, the G.P.O. and an area around the Guildhall reported burned.

LS

PLAIN

LONDON

Dated March 22, 1941

Rec'd 8:50 a.m.

Secretary of State,  
Washington.

1128, Twenty-second.

FOR TREASURY FROM BUTTERWORTH.

Since I leave from Bristol by plane on March 25  
I have as during previous temporary absences turned  
over the financial work to Ferris who is ably assisted  
by Mrs. Egerton.

WINANT

ALC

GRAY

(Paris)

Vichy

Dated March 22, 1941

Rec'd 10:25 p. m.

Secretary of State,  
Washington

333

March 22, 5 p. m.

FOR THE TREASURY FROM MATTHEWS

Today's Journal Official publishes the text of a further convention between the Bank of France and the Finance Ministry increasing the provisional advances to be made to the Government to defray the "main costs of the German army of occupation" from 85 billion francs to 100 billion.

LEAHY

KLP



## PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington, D. C.

From: Embassy at Berlin.

Dated: March 23, 1939, 11 a.m.

Rec'd: March 23, 1939, 8:45 a.m.

No. : 193.

Reference Department's telegram no. 59, 7 p.m. of March 21.

Under foreign exchange law, the second executory decree of March 16, 1939 embodies the regulations under reference. The decree stipulates that residents of Germany shall offer their foreign securities for sale to the Reichsbank not later than April 15, 1939, which securities shall be sold and transferred to the Reichsbank on request. There already existed this obligation. This decree involves a new census of foreign securities held by residents on March 18 (effective date) -- Consulate General's report of October 13, 1937, No. 906. Americans having permits for the free disposition of foreign holdings have been told by German authorities in answer to inquiry that their permits are not affected by this decree.

Copy:bj:5-13-41

ADDRESS OFFICIAL COMMUNICATIONS TO  
THE SECRETARY OF STATE  
WASHINGTON, D. C.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 811.24 Raw Materials/1551

March 22, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits the following, with reference to purchase of Indochinese rubber by the United States and funds of the Bank of Indochina arising from the sale of rubber:

1. Telegram no. 425, March 18, from the American Embassy, Tokyo.
2. Paraphrase of telegram no. 42, March 16, from the American Consul, Hanoi.
3. Paraphrase of telegram no. 39, March 18, from the American Consul, Saigon.

Enclosures:

See above list.

TO THE SECRETARY  
TECHNICAL ASSISTANT  
DEPT. OF STATE

12 6 PM 1941

RECEIVED  
DEPT. OF STATE

## T E L E G R A M

C O P Y

Tokyo via Shanghai &amp; N.R.

March 18, 1941

(Rec'd 7:05 a.m., 19th)

Secretary of State,  
Washington.

425, March 18, 7 p.m.

Special despatch Vichy today's ASAHI attacks Britain, United States for obstructionist tactics designed create rift between France, Japan following Indochina mediation settlement. American shipment foodstuffs to France said to be motivated not by humanitarian considerations but by prospects procuring from Indochina large supplies raw materials particularly rubber, to be paid French credits frozen United States. This called indirect pressure Japan revealing American desire secure Indochina rubber and cooperation Britain block new order. Concluded French-Japanese relations cannot escape being affected by American-French relations.

Sent Department via Shanghai.

GREW

RaxM



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Hanoi.

DATE: March 16, 1941, 11 a.m.

NO.: 42.

Reference is made to your 6 of March 15, noon.

First. I am informed by the Acting Director of the Economic Section that data concerning the amounts of tin, rubber, antimony and tungsten that can be exported have been communicated to the French Government and, in addition, the French Government is being kept advised by the French delegation at Tokyo of the amounts of such products that are being requested by the Japanese Government. The Acting Director of the Economic Section understood that the difference between Japanese needs and the total amounts available for export would be available for purchase by our Government. But he added that present indications are that all of the tungsten and antimony production of Indochina, half of Indochina's tin production, and 25,000 out of about 66,000 tons of rubber are being taken by the Japanese.

Second. The objection of the Assistant Acting Director to the former method of payment for purchases of rubber is the period of time which elapses between shipment and payment; he said that the 50 percent payment after the documents are received is usually a matter of weeks and that a matter of months is involved in the 10 percent payment after arrival <sup>and</sup> inspection of the rubber. The same objection

-2-

objection was raised by the Inspector General of the Bank of Indochina, who added that the amount left in the "special account" is so diminished that he cannot wait for such a long period for credits that can be expended freely. With reference to this matter and to Consul's telegram of the 12th, inst., I am inclined to think that any objections to the method of payment hitherto used would be offset by the release of a part of the proceeds from earlier rubber contracts to take care of the pressing needs of the Bank of Indochina.

Third. The possible effect of the alleged Japanese proposal and the French acceptance that the French Government will not make with regard to Indochina any agreement or alliance with a third country that would contemplate cooperation of a political, economic or military nature which the Japanese Government is opposed to, was discussed by me with both the Acting Director of the Economic Section and the Inspector General of the Bank of Indochina, both of whom admitted there was a possibility that Japan might consider commercial transactions such as the sale of rubber as falling within the meaning of the above French acceptance although they stated that such commercial transactions should not be so considered. Please refer to paragraph two of Consul's no. 11 of February 1, 5 p.m.

This telegram has been sent to Cavite to be repeated to Chungking, Hong Kong, Peiping and the Department.

EA:MSG  
EA:FL

REED

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

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RECEIVED FEB 8 21

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Saigon.

DATE: March 18, 1941, 4 p.m.

NO.: 39.

A source reputed to be reliable has informed me confidentially that the Japanese merchant ship La Plata Maru which is at present at Saigon is taking on a cargo of four thousand tons of rubber which this source believes is to be shipped via Dairen to Europe. According to this source, the rubber has already been paid for in U.S. dollars. Union Commerciale Indochinoise et Africa, Inc., is the local exporter.

FLOOD

EA:MSG

TO THE  
LEGATION  
SAIGON

RECEIVED 18 MAR 1941

RECEIVED  
TELEVISION  
RECEIVED



PARAPHRASE OF TELEGRAM RECEIVED

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DATE: March 18, 1941, 4 p.m.

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FLOOD

EA:MSG

DATE TIME OF DAY 48 0-21

RECEIVED  
MAY 21 1964

Delivered to Treasury by Mr. Nicholson

SHANGHAI

March 22 1941

Information received from Hongkong on good authority that Japanese will attack Yunnan and Kweichow provinces in big drive upon Matsuokas return to Japan Stop Japanese have just landed three hundred bombers Tonkin Province of Indo China with intention of making strong attack on Burma Road within two weeks Stop Bombers will be accompanied by about the same number of pursuit and auxiliary planes

TO THE RECEIVING  
TECHNICAL V2231 VNI  
OFFICE OF THE

RECEIVED

RECEIVED

chicopy

Delivered to Treasury by Mr. Nicholson

Radiogram from Shanghai, March 22, 1941.

Cyril Rogers now in Lisbon awaiting plane for the United States

TO THE SECRETARY  
TREASURY DEPARTMENT  
WASHINGTON

54 MAR 24 AM 10 25

RECEIVED  
BY TELETYPE  
MARCH 24 1941

eh:copy



For Miss Channing

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 22, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£16,000
Purchased from commercial concerns	-0-

Open market sterling remained at 4.03-3/4. Transactions of the reporting banks were as follows:

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

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	15% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2315
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	5% discount

In Shanghai, the yuan declined 3/32¢ in terms of our currency to 5-5/16¢. Sterling was 1/2¢ higher at 3.92.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 24, 1941

TO Mr. White  
FROM Mr. Komarok

Subject: Axis Influence in Ecuador  
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

Axis influence in Ecuador while important is not overly dangerous at present. A persistent campaign of propaganda is, however, steadily being carried on.

1. There are 3,500 Germans in Ecuador, the majority located in or near Quito, the capital. Over half of these have arrived in Ecuador in the last two years. The Nazis are well organized and maintain a close check on the other Germans through pressure on relatives in Germany. The German refugees in the country are thoroughly intimidated and are forced to contribute to Nazi funds. The two most active Nazi leaders in the country were said to be Walter Glase who was employed in the German Legation and L. E. Bruchmann who is German consul in Guayaquil and is the representative of the Vick Chemical Company of the United States and of the Bayer Company (presumably of Germany). Glase was expelled from Ecuador in December, 1940, for Gestapo activities. (N.Y. Times) There is a German school which is used for purposes of Nazi indoctrination.

Franciscan, the German news service, gives free news to any paper that will use it. Franciscan also sends daily bulletins to all important officials and important business men.

The local German air line, Sedta, gives free passage to important officials, business men and school children.

2. The Italians in Ecuador number less than a thousand. Most of them have been in the country for years and are mostly small shopkeepers. There is little Fascist Party activity. The leader of the Italian Fascists is a Colonel Slaviero who remained in Ecuador after the Italian military mission of several years ago returned to Italy.

- 2 -

Division of Monetary  
Research

3. There are only a few Japanese in Ecuador. Most of them are connected with a Japanese oil company which has a concession in the country.

4. The Ecuadoreans, on the whole, are not pro-Nazi. There are, however, a number of important natives who are in favor of the axis powers.

The largest newspaper in the country, El Universo (20,000 daily circulation) is pro-axis but not violently so. El Debate, a small paper (600 daily circulation) is strongly pro-Franco and pro-Nazi. This latter paper is the organ of the Conservative Party (Catholic Church party) which is in a minority in the government. All papers in Ecuador will publish any article if paid for it though sometimes the source will be given.

In general, the Ecuadoreans are not worried about the danger from fifth column activities and have not taken any effective steps to cope with such a danger.



RESTRICTED

0-2/2657-220  
No. 346

M.I.D., W.D.  
March 22, 1941  
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. The attack on Plymouth was renewed last night in considerable force. The cumulative effect of this attack has evidently been great. The Germans claim to have sunk 31,000 tons of shipping on the 21st.

British. The only offensive activity known was another attack on the Lorient on the night of the 21st-22d. Popular demand is rising in England for reprisal bombings on German cities.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. Restricted artillery and patrol activities.

Air: Normal support operations.

III. Mediterranean and African Theaters of War.

Ground: Libya. The British have captured Jarabub, an oasis in eastern Libya, which was garrisoned by about 800 Italian troops.

Eritrea. At Cheren the British report unsuccessful counterattacks by the Italians.

Air: Considerable British air activity in southern Ethiopia.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

Summary of Code Intelligence  
Received at the War Department  
at 8:39, March 22, 1941.

London, filed 13:40, March 22, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 21. German merchant shipping, a mosquito fleet boat, a destroyer and an oil tanker were targets for severe bombing and machine gun attacks by Coastal Command planes. Hits were scored by bombs on the tanker and the others were machine gunned.

b. Night of March 20-21. Scattered raids were made by lone planes on the port of Brest, and airfields in Brittany and Le Bourget with heavier attacks reported by 42 mining planes on coastal cities in occupied territory. The U-boat base at Lorient was again attacked by 24 heavy bombers.

2. German Air Activity over Britain.

a. Night of March 21-22. Plymouth was bombed again while scattered planes attacked Dorsetshire, Buckinghamshire, and Dorset. The amount of damage has as yet not been reported.

b. Daylight March 21. German raids were limited to scattered flights along the coast and at sea with minor action against Hunt, Cornwall, Norfolk and Lincoln. No serious destruction resulted.

c. Night of March 22-23. A total of 45 aircraft have been reported over Plymouth, 15 planes over London, 15 on mine laying missions, and isolated planes to the number of 40 variously over the south of England. Plymouth was again subjected to incendiary bombing but details of any military destruction are lacking.

3. Aircraft Losses.

The Air Ministry reports that one British plane failed to return on the night of March 20-21.

4. Activity of British Air Force in Middle Eastern Theater.

Near Hama and at Aqaba in Syria the British were especially active on March 21. Bombing attacks were also executed against Sidi Barrani in Ethiopia. Elsewhere in the theater patrols were active.

5. Air Activity in Middle Eastern Theater.

Bengasi was the target of German bombing attack without success during daylight of March 21.

6. The two German sister battleships (35,000 tons) GOEBEN and SCHNEIDER were observed by British ship-based planes at 18:30 March 20, proceeding in a northerly direction at 20 knots on about 600 miles NW of Cape Finisterre. Failure of daylight prevented further action or observation.

7. It was reported that the Suez Canal was opened during the night of March 19-20.

SECRET

Distribution:

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
G-3

-2-

CONFIDENTIAL



CONFIDENTIAL

191

Paragraphs of Code Radiogram  
Received at the War Department  
at 21:25, March 23, 1941.

Belgrade, filed March 23, 1941.

The Yugoslav Government has reached an irrevocable decision to sign the pact. It is true that feeling against the government is running high but there is not much chance of dangerous outbreaks, since the young men of the nation have been mobilized. Several General Staff officers have made these statements to me.

FOURTH

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
War Plans Division  
Office of Naval Intelligence

CONFIDENTIAL

Summary of Code Redaction  
Received at the War Department  
at 7:05, March 25, 1941.

London, filed 12:35, March 25, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 22. One Axis merchant ship was set on fire as a result of a hit scored by British planes that carried out attacks on merchant shipping and coastal cities in Norway, the Netherlands, France, and Belgium.

b. Night of March 21-22. British propaganda pamphlets were dropped over the north of France and over Brittany and less British planes carried out raids on harbor facilities at Brest, Boulogne, and Antwerp. In addition a U-boat base at the harbor of Lorient was the target of a severe British raid.

2. German Air Activity over Britain.

a. Night of March 22-23. German planes carried out scattered attacks on targets in the Dundee, Cornwall, and Lincolnshire regions. The extent of the damages done has not yet been reported.

b. Daylight of March 22. Only a small number of German planes were plotted over England and the few other German planes that were active carried out raids on merchant shipping along the east coast. As yet there have been no reports of serious damage to British installations.

c. Night of March 21-22. A total of 170 German planes were used in the raid on Plymouth. At the present time there is no official indication of the number of casualties or the extent of the damages but it is believed that a number of individuals were killed.

**3. Aircraft Losses.**

a. British. There are no reports of British aircraft losses.

b. German. Night of March 22-23. One by anti-aircraft fire and one crashed after striking a balloon barrage cable.

4. British air activity in the Middle Eastern theater was as follows: in the Ethiopian theater British planes cooperated with land forces, carried out reconnaissance and patrol missions and engaged in attacks on a number of targets near Dire Dawa; in the Libyan theater a concentration of German motor transport vehicles was attacked by British bombers in the vicinity of Sirte; in the Eritrean theater British planes attacked Italian positions near Erum.

5. German air activity in the Middle Eastern theater was as follows: Grand Harbor on Malta was attacked by a formation of 22 German bombers without damage to British installations; British forces in the vicinity of Agaila in Libya were targets for four Axis raids.

SECRET

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
G-3

-2-

CONFIDENTIAL



CONFIDENTIAL

194

Paragraph of Gato Radiogram  
Received at the War Department  
at 20:24, March 23, 1941.

Sofia, filed March 23, 1941.

For the last three weeks there has been a steady stream of trucks, materials, and motorized troops through Sofia. What I saw yesterday, I should estimate as: 60 howitzers of different calibres; 15 large calibre guns; anti-aircraft artillery; 100 armored cars; 15 fast light tanks, probably tank chassis, armed with guns of about 75 mm. and having traction from 12 wheels made of hard rubber; 300 motorcycles with side cars which can carry three soldiers apiece; a.s. machine guns to each ten trucks.

JAVIER

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence

CONFIDENTIAL

CONFIDENTIAL

195

Paraphrase of Code Radiogram  
Received at the War Department  
at 9:25, March 24, 1941.

London, filed March 24, 1941.

1. British Air Activity on the Continent.

a. Daylight March 23. Near the islands off the Frisian coast and off the coast of occupied France, Axis shipping was the target of British Air Force with one small ship claimed hit.

b. No air activities were reported night of March 22-23.

2. German Air Activity over Great Britain.

a. Night of March 23-24. Scattered German planes raided airfields in East Anglia and Yorkshire.

b. Daylight March 23. German raiding was limited to patrols along the coasts and scattered flights of few planes over Hampshire, Scotland, Wales, Sussex, Kent, Yorkshire, Devon and Essex. British claim 2 destroyed and 2 damaged without loss to their own planes.

c. The loss of life in London in the bombing of March 19 was 461 killed, and at Plymouth on the nights of March 20 and 21 more than 150 with 230 badly wounded. In the latter place 5000 are without shelter. A pier was badly damaged and the town hall and the post office destroyed. The Royal Dock Yards were not seriously injured.

3. British Air Activity in the Middle Eastern Theater.

a. Daylight March 23. R.A.F. bombing in Eritrea and Ethiopia centered about Keren, Gondar and Amara. Near Dire Dawa a railway train was attacked and destroyed. The British claimed the destruction of five Italian planes.

4. Axis Air Activity in the Middle Eastern Theater.

CONFIDENTIAL

a. Daylight March 23. Seaborne traffic in the Grand Harbor of Malta was bombed twice by low flying planes, the first occasion by 13 Junkers bombers accompanied by the same number of fighters, and again by 30 Junkers with 20 escorts. In the first attack British claimed the destruction of one and damage to 2 by anti-aircraft and in the second 9 destroyed by fighters and 5 by artillery fire. Details of damage to port are lacking.

b. Daylight March 22. Two attacks were made by Italian planes on a British airfield at Parosythia, Greece, first with 18 and again with 12 planes. Italian losses were reported as one destroyed and one damaged. There were no British planes lost. The same day the British airfield at Iraklion, Crete, was machinegunned from Italian planes.

c. Daylight March 22. Ten German long range bombers accompanied by an escort of 15 fighters were observed over the Mediterranean. On the night of March 22-23, 20 long range bombers were observed.

5. In the German action against Malta March 22, 22 planes were employed. Of 8 British fighters which counterattacked, five were shot down to one German lost.

6. The strength of the Bulgarian Army on its frontiers is as follows:

Turkish Frontier	1 motorized, 10 infantry divisions
Greek Frontier	2 infantry divisions
Yugoslavian Frontier	1 motorized, 4 infantry divisions

7. Early in the morning of March 22, an Axis auxiliary miner, tentatively identified as the WAGNER (9000 tons), was observed 500 miles WNW of Freetown. The battleships SCHARNHORST and GROSSER KURUR (26,000 tons) have



**CONFIDENTIAL**

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not been observed.

8. In the week beginning March 12 the British Navy escorted 622 vessels of which ten were sunk. Merchandise imported amounted to more than one million tons.

**SECRET**

**Distribution:**

Secretary of War  
Asst. Secretary of War  
Chief of Staff  
State Department  
Secretary of Treasury  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
G-3

-3-

**CONFIDENTIAL**

**CONFIDENTIAL**

198

Paraphrase of Code Radiogram  
Received at the War Department  
at 18:09, March 24, 1941.

Rome, filed March 24, 1941.

The Germans are still moving troops to Naples by rail. It is now said that there are five German divisions in North Africa, less some losses on the way. The Germans intend operations to start in fifteen days or thereabouts, and think the force they now have in Africa is sufficient.

**FIN**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence

**CONFIDENTIAL**

**CONFIDENTIAL**

Paraphrase of Code Radiogram  
Received at the War Department  
at 18:09, March 24, 1941

199

Rome, filed March 24, 1941.

A trustworthy source asserts that Germany has consented to wait until the Italians have tried one more Albanian offensive, to be attempted within the next few days. Traveling secretly, Mussolini reached Rome yesterday. Arrangements have been made for him to go back to Albania during the present week, it is stated. To my mind there is no chance at all of success in an Italian offensive now. The morale of the troops, especially the morale of those in Albania, is too low.

**FINIS**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence

**CONFIDENTIAL**



CONFIDENTIAL

200

Paraphrase of Code Radiogram  
Received at the War Department  
at 21:41, March 24, 1941.

Ankara, filed March 24, 1941.

1. Following Corps movements are being made by the Turkish

Army:

I Corps to Gushak and vicinity.  
II Corps to a place not definitely located along Sea of Marmora.  
V Corps to Bursa from Konya.  
VI Corps to Imit from Hiyveri.

2. The estimates of mobilization given in my reports as submitted in writing, have been high. The total men on active service after enrollment of the present classes is completed, will be somewhere near 800,000. This is the largest number that Turkey can equip. One and a half million is the estimate of total Turkish manpower made by the Turkish General Staff.

3. From trustworthy informants there are reports of the arrival in Greece of two British divisions, part of a third division, one armored brigade. These are accompanied by 150 Hurricanes.

4. Please note Radiogram Nos. 74 and 75 from the Embassy.

KLMS

(2-2 Note: Embassy Cables Nos. 74 and 75 have not yet been received.)

Distribution:

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence

CONFIDENTIAL

RESTRICTED

G-2/2657-220  
No. 347

M.I.D., W.D.  
March 24, 1941.  
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Harassing activity over England. Numerous attacks on shipping.

British. Minor offensive activity until last night when normal attacks were made over western Germany. Berlin, Hanover, and Kiel, in particular, were raided.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. Local actions.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). Neghelli, an important town and road center in the south, has been captured by the British. Marda Pass, west of Jigjiga, is reported captured by the British.

Eritrea. Heavy fighting in the Cheren area.

Libya: According to an Italian communique German mechanized forces have gone into action on the eastern edges of the Sirte Desert in Libya. There is a slight trend toward an increase in the intensity of Axis operations in this area. (Note: The town of Sirte is about 340 miles by road from Bengasi.)

Air: Axis. Malta was heavily bombed.

British: Relatively strong support is being given the attack on Cheren, with Italian air reaction almost non-existent. Diredawa, railhead for Harrar is being systematically bombed.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted

RESTRICTED

24 March, 1941.

From: Spagent, Hongkong, China.

To: Mr. Nicholson.

Message from Mr. Campbell.

The Chase Bank on behalf of the Central Bank in September, 1938, placed in the SS. COOLIDGE seven and a half million ounces silver amounting at that time to two million one half U. S. dollars, which silver was to be sold to the United States Treasury. The Japanese objected to this exportation and the silver was removed from the ship and placed in the vaults of the Chase Bank, where it still is. In view of the serious situation in Shanghai, the Central Bank fears the silver will fall into the hands of the Japanese and desire to know if the Treasury will buy this silver. Further, even though the Treasury buys the silver, the Central Bank believes the Japanese would still not permit its exportation. Under the latter condition, could the Treasury appoint the Chase Bank as custodian in Shanghai? Hsi submits this for consideration before taking it up with H. H. Kung. Please reply to Hsi who is now in Hongkong.

TO THE SECRETARY  
TREASURY DEPARTMENT  
WASHINGTON, D. C.

MAR 28 1941

RECEIVED  
MAR 28 1941



TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE March 24, 1941

For Miss Ganss

CONFIDENTIAL

to Secretary Horgenthum  
from Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£38,000  
Purchased from commercial concerns...£33,000

Open market sterling remained at 4.03-3/4. Transactions of the reporting banks were as follows:

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

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	15% discount
Swiss franc (commercial)	.2322
Swedish krona	.2385
Belchmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Cuban peso	5% discount
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency declined another 3/32¢ to 5-7/32¢, the lowest quotation in over five months.

We understand that the Foreign Funds Control has authorized the Federal Reserve Bank of New York to issue a license to the Chase National Bank permitting the latter to sell 2,000,000 French francs on behalf of the Central Bank of Turkey.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,573,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The State Department forwarded a cable to us stating that the Chase Bank, Hongkong, shipped \$628,000 in gold from Hongkong to the Chase National Bank, San Francisco, for sale to the U. S. Mint.

According to cable advice from Bombay, gold was quoted at the equivalent of \$35.16 at the end of last week, representing a decline of 28¢ from the previous week's closing level. Silver in Bombay was priced at the equivalent of 44.76¢, off 5/16¢.

In London, both spot and forward silver were fixed at 23-1/2d, representing a gain of 1/16d in each case. The dollar equivalent of this price is 42.67¢.

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

We made two purchases of silver totaling 100,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.



**CONFIDENTIAL**

**EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL  
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN  
AS SHOWN BY DEPARTURE PERMITS GRANTED**

Week ended March 22, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
<b>PETROLEUM PRODUCTS</b>				
Fuel and Gas Oil (including Diesel Oil)	—	80,000 Bbls.	—	51,799 Bbls.
<b>Crude -</b>				
Blended or California High Octane Crude*	146,000 Bbls.	—	—	—
All Other Crude	63,759 Bbls.	—	—	—
<b>Gasoline -</b>				
Gasoline A**	—	—	—	109,426 Bbls.
Gasoline B*	37,050 Bbls.	—	—	90,000 Bbls.
All Other Gasoline	—	—	—	—
<b>Lubricating Oil -</b>				
Aviation Lubricating Oil***	—	—	—	3,483 Bbls.
All Other Lubricating Oil	29,589 Bbls.	—	—	314 Bbls.
Tetraethyl Lead***	—	—	—	—
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	—	—	—	—
<b>SCRAP IRON AND SCRAP STEEL</b>				
Number 1 Heavy Melting Scrap	—	—	—	800 Tons
All Other Scrap	—	—	—	1,210 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.

March 24, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

\* Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

\*\* Aviation Gasoline.

\*\*\* As defined in the President's regulations of July 26, 1940.



For Miss Chauncey

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 24, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
March 17	150,079	3,822,740	15,000	13,506
18	30,146	1,132,842	911,625	935,664
19	51,997	1,847,841	172,700	167,502
20	53,625	3,133,325	189,400	135,278
21	35,508	1,196,122	2,701,000	2,928,386
22	1,176	47,607	Nil	Nil
	<u>322,531</u>	<u>11,180,477</u>	<u>3,989,725</u>	<u>4,180,336</u>
Sales from 2/22/40 to 3/15/41	<u>6,289,309-1/2</u>	<u>200,137,177</u>	<u>21,982,925</u>	<u>21,096,064</u>
TOTAL 2/22/40 TO 3/22/41	6,611,840-1/2	211,317,654	25,972,650	25,276,400

Miss Kelly reported sales of non-vested securities for the week ending March 15 totaled \$1,000,000.

THE SENATE TODAY IN RECORD TIME COMPLETED CONGRESSIONAL ACTION ON  
THE \$7,000,000,000 WAR-AID APPROPRIATION TO PROVIDE GREAT BRITAIN  
AND PERHAPS OTHER AXIS FOES WITH LARGE QUANTITIES OF WARPLANES, SHIPS,  
TANKS, GUNS AND FOOD.

3/24--R214P

ADD LEND LEASE BILL PASSED, SENATE

THE VOTE WAS 67 TO 9.

~~THEXBIKXIX~~

NO AMENDMENTS WERE OFFERED.

3/24--R219P

THE BRITISH AID BILL WAS DISPATCHED TO MIAMI ON A REGULAR EASTERN AIRLINES PLANE ARRIVING THERE AT 10:45 P.M. POSTAL INSPECTOR LOUIS J. WHITE WAS IN PERSONAL CHARGE OF THE MEASURE. HE WILL TURN IT OVER TO A NAVAL OR COAST GUARD PLANE AT MIAMI WHICH WILL DELIVER IT TO THE PRESIDENT ABOARD THE YACHT POTOMAC OFF THE FLORIDA COAST.

3/25--V0419P