

No. 3418

Habana, February 9, 1942

AIR MAIL

Subject: Cuban Peso Exchange Rate

The Honorable

The Secretary of State,

Washington, D.C.

Sir:

With reference to the Embassy's telegram No. 47 of February 7, 2 p.m., regarding the exchange rate of the Cuban peso, I have the honor to submit the following additional information:

As stated in the Embassy's above mentioned telegram, Ambassador Messersmith on February 7 called a meeting of the managers of the three American banks operating in Cuba to discuss the problem which had arisen from the fact that the peso was being quoted at a premium over the dollar which had reached 1 per cent and which showed an upward tendency.

In the Ambassador's absence I presided at the meeting, in the course of which I pointed out that the existing situation was wholly undesirable, particularly in view of the possibility that it might result in impairing the Cuban public's confidence in the dollar. As mentioned in the

Embassy's telegram. The bank managers present did not agree among themselves as to the cause of the peso premium. The managers of the National City Bank and the Chase National Bank were inclined to attribute it to the expense involved in bringing to Cuba United States currency required to meet the growing demand for circulating media for the sugar crop. This view was not shared by Mr. John Garriker, the manager of the First National Bank of Boston, who seemed to feel that the expenditures involved in bringing United States currency to Cuba should not be reflected in the exchange value of the Cuban peso, and that the banks were not justified in passing on to the Cuban public the charges incurred in importing United States currency which consisted largely of dollar deposits made by their Cuban depositors, which deposits the banks had placed abroad for their own convenience. Mr. Garriker expressed the opinion that if the banks made only a nominal charge for bringing United States currency to Cuba, and if they discouraged their clients from reaching for Cuban pesos and advised them to use United States currency (which has unlimited legal tender value in Cuba) when paying salaries and other obligations, the situation would soon be restored to normal. He said that he had endeavored without success to induce the other banks to adopt such a policy.

It was pointed out that the situation had been adversely affected by the fact that collectors of customs, postoffices, and other Government agencies had, in some instances, been refusing to accept dollars in payment of taxes, etc., in spite of the fact that the dollar, as already mentioned, is legal tender here. It was agreed that steps to remedy this situation would have to be taken immediately and that the situation could be further improved if the Government, instead of trying to exchange dollars accumulating in the Exchange Stabilization Fund and in the Cuban Treasury for pesos, used them to meet Government payrolls and other Government obligations.

This matter was discussed by the Commercial Attache with Dr. Oscar Garcia Montes, the Minister of Finance, and the Minister assured him that all tax-collecting agencies of the Government had been instructed by telegram to accept without reservations United States currency in payment of all Government taxes. He also said that beginning February 9, 1942, the Government would issue indistinctively dollar and

your interest in payment of Government salaries and other Government obligations. It was agreed that no official statement at this time would be necessary as it was desirable, as it was felt that the foregoing statement would probably have the desired stabilizing effects.

The Minister also informed the Embassy that the Government proposed shortly to issue additional amounts of gold certificates against a 20% new gold or dollar certificate along the lines suggested by the financial mission. It did not, however, know ever, what the amount of this proposed issue would be.

There is attached a clipping from today's issue of El Orizol which indicates the seriousness of the problem described above. It will be noted therefrom that sugar mill workers in the vicinity of Ciego de Avila in the Province of Las Villas are refusing to accept dollars in payment of their wages, on the ground that merchants are accepting dollars only at a "2 per cent" discount. There is also enclosed a clipping from the February 7, 1943 issue of Pronto Libre which contains an article protesting against the alleged attempts of the National City Bank and other banking institutions to pay pass checks in dollars at par, and claiming that depositors are entitled to demand payment in pesos against their pass deposits. While this particular article need not be taken too seriously, it shows that the dollar discount is beginning to be prominently featured in the local press.

With regard to the general problem, it is difficult to escape the conclusion that the peso premium may have been the result of some manipulation. Which bank or banks have been responsible is difficult to determine, but it is the Embassy's opinion that the attitude adopted by the First National Bank of Boston is to be commended and that if the other banks had taken a similar stand the entire problem would never have arisen. Fortunately, however, the dollar strengthened appreciably today, probably as a result of the above mentioned meeting and of the measures outlined in the Embassy's telegram No. 41, and at the close of today's banking operations the peso premium had declined to only about 1/3 of 1 per cent, and the Government was so informed in the Embassy's telegram No. 39 of February 6, 1943. 3 p.m. Section was also made in telegram No. 39 of the announced intention of the Cuban Government, as reported in the local press on February 6, 1943, to issue up to

20 million

20 million additional peso certificates.

The Department will be promptly advised of any further significant developments in the matter.

Respectfully yours,

Ellis G. Briggs
Charge d'Affaires ad interim

Enclosures:

1. From El Grisol, February 9, 1942
2. From Prrensa Libre, February 7, 1942

File No. 851.51
AEB/oa

Copy:
7-10-53: 42: 2-20-42

FEB 19 1942

Dear Mr. Jones:

For the Secretary receipt is acknowledged of your letter of February 16, 1942, with reference to the arrangements for Defense Supplies Corporation financing the molasses portion of the Cuban sugar purchase outlined in your letter of February 6th. It is noted that by reason of the cooperation of the Treasury in making available its depository facilities in Cuba, as suggested in the Secretary's letter of February 7th, it will be possible to hold the service charge for disbursement of funds against warrants in Cuba to 1/10 of 1%, plus the actual cost of transporting the currency necessary to meet the payments in Cuba.

In accordance with your suggestion, the Treasury is proceeding to perfect arrangements directly with the three banks. The National City Bank already has been designated a depository of public moneys and a shipment of currency in the amount of \$5,000,000 to the Havana branch of that bank has been authorized. Arrangements for the designation of the Chase National Bank and the First National Bank of Boston will be perfected shortly. Due to present transportation facilities between the mainland and Havana it has been considered desirable to arrange for a fairly substantial shipment of currency in the first instance in order to avoid the necessity for making a number of smaller shipments which probably would have to be forwarded by air mail with resultant increase of cost.

Your agreement to reimburse the Treasury for actual cost of transporting the currency to Cuba has been noted. In this connection the Treasury is initiating an arrangement whereby the requirements of the three banks in Havana will be coordinated in order that the shipments of currency may be held to a minimum and will communicate with the Defense Supplies Corporation in all cases preliminary to authorizing such shipments.

It is noted also that the Defense Supplies Corporation will pay the banks interest on the funds outstanding from the date of disbursement to August 31, 1942, at the rate of 1/2 of 1% per annum, from which date the rate will be 3/4 of 1% per annum unless the arrangement is terminated or re-negotiated. I understand that the

banks involved requested an interest rate of $3/4$ of 1% for the entire period and in the circumstances the compromise effected seems to be entirely reasonable.

Very truly yours,

(Signed) D. W. BELL

Under Secretary of the Treasury.

Honorable Jesse H. Jones,
Administrator,
Federal Loan Agency,
Washington, D. C.

EDE:ew 2-17-42

FEDERAL LOAN AGENCY

Washington

February 16 1942

Dear Henry:

I have your letter of February 7th, advising that the Treasury has no objection to the arrangements for Defense Supplies Corporation financing the molasses portion of the Cuban sugar purchase outlined in my letter to you of February 5th, also suggesting a plan whereby the heavy insurance charges for the transmission of currency to Cuba may be avoided by the Treasury utilizing depository facilities of the three banks - Chase, National City, and First National of Boston - and transmitting the currency under the Government Loans in Shipment Act.

By reason of the cooperation of the Treasury in this regard, it will be possible to hold the service charge for reimbursement of funds against warrants in Cuba to 1/10 of 1%, plus the actual cost to the Treasury of transporting the currency. This arrangement is entirely satisfactory to us and the banks, and we should like to have your confirmation that the Treasury will proceed accordingly arranging directly with the three banks the amount and the manner in which the currency is to be transmitted from time to time. Defense Supplies Corporation will reimburse the Treasury Department for the actual expense of transporting the currency to Cuba.

In addition to the 1/10 of 1% service charge for disbursements in Cuba, Defense Supplies Corporation will pay the banks interest on the funds outstanding from the date of disbursement to August 31, 1942 at the rate of 1/2 of 1% per annum, from which date the rate will be 3/4 of 1% per annum unless the arrangement is terminated or renegotiated.

Sincerely yours,

s/ Jesse H. Jones
Administrator.Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

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SAFE HAND

BRITISH EMBASSY,

WASHINGTON, D.C.,

19th February, 1942.

W.T.1065/16/42

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Dear Mr. Dietrich,

You will remember that on 5th January the Egyptian Government decided to break off relations with Finland, Bulgaria and Vichy. I am now informed that provisions similar to those in our Trading with the Enemy legislation have been applied to Finland and Bulgaria but no proclamation has been issued in respect of France.

Yours sincerely,

(Sgd.) W. Ritchie.

Mr. Frank Dietrich,
Stabilization Office,
Room 279, U.S. Treasury Department,
Washington, D.C.
WR:TMI

cc: Mr. Pehle
Mr. Livesey

Copy:bj:2-20-42

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 19, 1942

TO Secretary Morgenthau

FROM Miss [unclear]
Mr. Dietrich**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£33,000
Purchased from commercial concerns	£15,000

Open market sterling held at 4.03-3/4, with no reported transactions.

The Venezuelan bolivar moved off 15 points to close at .2805.

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

Canadian dollar	11-1/4% discount
Argentine peso (free)	.2357
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5295
Cuban peso	1/4% premium

The New York rate for the so-called free Swiss franc moved off to .2545 today. At the beginning of this month the comparable quotation was about .2615. Swiss francs for commercial and certain other purposes can still be purchased from Swiss banks against dollars at the rate of .2331; this quotation has remained unchanged for some time.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot silver remained at 23-1/2d, equivalent to 42.67¢. The forward quotation advanced 1/16d to 23-9/16d, which is equivalent to 42.78¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

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BRITISH EMBASSY
WASHINGTON, D.C.

February 19th, 1942.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Copy No. _____

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 59

Information received up to 7 A.M., 18th February, 1942.

1. NAVAL

One of H.M. submarines torpedoed, on the third off TUNISIA, an anchored 6,600 ton merchant ship was later seen beached.

2. MILITARY

LIBYA. It is now confirmed that the three enemy columns which moved eastwards towards our positions have withdrawn.

SUMATRA. 17th. Our troops are evacuating southern SUMATRA. The enemy occupied JAMBI on the 16th. The demolition scheme was completed.

BURMA. Our position behind the SILEN River remains unchanged.

BORNEO. The enemy occupied BANJERMASIN on the 16th.

3. AIR OPERATIONS

WESTERN FRONT. 17th. Enemy activity was on a slightly increased scale chiefly against shipping off the east coast. A Hurricane bomber destroyed an ME 109 and another ME 109 was probably destroyed by a Blenheim off the Norwegian coast. A Hudson scored two hits on a merchant vessel off NORWAY but no explosions were seen. Two vessels were attacked with unobserved results off the Dutch coast.

17th/18th. Seventeen aircraft sent out, roving commission over northwest GERMANY - thirteen, leaflets, OSLO, CHERBOURG, PARIS - four. All returned safely.

LIBYA. 16th. Two ME 109's dive bombed EL ADEI landing ground damaging four Hurricanes on the ground. An attack by dive bombers with fighter escort on TORVUE caused little damage. No interception.

16th/17th. One Wellington bombed TRIPOLI (L) as a diversion to mine-laying operation.

4. The garrison of SICILY is believed to have been increased from three divisions to four by the move of one Italian Division from the mainland.

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NUMBER 20

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COORDINATOR OF INFORMATION

THE WAR THIS WEEK

February 19-26, 1942



Printed for the Board of Analysts

Copy No. 3

Secretary of the Treasury

Coordinator of Information

THE WAR THIS WEEK

Despite the sharp naval reverse suffered by the enemy off Bali on February 19, the Japanese pincers continued this week to close steadily on Java. That the Japanese were experiencing no serious difficulties in the drive on Java was suggested by the wide-ranging nature of their activities in other parts of the Far Eastern theater. Heavy attacks on Port Darwin and substantial reinforcement of the Rabaul area emphasize the growing menace to Australian communications and perhaps soon to the island itself. The fall of Singapore appears to have diverted fresh strength to the Burma front, where further progress of the Japanese drive would soon isolate Rangoon. Finally, both the strategic advantages now possessed by the Japanese and the exposed position of the eastern seacoast of India invite an early attack in that direction.

At the same time, American and foreign military observers concur in believing that current Axis preparations in the eastern Mediterranean area presage an attack there on the grand scale, preferably timed to succeed before air reinforcements are needed for the spring drive in Russia. In the latter area extensive Soviet claims fail to convince military observers here, who prefer to emphasize the peril Russia may face when the expected German drive on the Caucasus begins, probably during the first fortnight in April.

Axis Objectives in 1942

Both present activities and indicated plans of the Axis make reasonably clear the enemy's probable objectives. If the United Nations propose seriously to begin winning the war in 1943 (as Mr. Churchill has suggested), the Axis must

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obviously gear its objectives to winning the war in 1942. Hitler's aim this year, according to one close observer of the economic scene, will be to master an area as impregnable as possible to Allied attack and an area which will make it possible for Germany to maintain a continuously high war potential.

This end the Nazis can substantially achieve by the conquest of the Ukraine and the North Caucasus; by the acquisition of the areas bordering on the Mediterranean; and finally by a further notable advance on the north and central fronts in Russia, with a resultant weakening of the Russian armies and the Russian will to resist. The achievement of a position so impregnable, both economically and strategically, would largely nullify increased Allied armed strength in 1943. Continuing Japanese successes would presently put them in a position of similar strength and impregnability. The implications of this argument, our observer points out, are that, if the Axis is permitted to occupy these positions, the Allied war effort, for all its mammoth proportions, might still prove too little and too late in 1943. Imperatives for the United Nations in 1942, he suggests (with priorities in that order), are quickly effective aid to Russia, maintenance of positions in North Africa, and aid to China and the Dutch.

The Axis Oil Offensive

The attainment of such common objectives through coordinated effort is clearly exemplified in the case of the current Axis oil offensive. An attack on the oil resources of the United Nations on a world scale has been organized. The Japanese have already deprived the Allies of most of the oil of southeastern Asia and are immediately threatening the remaining sources. The German submarine campaign in the Caribbean is seeking to disorganize the production of Aruba and Curaçao whence comes possibly as much as two-thirds

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of the high octane gasoline available to the United Nations. Finally, the Germans apparently envisage a spring attack on the Russian oil in the Caucasus, very possibly preceded by an offensive in the eastern Mediterranean aimed at the ultimate acquisition of Allied oil resources in Iraq and Iran.

In southeastern Asia the scorched earth policy of the Dutch has greatly reduced the immediate availability of crude oil and producing facilities in the areas conquered by the Japanese. But at the same time the United Nations have been themselves deprived of all this oil. The Netherlands Indies (with Sarawak and Brunei) produced about 68,000,000 barrels a year of crude oil. Less than ten per cent of that capacity—in Java—now remains under Allied control. Burma in 1940 produced nearly 8,000,000 barrels, but Burma, too, is seriously menaced. India in the same year produced only two and a quarter million barrels.

Attack on Caribbean Nerve Center

In the Caribbean area the Nazis have singled out for attack the highly vulnerable oil transport system. In this area the high grade production of the Venezuelan fields is closely integrated with the vast refining establishments at Aruba and Curaçao in the Netherlands West Indies, and the essential connecting link is the shallow draught tanker fleet, whose units are extremely difficult to replace. The toll of submarine raids up to February 26 was six shallow draught tankers sunk, representing about ten percent of the fleet, and several damaged. Two ocean-going tankers, in addition, have been sunk in the Caribbean.

That the Nazis have found a nerve center of the Allied war effort is indicated by the production figures. Exact statistics are not available but reliable estimates assign to Venezuela the huge total of 700,000 barrels a day of crude oil, 420,000 barrels of which go to Aruba and Curaçao for refining.

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There the plants of Shell and Standard Oil of New Jersey (the latter is the largest refinery in the world) have a "cracking" capacity of 338,000 barrels a day and could possibly produce upward of 40,000,000 barrels a year of aviation gasoline—a figure twice as great as the estimated present combined output of aviation fuel of the whole of the United States plus that of Abadan in the Persian Gulf, the world's second largest refinery. In addition to shipments to the Netherlands West Indies, Venezuela also normally sends some 200,000 barrels per day of crude oil to the United States and probably now furnishes well over one-half of Great Britain's requirements.

Aims of a Middle Eastern Oil Offensive

With the oil of southeast Asia lost to the Allies, and their Caribbean transport disorganized, a Nazi conquest of the oil of the Caucasus and the Middle East would crown their discomfiture. A Nazi offensive in this area would be more interested in *denying* this oil to the Allies than in actually acquiring new sources of oil for the German war machine, according to a current analysis by the Economics Division of the Coordinator's Office.

Axis military operations in 1942 need not be hampered seriously, if at all, by lack of adequate petroleum supplies. Reserve stocks have not yet been exhausted and an increase in output of both crude and synthetic petroleum is anticipated. Germany's oil problem lies in the scarcity of petroleum products for all but the most essential non-military uses, and also in the relatively large labor requirements involved in providing adequate substitutes for natural petroleum, rather than in any direct handicap to military operations. The internal problem, which requires attention, if Germany expects a war of long duration, could be solved, of course, through the acquisition of Caucasian or Middle Eastern oil.

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"Lull" in the Mediterranean

The current lull in the Mediterranean continues to be interpreted by competent military authorities as reflecting Axis preparations for a large scale attack in that area. Marshal Rommel is steadily receiving reinforcements under convoy conditions of high security. To Axis naval superiority will apparently soon be added Axis air superiority. These and other preparations clearly suggest a major effort, but evidence permitting a forecast of the form and place of this attack is not yet available.

Java's Zero Hour

In the face of stiffening Allied resistance, the Japanese are completing the encirclement of Java. Continued bombing of Port Darwin and landings on both the Portuguese and Dutch sections of the island of Timor are aimed to cut the Allied supply route to the beleaguered center of the Netherlands Indies.

To the west, the Japanese have continued their occupation of southern Sumatra, they are reported to have landed on the tin islands of Banks and Billiton, and they are apparently concentrating important forces near the Anambas Islands for use against Java. To the east, they have secured a foothold on Bali. The United Nations have officially reported that they have sunk or damaged 18 Japanese ships—including five cruisers and three destroyers—in a three-day naval battle in defense of Java. But despite the fact that these naval successes took place near Bali, the Japanese are still in possession of the Denpasar Airdrome on the island.

Fresh Offensive in Burma

Following concentrations in northern Thailand which probably included reinforcements made available by the

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fall of Singapore, the Japanese have launched an offensive against the Shan States, in northern Burma. The object of this drive is to prevent the Chinese forces in this area from securing the initiative through the invasion of Thailand and at the same time to cut the railroad in the Mandalay area. If this move were successful, the Japanese could seriously embarrass the organization of alternative routes to the Burma Road from India. (See *The War This Week*, February 12-19).

In the south the Japanese continued to subject the British to heavy pressure on the Sittang River front, and fighting continues only about twenty miles east of the railroad at some points. Certain areas of the Chittagong district in India, lying near the Burmese border, have been ordered evacuated. Heavy bombing of Bassein, a hundred miles west of Rangoon, suggests the possibility of early Japanese action in that region. And Rangoon, with a curfew imposed, its civilians fleeing, its telegraphic communication with the outside world cut off, and much of the city in flames, is in a position of great peril.

With the announcement by the Chinese government that Generalissimo Chiang Kai-shek, in his conferences with Indian leaders, has found a "satisfactory solution" to the supply problems presented by the presumed loss of the present route from Burma, attention has shifted to the possibility of a Japanese attack on India itself.

India's Vulnerable Flank

A Japanese invasion from the east would fall on India's vulnerable flank. The northwest border had always been viewed by the British as India's strategic frontier, and they have directed their primary attention to its fortification. The northeastern border (Tibet) is protected by the highest mountains in the world. The natural terrain likewise protects

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the western coast of India, which is fringed by steep scarps (the Western Ghats). But on the eastern seaboard the terrain offers no natural barrier to an invading force. And here the British, relying on the protection of Singapore and forgetful that they, too, arrived in India by the southeast sea route in the eighteenth century, have neglected the defenses of this coast.

India's Armed Forces

Britain has, moreover, permitted her naval, air, and ground forces in India to deteriorate. According to the British view, only certain racial groups in India have the loyalty and physical stamina requisite to military service. In the resulting unbalanced distribution, the Punjab, as an example, with only 28,000,000 people (of a total Indian population of 389,000,000) provides approximately half of India's troops. At the same time, Bengal, the most populous province of India, furnishes scarcely a single soldier. Any alteration in this policy—for example, recruiting among Indian racial groups who were familiar with military service as late as the eighteenth or nineteenth century—could not be effected overnight.

With Singapore gone and Port Darwin threatened, the logic of the situation is the retirement to India of the units of the British East Indies Station. On the entire east coast of India, however, these ships will find no port which can be used as a naval base, even for purposes of defense. The lighter vessels can seek a base at Colombo (Ceylon), Bombay and Karachi, on the west coast, but the nearest base which offers repair facilities for capital ships is Durban, South Africa, some 3500 miles from India.

The Form of Japanese Attack

For an attack on India the Japanese now have Singapore at their disposal, which they will in all probability use as a

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major base. Already they are using Penang as a submarine base, from which, according to reliable reports, undersea craft are operating off Madras and west of Ceylon. Japanese naval units are also moving up the Bay of Bengal. For advanced bases in that area they can presumably seize the excellent anchorages at Port Blair, in the Andaman Islands, and Nancowry, in the Nicobar Islands.

Although there is difference of opinion among American military experts as to the form which a Japanese attack would take, it might begin with air and cruiser raids on east coast ports, after which the Japanese might attempt to knock out the British fleet by attacks on the bases in Ceylon (Trincomalee, then Colombo). Or, alternatively, they might try at once to seize such commercial ports as Calcutta, Vizagapatam, and Madras, on the east coast. In any event, the Japanese should experience no great difficulty in landing troops on the east coast, at places chosen by themselves. (On the economic and strategic implications of a Japanese conquest of India, see Appendix I). The Japanese might even strike for Madagascar and seek bases there with the possible connivance of the Vichy French (on Madagascar's strategic importance, see *The War This Week*, January 29-February 5).

Nationalist Dissatisfaction

The reputation for invincibility—prime asset of the white race in controlling the native peoples of Asia—was first undermined in 1905 at the time of the Russo-Japanese War and has now been completely shattered. There is no immediate prospect of open revolt or widespread treachery in India at the present time, but the bulk of the population is unlikely to rally in support of British rule against an attempted Japanese invasion, at least until more convincing British concessions are granted.

British concessions to date have not satisfied Indian

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nationalist groups. The offer of representation in the War Cabinet and Pacific Council has left India unimpressed. One paper has referred to it as a "travesty of representation," and another has pointed out that India's membership in the Imperial War Cabinet during the War of 1914 did not improve her international status. Those suggested for India's representatives are regarded for the most part as government "stooges." The nationalist groups still demand a total Indianization of the Viceroy's Executive Council and definite assurances of complete self-government.

Chiang Kai-shek's appeal to Britain, however, to give India "real political power" may presage a change for the better. Following this appeal, a two-day non-party conference on Indian problems at New Delhi adopted a resolution asking the British Government to declare India's position as "identical with those of other self-governing units of the British Commonwealth." Meantime in London rumors as to possible political changes in India even predicted a nationalist administration headed by Nehru himself. In a recent and conciliatory speech the latter went so far as to say that, "If power were transferred to the people of India, they would be prepared to take the responsibility for India's defense even now."

The Russian Front Remains Confused

The Russians have again announced a spectacular thrust, a ten-day drive toward Staraya Russa which is claimed to have shattered a German army of 45,000 and killed 12,000. Other than this, however, the important victories which newspaper correspondents in Moscow had hopefully awaited on the Red Army's twenty-fourth anniversary failed to materialize. Instead, Stalin exhorted his followers to greater effort in a stern struggle ahead and announced only that the Germans can no longer depend upon the element of surprise.

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A reliable neutral military source in Berlin has described the front line as very irregular, particularly in the north. In some cases the Nazis hold towns which are actually east of those held by the Russians, and some towns are entirely surrounded. Velikie Luki, Schlüsselburg and Kholm are still in German hands, but Soviet troops hold a narrow east-west corridor leading down from Lake Ladoga toward Staraya Russa. Rzhev is apparently surrounded by Russian troops, but not yet recaptured. In the central sector, the Russians have Mozhaisk, but they have not taken Vyazma. The line east of Kharkov and Stalino runs fairly straight north and south. The Germans retain control of Taganrog, but Lossawa is in doubt.

A previous report that only 30 to 40 divisions on either side were in actual combat was confirmed by the same source. The Germans have a "forward reserve" of 100 divisions, but the size of corresponding Russian reserves is unknown. These thinly held lines would tend to explain both German ability to retain control of strong points and Soviet ability to make deep and spectacular thrusts behind these points. According to military observers, the minimum Russian objective—disruption of German plans for the spring offensive—will not have been attained unless the Red Army takes such strong communications centers as Novgorod, Vyazma, Kursk, Kharkov, and the southern anchor at Taganrog. It should, however, be borne in mind that the Russians themselves apparently have not committed by any means all their forces in the present counter-offensive.

The Germans are not without difficulties of their own. According to reports from inside Germany, many divisions being rested at home for the spring offensive have perforce been thrown into combat on the eastern front. German military conscription is spreading its tentacles more widely and seizing expert civilians (e. g., the complete personnel of a propaganda unit and a consul, expert in Latin American

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affairs). As a further preparation for the spring offensive, the Nazis are apparently striving through the controlled Bulgarian press to improve Bulgar relations with Turkey as a basis for persuading the Bulgarian government to send its troops into the Ukraine.

Preparations for Spring

The developing situation continues to suggest an early spring drive by the Germans in southern Russia with Caucasian oil as its objective and with a concurrent attempt to stabilize the line further north. Stockholm notes that the Finnish military are now fearful that their Nazi allies soon will desert them for an all-out attack in the south. And the Red Army in the Caucasus is now engaged in extensive preparations to meet an offensive both by land and by sea, according to a neutral diplomat at Kuibyshev.

From the same post of observation, a reliable and close observer of the Russian scene reports that, while manpower is believed to be adequate to meet this renewed offensive and the Soviets claim to have sufficient industrial capacity now operating in the east to provide a large part of their requirements in tanks, planes, and other matériel, they must still rely on substantial aid from the Allies, handicapped as the latter are by the Japanese threat to Indian Ocean routes. Food supply also is a major problem, with some reports already of serious shortages and fear even of famine. Finally, in the Far East Russia faces a dilemma: she can neither spare much for China to take the place of Allied supplies if the Burma route is closed, nor can she afford to see China threatened with collapse. If the United Nations could base effective bomber forces in the Maritime Provinces, our observer concludes, Russia might be willing to risk war with Japan.

The Russians are also preparing for spring on the psycho-

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logical front, and both Stalin and the Soviet radio are apparently laying the groundwork for an important shift in the Soviet propaganda line. Stalin's speech implied a disavowal of ambitions beyond the freeing of Russian soil, and a recent broadcast declared that Russia had no intention of forcing its will or regime on the Slavic or other peoples of Europe. "No interference in the internal affairs of other peoples" it concluded.

This new line could have two objectives: to prepare both home and foreign audiences for freer cooperation in the bitter struggle ahead; and to offset German propaganda which in recent weeks has been intent upon frightening Europe's governing classes by stories of a British sell-out to Russia, alleged to have been accomplished during Eden's conversations with Stalin.

When Can A "Spring Offensive" Begin?

The broad reaches of Russia between the Sea of Azov and the Gulf of Finland offer a wide diversity of climatic conditions. In the extreme south (the Rostov region) modern mechanized campaigning can begin about the first week in April, according to a study by the Geographic Division of the Coordinator's office. Further north, near Kharkov, it must wait until about the middle of the month. In the Moscow region conditions are not suitable until at least the last week in April, and in the Leningrad area Germans would normally have to wait until at least the tenth of May. It should be emphasized that the Nazis would have four to five weeks in which to develop the campaign in the south before the Russians could initiate a diversion in the extreme north, although it is also possible to argue that a limited front to defend might be an advantage for the Russians.

The Germans have other reasons as well to strike as soon as the weather and ground conditions permit. With the

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hard freeze of the Russian winter, the Soviets presumably have not been able to construct extensive defense works. Good weather and dry ground favor these operations simultaneously with those of mechanized warfare. The Nazis should surely strike before the Russians can elaborate their defenses.

Coup D'Etat in Uruguay

In Uruguay, which has been a leader among Latin American nations working for hemisphere defense, President Alfredo Baldomir's coup d'etat of February 21 strengthens his government's power to cooperate with the United States. The minority-opposition under Luis Alberto Herrera has opposed the measures necessary for hemispheric solidarity, chiefly in order to create a domestic issue. Pro-Axis and "nationalist" groups in Argentina have tried to exploit Herrera's position, and they may possibly come to his support. However, there is little evidence at present that Axis activity provoked the coup.

The President seems rather to have been intent on constitutional reform. The Uruguayan Constitution gives the opposition disproportionate representation in the Cabinet and Congress, and the Herristas have been able to block efforts for reform. President Baldomir, who under the Constitution could not legally serve a second term, has clearly revealed his determination to change the Constitution. A coup has not been unexpected, since *El Tiempo*, the government newspaper, announced on February 7 that no elections would be held at the scheduled time, March 29, if it appeared that constitutional reform would again be blocked. It is too early to assume, however, that Baldomir will seek office beyond his legal term. He retains, in any case, the loyalty of the armed forces and the police, and general support throughout the population.

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Latin American Repercussions to Nazi Submarine Attacks

Recent German submarine raids on the coasts of the Americas have sought not merely to disorganize oil transport but apparently also to sow confusion and panic in Latin America. Two Brazilian steamers have been sunk off the Atlantic coast of the United States, in addition to the tanker sinkings in the Caribbean, and Aruba and Trinidad have been lightly shelled—the first attack on the soil of this hemisphere.

These raids have had varied repercussions in Latin America. The Caribbean has been regarded as an "American lake," and since February 11 the United States has supplemented its many bases and garrisons in that region by placing troops on Aruba and Curaçao. Latin Americans in general, therefore, have been puzzled and distressed by the effectiveness of the enemy raiders.

In Chile and Argentina the sinkings have furnished editorial reasons against provoking so resourceful an adversary by breaking relations with him. Brazil is reported to be "thoroughly frightened," and fears that the United States will be unable to protect her vulnerable and inviting "bulge." The Brazilian foreign minister has said categorically that the United States is at fault for the Caribbean attacks; but Brazil is most preoccupied by the sinking of two of her own ships in the Atlantic, and has demanded reparations from Germany under threat of reprisals on German property in Brazil. In Cuba a conference of military leaders has forwarded an urgent request for anti-submarine equipment.

Panama and Venezuela, however, are relatively calm. Although a network of Axis agencies extends through parts of Venezuela (Axis organizations there and in French Guiana are thought to have refueled German submarines), anti-sabotage and defensive measures have been undertaken jointly by the larger oil companies and the stable regime of President Medina Angarita. A decree of December 11

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allows the United States and its allies the use of Venezuelan territorial waters for their ships and mines. The Venezuelan press, nevertheless, surmises that the defense organization of the United States is defective, and calls for more efficient measures. Despite these attacks, nowhere apparently in the countries which have broken with the Axis does the press express regret for the actions taken in support of hemispheric solidarity.

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APPENDIX I

POTENTIAL JAPANESE SPOILS IN INDIA

The conquest of India would not only provide Japan an extensive market for her products but would make her self-sufficient in cotton and iron, as well as in leather, oil seeds, shellac, mica, and graphite. With the occupation of the Philippines and the Malay States, Japan has already gone far toward filling the gap between her steel capacity and her iron ore resources; the occupation of India, if its iron ore could be successfully mined and transported, would give Japan sufficient additional resources to run her steel mills at full capacity.

Japan's new conquest would also give her control of the world's jute market, and it would greatly augment her supply of wool, timber, and wood pulp. With the addition of the raw materials available in the southwest Pacific, Japan would be, for the first time, virtually self-sufficient. And if she could effect a junction with Germany in the Middle East, Japan could supply the Nazis with desperately needed rubber, tin and vegetable oils—perhaps in return for planes and other implements of war.

The area about Calcutta, logical goal of an initial Japanese attack, has a special economic and strategic importance. As the heavy-industry center of India and a vital link in its transportation system, its capture would go far to disorganize the Allied defense of the Indian east coast and to cut off the alternative supply routes to China now being developed.

Calcutta is the premier city of India. It was the original center for British control, and today is the commercial, financial, and cultural metropolis. The chief coal, iron, and steel works of India—including the great Tata steel plant at Tatanagar (1939 production, 700,000 tons of finished steel)—

are less than 200 miles away, mostly in western Bengal and eastern Bihar. The principal government ordnance factories are just outside the suburbs. The world's greatest concentration of jute mills is also in the Calcutta area. Here 280,000 workers find employment in 100 factories, which line the banks of the Hooghly above and below the city.

Furthermore, Calcutta is India's largest railway center. With Rangoon closed and with the necessity of using alternative routes from India to supply China (see *The War This Week*, February 12-19), Bombay on the west coast may become the chief Asiatic terminus for lend-lease shipments. From here the fastest method of getting goods to northeast India would be over the Great Indian Peninsula Railway to Allahabad, then over the East Indian Railway to Calcutta, and finally over a variety of routes from Calcutta to Sadiya. Considerable congestion in direct-haul traffic from Bombay to Calcutta might force the use of alternative motor and rail routes across India. But all of these must necessarily pass through the vulnerable province of Bengal. Hence, by pinching off this area, the Japanese could effectually stop the flow of goods along China's proposed new lifeline.

APPENDIX II

THE NEW ORDER EMERGES—REDRAWN
BOUNDARIES IN THE BALKANS

Map No. 300 Feb. 18, 1942

Compiled and Drawn in the Geographic Division, G-2.

In view of the intimate relationship of the Balkan puppet states to German military plans in Russia and the Levant, Nazi territorial changes in that area are of notable importance. Nowhere in Europe have more extensive changes been made in frontiers, a situation which is abundantly clear from the accompanying map and which reveals a design not unlike that of the Balkans so familiar in the period immediately prior to the first World War.

At the same time it should be emphasized that these

boundary lines are probably more fluid than anywhere else, in spite of the fact that the beneficiaries like to think of their gains as permanent, if not complete. Even the provisional lines are not easy to trace. The Balkan puppets' fear of each other and hope of future territorial favors enables Germany to maintain her position of dominance and use the individual states to police one another.

Rumania, the first country to experience Nazi occupation and partition, has been compensated for the loss of northern Transylvania to Hungary and southern Dobrudja to Bulgaria by the reacquisition of northern Bukovina and Bessarabia and the exhilaration of belonging to the "winning" team. In addition, Rumania has been permitted some partitioning on her own account in the Ukraine. Here, however, she has decided to wait until the end of the war before definitively incorporating "Transnistria," the area between the Dniester and Bug Rivers. The Moldavians living between the Bug and the Crimea are to be settled in Transnistria.

Greater Bulgaria

The extent to which Bulgaria is indebted and committed to the New Order may be seen on the map. She has received approximately 60,000 square kilometers and three million population, according to German estimates, increases of about 60 per cent and 40 per cent, respectively, and consisting of southern Dobrudja, Thrace, and part of Macedonia. Greater Bulgaria, extending "from the Danube to the Aegean, and from Ochrid to the Black Sea" as the popular slogan has it, thus becomes the largest state south of the Danube, at the expense of Rumania, Greece, and Yugoslavia.

At the same time Bulgaria has become the leading tobacco-growing country of Europe and has gained important opium, cotton, fruit, grain, and mineral producing areas. The incorporation of the "regained" regions, however, is proceeding in

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the face of friction with Italians, minor revolts by Greeks, Serbian Chetnik activities, and warnings from Berlin that neither military nor civilian occupation is to be construed as final claim to ownership.

Meantime Greece has suffered territorially less than might have been expected. But she is always subject to further demands by Bulgaria and Albania, Italy's original Balkan puppet, now somewhat enlarged.

The Partition of Yugoslavia

Yugoslavia has been cut up into a dozen pieces and parcelled out among half a dozen Axis adherents and creations. Apparently two main principles have guided Hitler's establishment of the "new order" here: occupation with the smallest possible German forces and exploitation with the greatest possible efficiency. Whether Yugoslav territories have been annexed outright or given some sort of nominal independence, the result is virtually the same—they have all become cogs in the greatest Reich economy.

Slovenia has been deprived not only of nominal independence but even of unity. The smallest of the Yugoslav peoples, the Slovenes had no separatist government to assume power, and, in spite of apparent German cultural influences, they were almost as hostile to the Axis as the Serbs. Italy has acquired the smaller western portion together with the capital, Ljubljana; the rest, including the industrial city, Maribor, has gone to Germany.

Croatia is a "convenience" state. In creating it the Nazis have satisfied the maximum demands of Croat nationalists, who in the years between the two World Wars objected to the Serb policy of "Yugoslavism." Now by deeding Bosnia, Herzegovina and Slavonia to the Croats, Hitler has saddled Croatia with the unpleasant task of policing unwilling subjects and has ensured Serb-Croat "brotherly extermination."

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Dalmatia, which the Croats might have claimed, has gone to Italy, as well as most of the Adriatic Islands and additional territory on the mainland.

Hungary has likewise received three areas in part payment for cooperating in the dismemberment of Yugoslavia. The Banat, formerly Hungarian and one of the thorniest ethnographic problems of the first World War, is under German military occupation and is presumably being saved as a stock-in-trade with which to buy the support of Hungary or Rumania.

In Montenegro, resurrected along virtually the lines of 1914, Italy has tried to create another puppet state—relying on an old dynastic connection and on the dissatisfaction of a handful of Montenegrin diehards with the former Yugoslav connection. Here and in Serbia (a "political vacuum," now little larger than it was before the Balkan Wars) Chetnik irregulars are creating serious difficulties for the Axis forces of occupation.

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U. S. GOVERNMENT PRINTING OFFICE, 1942

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MID 319.1 No. 636 M.I.D., W.D. 11:00 A.M., February 19, 1942.
Situation 8-11-41

SITUATION REPORTI. Pacific Theater.

Philippines: An increase in the enemy artillery fire has been reported. No new developments have been reported from the south. Burma: The evacuation of Rangoon on a large scale is reported under way as the Japanese cross the Bilin river and threaten to cut the routes from Rangoon to Mandalay. Air: Rangoon: The R.A.F. raided the North Thailand airdrome of Chieng Mai on February 18. Melbourne: Japanese aircraft attacked the Australian port of Darwin for one hour on February 19. Light air activity over the New Guinea area continues.

II. Western Theater.

London: The R.A.F. attacked objectives in northwest Germany on February 18. Berlin: German aircraft made daylight raids on shipping in British waters yesterday.

III. Eastern Theater:

There is no reported change in the air or ground situation. (A situation map will not be issued this date).

IV. Middle Eastern Theater:

No reports have been received of air activity or change in the ground situation.

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