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Book 301 (Puleston Reports)

July - August 16, 1940

Puleston Reports

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## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. Berlin warns that the apparent lull in operations should not be misinterpreted. The organization of the new drive against the United Kingdom can not be accomplished in one day. Troops must be rested and supplies replenished.

2. While Germany is making her preparations, the British Air Force is endeavoring to obstruct these preparations by air attacks on bases in German-occupied France, Belgium, Holland, and Norway. In addition, the British Air Force has continued its attacks on the Rhinish cities.

Correspondingly, the German Air Force is endeavoring to render unusable British air fields in the United Kingdom. The German Air Force made its first day bombing attack yesterday. The British report shooting down two of the bombers over land and one over sea. Both Germany and England state officially that the damage done in these raids is inconsiderable, but this can hardly be true when both sides are dropping big bombs upon industrial plants, oil tanks, and railway centers. The Germans are apparently attempting to attack the port facilities of Cardiff and Bristol in western England and Wales.

2. The most important development in the Near East is the report that Russia has demanded from Turkey the right to assist in the defense of the Dardanelles. We know that last September Russia made extremely severe demands upon Turkey, which she was unable to enforce. The collapse of France led Turkey to seek an understanding with Russia, and it is not improbable that Russia renewed her previous demands.

In addition to occupying Bessarabia, Russia has occupied northern Bukovina, which greatly strengthens her position along the Hungarian and German frontiers. Simultaneously, the Soviet has renewed her relations with Yugoslavia; we were told some time ago from Rumanian sources that Russia would attempt to reach Yugoslavia and debouch on the Adriatic rather than attempt to secure control of the Dardanelles. Her new frontier gives her one side of the Carpathian range, which is the only barrier between the Hungarian plains and Russia. This is familiar country to the Russian Army, for they fought over these Carpathian crests in the World War. If Russia secured the passes into eastern Hungary, it would be a comparatively simple matter for the Yugoslav and Russian Armies to effect a junction in the Hungarian plains, unless the German Army interfered.

3. So far Hitler has kept his two partners, Mussolini and Stalin working in accordance with German plans. The temptation

Secretary Morgenthau - 3

for Stalin to attempt to reach either the Aegean or the Adriatic Sea under the existing circumstances must be tremendous.

In this connection, we have reports that the discipline in the Russian Army is being improved since the Finnish campaign. The officers are being given more authority, and the political commissars are being subordinated.

4. It is reported that the French contingent of the Allied Army in the Near East is being demobilized. This will put an additional strain on the British Army, but it is hardly likely that the Germans can lend any assistance to the Italians in an attack on Egypt or the Suez Canal. So far, the Italian Army has been on the defensive in North Africa, their only offensive being taken by their aircraft and submarines. In a running fight with British cruisers somewhere in the middle or eastern Mediterranean, one Italian destroyer was sunk.

In the western Mediterranean the immediate object of the British Fleet will be to prevent the units of the French Fleet from falling into German possession. Part of the British Fleet in home waters is to prevent the invasion of Great Britain and keep open the sea routes that supply the United Kingdom.

The most encouraging sign is that units of the British Fleet are still taking the initiative and are keeping their position off German-occupied ports in western Europe. This is apparent from the casualties these ships are suffering.

SECRETARY DEPARTMENT  
INTER OFFICE CORRESPONDENCE

5. In the Far East the Japanese Army is urging a more vigorous policy upon the Cabinet, in order to take full advantage of the present difficulties of Great Britain and France.

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

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Transfer of Cable End from Ireland to England

1. Mr. Frank Page, Vice-President of International Telephone and Telegraph, reported that the British authorities had asked them to move the terminus of their trans-Atlantic cable from Ireland to Bristol Bay, in England. The International Telephone and Telegraph Company has consented to this arrangement.

2. He also informed me that Rumania had requested that they increase the radius of transmission of their radio station in Rumania in order to reach the United States directly. It probably will be impossible for the International Telephone and Telegraph Company to accomplish this.

3. The interior communications of the International Telephone and Telegraph Company in Belgium, Holland, Denmark, and Norway, are rapidly being restored under German supervision. Also, the local factories in these countries are being operated almost normally.

No broadcasts are allowed from France except those authorized by the German Government.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Conversation with Colonel Frederick Palmer

Colonel Frederick Palmer has recently been with the British Army in France, Flanders, and England, and with the British Navy on board a destroyer. He is convinced that Germany can not invade Great Britain. He bases this opinion upon the events during the evacuation of Dunkirk. Colonel Palmer himself was evacuated through Boulogne a few days ahead of the evacuation from Dunkirk and was in Folkstone during a part of the evacuation from Dunkirk. In addition, he was attached to a British destroyer while it was operating in the North Sea and English Channel.

He said the British Navy was "magnificent", that its officers and crew were highly efficient, alert, and their staff work was excellent.

Colonel Palmer said the British Air Force felt they had better planes and were better trained than their opponents and only had to contend with a numerical superiority.

Colonel Palmer said it was marvelous to see the way the British Army units evacuated in fragmentary formations were formed on the beaches in England and, after being given some food and a

little rest, were marched away to their depots or to their entraining points. He said there could be no question about the quality of this army.

Corroborative of Colonel Palmer's estimate of the British Air Force, Captain Kirk, in London, who is not on the optimistic side, estimates that for every plane the British lose, they shoot down one or two German planes and on occasions three or four German planes.

Colonel Palmer, as you know, is an old campaigner. He has witnessed war from his youth up. I put the question to him several times, "Do you really think they can resist the invasion of the Germans?", and invariably his answer was, "Yes". I asked him if this were wishful thinking on his part, and he said of course he hoped for Allied success, but he had done his utmost to be objective on this occasion. He quoted a remark he overheard from a typical, under-sized, cockney soldier, who said, as his squad marched off, "We're on our way to win the last battle of the war; England always wins the last battle."

I was sorry you could not talk with Colonel Palmer in person on his recent visit. If he comes this way again, I think you should talk to him.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE July 2, 1940

TO Secretary Morgenthau

FROM Andrew M. Kamarck  
Assistant to Captain Puleston

Subject: Visit of Admiral Nomura to the Philippines

1. It is announced in Tokyo that Admiral Nomura, member of the Japanese Supreme War Council and former Foreign Minister, is going to visit Davao, a strategically important port in the Philippines in the course of a trip "to inquire after the health" of Japanese residents in the South Seas. There is a large Japanese colony on Mindanao Island in the Philippines where Davao is located.

2. Admiral Nomura intends first to visit the Japanese Islands in the western Carolines, then Davao, and finally Menado in the Netherlands East Indies, where there is another Japanese settlement. He will leave Yokohama on July 10 for this visit.

3. This announcement is almost incredible. The itinerary could be construed as an inspection tour proceeding from present to future Japanese possessions.

*Andrew M. Kamarck*

Andrew M. Kamarck  
Assistant to Captain Puleston

## TREASURY DEPARTMENT

Confidential

## INTER OFFICE COMMUNICATION

DATE July 5, 1940

TO Secretary Morgenthau  
FROM Andrew M. Kamarck  
Assistant to Captain Puleston  
Subject: The Disposition of the French Fleet

I. Capital Ships

Total -- Nine (in service or launched)

- 1 in German control, "Strasbourg", at Toulon  
(damaged by torpedo)
- 3 sunk or afire at Oran, "Dunkerque", "Bretagne",  
and "Provence"
- 3 in English control, "Lorraine", at Alexandria,  
"Courbet" and "Paris", in the United Kingdom
- 2 unaccounted for, "Richelieu", completed April, 1940,  
at Dakar, and "Jean Bart", due for completion  
in 1941, at Casablanca

II. Aircraft Carriers

Total -- Two

- 1 at Martinique, the "Bearn"
- 1 sunk at Oran, "Commandant Teste"

III. Heavy Cruisers

Total -- Seven

- 3 in English control, at Alexandria
- 4 unaccounted for, at Sfax, Tunisia (?)

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IV. Light Cruisers

Total -- Twelve

3 in English control; two in the United Kingdom,  
one in Alexandria

2 at Martinique ("Emile Bertin" and "Jeanne D'Arc")

7 unaccounted for; two in Singapore (?), one at  
Dakar (?)

V. Destroyers

Total -- Sixty-five

8 in English control in United Kingdom

2 sunk at Oran

8 in Mediterranean ports of France

5 at Casablanca

1 at Dakar

1 at Haifa

40 unaccounted for

VI. Submarines

Total -- Seventy-two

5 in United Kingdom

2 in Dakar

19 in Casablanca

4 in Bierut

42 unaccounted for

*Andrew M. Kowarski*  
Director of Research,  
Institute for Strategic Studies

Secretary Morgenthau - 3

Description of French Major Ships

"Strasbourg" and "Dunkerque" are battle cruisers, launched in 1935-36. They displace 26,500 tons, carry 13-inch guns, and have a speed of around thirty knots.

The "Bretagne", "Provence", and "Lorraine" are battleships, launched in 1913. They displace 22,000 tons, carry 13.4-inch guns, and have a speed of twenty to twenty-two knots.

The "Courbet" and "Paris" are battleships, launched in 1911-12. They displace 22,000 tons, carry 12-inch guns, and have a speed of twenty knots.

The "Richelieu" and "Jean Bart" are battleships. They displace 35,000 tons, carry 15-inch guns, and were to have a speed of thirty knots. The "Richelieu" was launched January, 1939, and was completed April, 1940. The "Jean Bart" was scheduled for completion in 1941. (There are two other ships of this same class which were laid down in 1939 and were not to be completed until 1942-43.)

The "Bearn" is an aircraft carrier, launched in 1920 as a battleship and converted into an aircraft carrier in 1927. It displaces 22,000 tons and carries thirty-six to forty airplanes. Its speed is twenty-one knots.

The "Commandant Teste" is a seaplane carrier, launched in 1929. It displaces 10,000 tons and carries twenty-six airplanes. Its speed is twenty to twenty-two knots.

Andrew M. Kamarck  
Andrew M. Kamarck,  
Assistant to Captain Puleston.

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 5, 1940

TO Secretary Morgenthau

FROM Andrew M. Kamarck,  
Assistant to Captain Puleston

Subject: The Situation in Europe, 9:00 A.M.  
(Based on conversations with Captain Puleston, Military  
Intelligence, and Naval Intelligence)

1. There are certain indications which point toward the imminence of action in the Iberian Peninsula. It is possible that preparations are being made for action against Portugal, England's traditional ally, or against Gibraltar. One straw in the wind is the fact that the number of German soldiers in Bayonne, on the Franco-Spanish border, is much larger than is necessary for the task of occupation.

2. The Army is inclined to believe that the occupation of Bessarabia by the Russians, although part of a long-term agreement, was a surprise to Italy and Germany in its timing.

*Andrew M. Kamarck*

Andrew M. Kamarck,  
Assistant to Captain Puleston.

## TREASURY DEPARTMENT

Confidential

## INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. This morning I went over the situation with Admiral Anderson, who will give us his estimate of the disposition of the French Navy. I think the estimate will be in substantial accord with the one made for you by Mr. Kamarck in my absence, but I wanted to get Anderson's independent estimate of it.

2. During the discussion of the battle of Oran, Anderson said it was a commentary on the Italian Navy that was boasting of being able to control the Mediterranean Sea that it refused to come out and engage the British Fleet when it was attacking the French. The composition of the British detachments making the attack was three battleships, one aircraft carrier, plus destroyers and cruisers. Materially, the French detachment was about equal to the British.

Apparently the British Fleet will still be able to control the western end of the Mediterranean and the eastern end of the Mediterranean and can dispute the middle Mediterranean whenever it feels the occasion justifies the effort.

3. The newspapers report that two battalions of French African troops in British transports stopped at Lisbon. Some of these native French troops were good fighters during the last war, and if the

Secretary Morgenthau - 2

British have any designs on occupying Lisbon, either with or without the consent of Portugal, they might wish to use these troops, who are essentially mercenary and would serve the British as readily as the French. It is also possible that some French officers are with them, as these troops came from England after being evacuated from Flanders.

If Gibraltar is seriously threatened, I believe the British will make a stand around Lisbon or the Azores Islands.

4. So far as I have been able to learn, there has been no adverse criticism of the British action in seizing the French ships. On the contrary, I have heard much commendatory comment, including such ideas as "The British are finally waking up".

5. In the Far East the British have taken a stiffer attitude with the Japanese in regard to keeping open the Burma road to Free China. According to the press, in this attitude the British have had the support of the Soviet Government, who said they had a financial interest in the road through Burma and wished to continue to ship munitions and other goods to Free China.

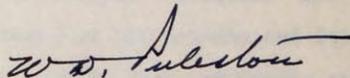
Russia has always taken a stiffer attitude with Japan than any other country and has not given way to any Japanese demands in the Far East. The information this Department receives agrees with the conditions as described in Admiral Hart's letter and with the

Secretary Morgenthau - 3

NAVY DEPARTMENT

OFFICE OF COMMUNICATION

information received by Naval Intelligence, and all indicate that Japan is not desirous of making an issue with Russia.



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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. The most important naval event was the report from the British Admiralty that the new French battleship "Richelieu" had been prevented from falling into the hands of the Germans and Italians. Further details are to be given later. The British newspapers said that other units had been attacked at the same time.

The other units believed to be with the "Richelieu" were one light cruiser, one destroyer, and two submarines. The British action leaves only one French battleship, the "Jean Bart", unaccounted for. She is not completed and was towed from France to Casablanca.

2. German aircraft continued their attacks on Great Britain. We have no exact measure of the volume of damage, but apparently the numbers of airplanes used by Germany are being increased. Naturally the damage would become greater. Also the British are inflicting heavier losses on the German bombers, in spite of the fact that they are now being protected by German fighters.

The British air force continue their attacks on industrial towns in the Ruhr and also on ports like Boulogne, Ostend, and Bergen, which might be used for ports of embarkation to invade the United Kingdom.

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A few days ago the British announced they had accounted for 2,500 German planes. When the Count de Chambrun made his report, he stated that the British had accounted for 1,487 German bombers shot down behind the Allied lines. As up until recently most of the German planes were shot down on the continent, it is quite possible that the figures given by the Count de Chambrun are approximately correct. So far the data given out officially by the British Army, Navy, and Air Force has been accurate. Frequently they delay giving out bad news, but they have freely admitted their losses, and their reports of losses inflicted on Germans have been verified in most cases.

3. A significant item in the London press was the exhortation for the British not to get too "defense-minded" but to be ready to meet Germany anywhere. This exhortation is extremely timely, and that it is more than mere words is indicated by the determined action of the British Air Force and the British Navy in seizing the initiative both in the Mediterranean Sea and the Atlantic Ocean. There can be no better way to prevent an invasion of England than by continuing the air attacks on the ports where the Germans are attempting to assemble the invading forces.

4. London reports the arrest of the former Chief of Naval Intelligence, Admiral Barry Domville. He was leader of "The Link", a pro-Nazi English organization, which he announced was dissolved after the war began. I knew Admiral Domville slightly, and the fact that

Secretary Morgenthau - 3

TREASURY DEPARTMENT

INTERNAL SECURITY DIVISION

the Government ordered his arrest indicates that they are going through with this war and have no intention of making a peace with Germany. The conduct of Marshal Petain since the surrender of the French and the ready way he has acquiesced in forming a Fascist form of government in France probably inclined the British Government to arrest Admiral Donville.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Letter from Admiral Hart, Commander in Chief,  
United States Asiatic Fleet.

Attached hereto is a personal letter to me from Admiral Hart, which I think will be of interest to you. I thought at first of briefing it but believe it will be better for you to read it as written.

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



## UNITED STATES ASIATIC FLEET

OWC

U. S. S. AUGUSTA, FLAGSHIP

Please return to  
Captain Puleston...

Shanghai, China  
May 29, 1940

Dear Puleston:

Yours of 27 February came in quite a time ago and I should have answered before this. But I had already written you enough about the Philippines and it is only a month or so ago since I returned to China, from which field I'm not sure I feel like writing very much, simply because it's all too complex to attempt to cover. I will have to address this letter, however it turns out, to you through the Navy Department; not sure that you are in your old house and I wouldn't know what part of that Treasury Department to attempt to find you in. That was a fine letter which you wrote me. I am delighted to note from it that you are still a fine philosopher and that your powers of keen estimate on world affairs, etc., are still with you. I am decidedly struck by even your very brief remarks about Russia in estimate of the potentiality of that nation.

The military history of Russia over the last year is very much of an enigma to me:- The Russian army was very badly shot up by the Finns. The only valid explanation that I can find is that on the Finnish border the Russians were decidedly rotten, at least as far down as say the companies themselves. But out here quite a different picture was reported last summer:-

I don't know how much the Nomanhan Incident got into our papers, or how much you are in touch with it. I think that we pretty well know just what happened. The Russians came across that northern border and pretty badly licked at least three Japanese divisions. When the truce became effective the remains of those divisions, plus an indeterminate amount of reinforcements, was up in a pocket, pretty well cut off, and would have been annihilated by the Russians if the battle had gone on. As it was, we think the Japs had close to twenty thousand casualties. Now, the Kwantung Army is supposed to be the very best of the Japs, but a considerable portion of it was soundly thrashed by a Russian force which, as far as we can find out, was little if any larger. The Russians probably were better supplied with mechanized armament. As I see it, either the Siberian part of the Russian army is vastly superior to that which fought the Finns, or the Japanese army is gravely over-estimated.

On the last point, (above), I must say that not only the appearance but what is actually happening out here does indicate that the Japanese army in the Yangtze Valley is rather low quality. There is a little to show that the Japanese themselves consider that their Yangtze forces rank very much below the Kwantung Army, for instance. The men look entirely too young and lots of them are very low in physique. And this despite the fact that the Japs have continued to



## UNITED STATES ASIATIC FLEET

U. S. S. AUGUSTA, FLAGSHIP

OWC

-2-

recruit their army from the farmer element because the city people are deficient in ruggedness. Incidentally, observers in Japan say that, as they travel about, the scarcity of males out on the farms is very apparent, whereas there are huge quantities of the city dwellers still running about and many of them serving no useful purpose.

The Spring campaign between the Chinese and the Japs has gotten underway but thus far about the only thing that the Japs have been able to do is to continue their bombing of Chinese cities, Chungking in particular. Their army does go most any place it wishes to, but at a heavier cost than used to be the case, and they have discontinued all effort to permanently occupy additional areas. The Japs would give their souls to finish up the China incident so that they might go at something more profitable to them, but they don't see how to manage it. Things are not going well over in Japan. The man in the street doesn't "cooperate" in his time-honored fashion, and is plenty critical about the way his country is being managed. But they are a long distance from cracking up and can go on for quite a time yet.

I am writing just as the news of the Belgian surrender has come in. I am positively sick at heart over the happenings of the last month. From the time the Nazis began their venture into Norway, and particularly when they went across the Dutch-Belgian border, and continuing until a week ago, I had been estimating that they were playing a losing game. During the last week I have had to see that, thus far at least, theirs is a winning game instead and I fear their winning is going to continue. I'm only praying that I am as much in the wrong as I was when their push began and I was saying, "The Nazis have taken on fourteen million more enemies, are now out in the open where the Allies can really fight them, and we'll see what we shall see." It is a blue situation at the moment.

I suppose our situation out here, particularly that of the Asiatic Fleet, is relatively nothing to be worried about. But naturally we do worry and thus far 1940 looks far from a good year for us. The two parts of my own job conflict with each other, head on. If I do the one part, I am not in a situation to do the other. Of course all I have to do is just to guess correctly which part of the job is the job of the moment. Quite easy, eh? I think that by this same mail I will be sending something to the Navy Department somewhat critical of your old Office of Naval Intelligence. It just does not seem to put in its effort along lines that do the forces afloat very much good. Out here I get lots of radio traffic with O.N.I. about such questions as clerical assistants for an Assistant Naval Attache' at Chungking, but almost never any despatches which tell me things that I would like to know. Of course there is some real wheat around those offices, but it is mostly buried in chaff.

TREASURY DEPARTMENT

22

Confidential

INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Conversations with Admiral Yarnell and  
Admiral Kalbfus, in Newport

1. I spent the better part of Tuesday and Wednesday morning with Admiral Yarnell. We canvassed the whole world situation very thoroughly, particularly touching on the relationship between the Far Eastern and European wars. On the tactical side we thrashed out the question of sea power versus air power and whether or not Great Britain could be invaded.

Admiral Yarnell was definitely of the opinion that Germany could not invade Great Britain. I plied him with every kind of question and particularly asked if he were letting his wishes influence his judgment, and he said he thought he was not. These conversations took place prior to the announcement of the British seizure of units of the French Fleet.

2. Almost as important as Admiral Yarnell's opinion about the invasion of England was the change in his view about what the United States should do in this situation. Three months ago Admiral Yarnell did not believe we should actively assist the Allies. His present views are best expressed in his own words, which I quote:

Secretary Morgenthau - 2

"The events of the past three months have brought home to all a clear understanding of the power of Germany and the dangerous future that lies ahead of us if she succeeds in crushing Great Britain.

"My own views have changed considerably in that time and I am now of the conviction that our own future safety will be greatly enhanced by rendering all possible immediate assistance to Great Britain and China in their present struggle.

"The only hope for the continued existence of liberty of man and democracy of government in this world rests now on the united efforts of Great Britain and our own nation."

3. Admiral Yarnell has always held the view that the United States could not "appease" Japan. Japan simply does not understand appeasement and mistakes any conciliatory attitude as weakness on the part of the United States. He believes China is successfully resisting Japan and thereby taking a great load off the backs of England and the United States, for if Japan were not fully engaged in China, her army and navy would be free to move to the southward into the Dutch East Indies and Malaysia.

4. During my visit to Newport, I had a talk with Admiral Kalbfus, President of the War College. He was a little more restrained in his attitude than Admiral Yarnell, who is on the retired list, but he was quite positive that the Germans would not succeed in invading Great Britain. Naturally, naval officers have been brought up to

Secretary Morgenthau - 3

believe that command of the sea is essential to an overseas invasion, so their professional cast of mind has to be taken into account. Nevertheless, I believe both Yarnell and Kalbfus gave their real views on the question that may be determined within the next month.

5. In some ways, I attach more importance to the views of the officers at the War College, who are not engaged in administrative tasks as are the officers at the Navy Department and therefore have more time for reflection.

*W. D. Puleston*

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau

FROM Captain Puleston

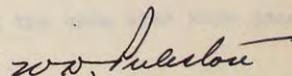
Subject: Conversation with Professor Hajo Holborn  
and Mr. Eugene Davidson, in New Haven

1. Professor Holborn, a naturalized American citizen of German descent believes that it is essential for the United States to assist Great Britain, not for any sentimental reasons but as a matter of our own self-interest. His ideas were strikingly like Admiral Yarnell's.

2. Davidson expressed a quite different opinion. He still believes we should leave Europe to the Europeans and presented a viewpoint that will probably be urged by the minority opinion in this country.

Briefly, the idea is that Germany is so strong that it is useless to try to maintain any opposition to her in Europe; that we can find a formula for living with a Europe dominated by Germany; that eventually forces will automatically rise in Europe which will counter-balance German domination.

I have heard this view expressed in several other places; I think it is the rear guard fight of the isolationists, many of whom are perfectly sincere but, in my opinion, mistaken people.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 11, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. The most important event yesterday was the attack of approximately a hundred German airplanes on a British convoy in the English Channel. This brought on dogfights in the air between British fighters and German bombers protected by German fighters. Both sides claim to have won and to have inflicted greater losses than the other side admits. The German broadcast claimed that their fighters had definitely established their superiority over the British fighters. This sounds like propaganda and is probably meant to dissipate the idea generally accepted that German fighters are not as good as British fighters.

The British Air Ministry reports that, in addition to bombing English towns, the Germans have machine-gunned English civilians. I believe this means that the Germans are now trying to machine-gun British troops who are on guard along the Channel coast. In the strict sense of the term, soldiers are a proper military objective.

2. At sea there was little of importance. The Italian High Command is making very heavy claims about the damage it did to British ships in the Mediterranean. At the same time Rome announces

Secretary Morgenthau - 2

that hereafter no Italians will be permitted to listen to foreign radio broadcasts, which indicates that the Government does not like Italians to hear any but their own accounts of battles in which Italians are engaged.

3. Disturbing news comes from Ireland indicating that North and South Ireland can not agree on means for common defense against a possible German invasion. It is absolutely essential that the British take a firm attitude in regard to any invasion of Ireland, North or South. The British have plenty of soldiers in England that could be landed in the south of Ireland if necessary. De Valera, I believe, appreciates the gravity of the situation and would be willing to cooperate, temporarily at least, with North Ireland; but he is held back by some of the extremists in his own party who are unwilling to cooperate with England and with the Irish Republican Army. It would be a good sign if the British took a stiff attitude in regard to Southern Ireland.

4. Apparently Germany and Italy have, for the time being, preserved the peace in the Balkans by promises to Hungary and Bulgaria. Turkey denies that she has received any ultimatum from Russia demanding partial control of the Dardanelles.

5. In the Far East Japan is taking a stiffer attitude towards Great Britain concerning the supply of munitions and other goods to China over the Burma road, and it is reported that British authorities are endeavoring to conciliate Japan.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Comment on Report from Mr. Heath, in Berlin

1. Herr Wohlthat's communication to Mr. Heath is a clear indication of the propaganda that will be used in this country to convince the United States that its interests will not be hurt by a German success in Europe.

Wohlthat argues that Europe still will need 20 million tons of grain annually. This is a sop to our agriculturists.

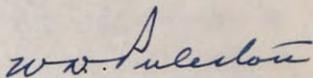
Germany proposes to do away with exchange control, arrange satisfactory terms with overseas investors in Germany and also in France and other German controlled states. This is a plain appeal to Americans who have branch factories in Europe, of whom there are many.

Germany would commence to abolish barriers to trade, business, and monetary transactions between countries. This is obviously designed to fit into Secretary Hull's reciprocal trade treaties.

2. These same arguments are being used by German business men in the United States and are finding a little credence among a very small portion of our business men. The arguments are clever and in the event of a German peace proposal prior to the predicted invasion of England, would undoubtedly be used by some groups in the United States.

Secretary Morgenthau - 2

3. The effrontery of the German agents in passing these proposals on to our Government with its known views on the European situation is astounding, but it is in keeping with the German mentality, for they really do not realize how deep is the resentment their actions have aroused in this country.



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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 6, 1940, 11 p.m.

NO.: 2374

FOR TREASURY FROM HEATH AND FOR INFORMATION OF THE DEPARTMENT.

This week Wohlthat, who is now in charge with reorganizing the Dutch monetary and banking system, was in Berlin and asked that I come to see him.

Wohlthat asserted that the banking, industrial and commercial structure in the Netherlands is functioning smoothly now, and in that country the German Government is giving capacity orders to key industries. The unemployment which had resulted from the demobilization of the Army in the Netherlands he said was unimportant, and was rapidly being solved partly through sending Dutch workers to factories in Germany.

He asserted that the only class in the Netherlands which was really suffering just now consisted of those who were dependent upon funds and interest from securities and bank accounts which are blocked in the United States to a total of 1,400,000 guilders, he estimated. Requests for loans and advances on the security of their blocked assets had been made of banks by the holders of such blocked securities and accounts, but up to the present he had taken the position that it was "illogical" for the banks in the Netherlands to

Grant

grant loans on assets which for the owners' protection had been blocked.

I did not make any comment as I listened to the above statements.

Wohlthat then went on to sketch Europe's future economic organization. He asserted that as the strongest industrial power, Germany would exercise decisive economic influence but that they would not seek to destroy the economic autonomy of the states of Europe which fall within its sphere of influence. He said that Berlin would not have a centralized economic organization of the continent with tariff and other restrictions directed against England, the United States or other trading nations overseas. However, they would have to take some preferential protection measures for the agricultural producer of Europe, who could not exist on a basis of free competition with producers in Australia and America. This did not mean that by granting special protection for European agricultural producers the market for overseas agricultural products would be closed. Imports of produce into Europe, on the contrary, would probably increase. He mentioned that at least 20 million tons of grain now had to be imported into Europe annually. In Germany and in the countries falling within the German influence, there would be a great and steadily increasing market for overseas products other than agricultural.

- 3 -  
TREASURY DEPARTMENT

They did not intend to set up a single currency for Europe. The leading European currency would of course be the mark, because of the force of the economic position of Germany. Germany intended, as rapidly as possible, to do away with exchange control on everything except capital transfers. Even there the restrictions would not be too onerous, and perhaps indirect control measures could be used to achieve it. Germany wanted to make a currency of international acceptance of the mark. He asserted that Germany would arrange satisfactory terms with overseas investors and creditors, and would see that for France and other European countries similar satisfactory arrangements were made. Germany did not propose to destroy the economic autonomy of other States of Europe, but there would be a steady movement toward abolishing barriers to trade and business and monetary transactions between the countries. However, before the customs walls would finally disappear many years would pass.

Wohltat told me that he was presenting his own personal views and not those of the German Government in this picture of the future economic situation of Europe. However, he thought that he was correct in his analysis and predictions, and gave me authority to use his name in connection with this presentation.

END OF MESSAGE.

HEATH.

COPY

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE July 9, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Situation at Martinique

1. You may already have received this information which I gathered in conference with Mr. James Dunn, of the State Department. The State Department have received assurances from both the English and French that there will be no hostilities in Martinique. If the French ships there should attempt to escape to France, very probably the British would intercept them, but it is believed that the British would allow them to get clear of the West Indies, thus avoiding infringing our neutrality zone.

2. The governor of Martinique has already given his adhesion to the Petain Government, which excludes the possibility of Great Britain securing those ships except by force.

3. It would be fine if some arrangement could be arrived at whereby those planes were returned to the United States on condition that they should not go to Europe, because if the Navy could get those planes, it could probably release an equal number of corresponding types to England.

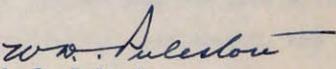
4. The State Department have received a report from a new and probably unreliable source that Hitler will launch his attack on

Secretary Morgenthau - 2

July 10, 1940

England tomorrow, July 10. We have previously received intimations that the attack would be launched between the tenth and twentieth of July.

5. Military Intelligence have no new information on the probable date of attack but said they thought Germany would attack (if they attack at all) as soon as possible.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. The British and German air forces continue their attacks. The Germans are apparently able to use more planes than the British, and they have singled out some very important military objectives in England, including the Tilbury docks, London, the gasoline storage tanks near Harwich, the chemical works in the middle country near Billingham, seaports in southern and western England like Bristol, Falmouth, and the naval bases of Southampton, Portsmouth, and Portland.

Correspondingly, the British have concentrated their air attacks on, first, the possible ports of embarkation, such as Bergen, Wilhelmshaven, the Dutch, Belgian, and French seaports facing the Channel. In addition, the British have been able to undertake attacks against important industrial plants in Germany in the Rhineland. One of our Army officers estimates that each side is using approximately the same number of bombers, about a hundred a day. This same officer estimates that the Germans will employ about a thousand per day when the real attack on England begins.

The British fighters on at least one occasion were able to force the German bomb squadron to turn back before it reached its land objectives. A German squadron consists of about twelve

bombing planes. In their daylight raids the Germans are now escorting their bombers with their fighters. Even so, British fighters have been able to break up these formations.

2. The British Navy has now accounted for almost all of the French fleet. The only important units left are in Casablanca, French Morocco, and Martinique. Being relieved of this task the British Mediterranean fleet apparently took the offensive against the Italian fleet, the Gibraltar squadron and the Alexandria squadron both taking the offensive. Conflicting reports come from Italian and British sources. The tactical results were meager, the important fact being that the British fleet is now apparently ready to move against the Italians.

3. The sinking of British merchant ships has increased, probably because the British are now concentrating their light forces on the defense of the United Kingdom. This concentration is probably the cause of the British failure to evacuate more women and children to Canada and the United States. Merchant ships are available, but the suitable escort is not.

4. Today the French Republic passed out of existence. In its place is the Fascist form of government, which will temporarily be headed by Pierre Laval. It is reported that Germans are grooming a pro-Nazi Frenchman to succeed Laval. In spite of the abject surrender of the French government and its conversion into a dictatorship, the German press is vehement in its assertions that France will still have to bear the burdens of defeat.

Simultaneously with these press statements the German radio commentator, Lord Haw Haw, is making peace suggestions to England. If the British people are foolish enough to be beguiled, they deserve to be deceived.

5. At Munich foreign ministers of Italy, Germany, and Hungary met to decide upon the disposition of Transylvania. Unquestionably, Germany and Italy will try to preserve peace in the Balkans until England is attacked. Whether they can do this is at least doubtful. Stalin is reported to be making demands on Turkey to share the defense of the Dardanelles. Turkey is mobilizing additional troops and will probably resist. If Turkey does resist, war in the Balkans seems inevitable, and if it starts it will almost certainly engulf Rumania and Hungary. Some American observers believe that the delay in attacking England is due to Hitler's apprehensions of the situation in the Balkans.

6. In Shanghai Japan has made angry gestures towards the United States Marines. Simultaneously, the President announced that the U. S. Fleet would remain in Hawaii. England is obviously trying to detach Russia from Germany. Any action we take to oppose Japan's advance into China will encourage Russia to help China. In a large sense the United States is not helping China; it is the other way about. China is helping the United States by absorbing the main Japanese effort which otherwise would be directed against Indo-China and the Dutch East Indies and possibly even against Singapore.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE

July 10, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. The air battle in the English Channel, when thirty-four German bombers attacked shipping, resulted in the largest air battle yet seen. Ten German planes were reported shot down, and nearly one hundred fifty planes were involved in the fighting.
2. The Columbia Broadcasting System, who listens to German broadcasts, reported that Germany is increasing its peace appeals to those in Britain who might be swayed.
3. Simultaneously, the Royal Air Force reconnaissance planes report that there are few unusual German troop movements or concentrations in Norway, Holland, Belgium, or France that would indicate any prospective invasion of England.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Naval Engagements in the Mediterranean  
(see map herewith)

Further reports from London announce that there were simultaneous movements of the eastern and western detachments of the Mediterranean Fleet on July 8. The Gibraltar detachment proceeded at least as far eastward as the Balearic Islands where it was attacked by Italian aircraft apparently operating from those islands. The British report they destroyed four enemy aircraft and damaged seven others. No Italian surface ships were encountered.

The Alexandria detachment, under the Commander-in-Chief, Sir Andrew Cunningham, made contact with Italian forces consisting of two battleships and a number of 8-inch and 6-inch gun cruisers with their accompanying destroyers. The Italians admit the loss of the destroyer.

The Italians also admit that one of their largest ships was hit. The British claim that they hit an Italian battleship. The British commander-in-chief states, "In view of the mendacious reports often circulated by the enemy, the commander-in-chief of the Mediterranean Fleet has asserted that there were no casualties among the British ships engaged yesterday."

The Italians have six battleships in commission. Apparently only two were in the engagement mentioned.

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

# EUROPE



### LEGEND

- British Fleet
- Italian Fleet
- ▲ Bombing attack

### SCALE



July 10/48

41

45

Memo for The Secretary.

Discussed the German air attacks on the United Kingdom with Major Whitehead Army Air Corps, who in the past has been successful in his predictions. He states that he gains the impression that the British air resistance is wreakening; he attributes this fact to the British air pilots getting stale and tired from over-exertion. He said British air pilots worked more often than German.

He estimated that the Germans were now employing more than 100 planes per day and were doing most of their bombing in the day light, and only bombed at night - to keep the British busy. He was impressed by the resistance the British encountered when they attacked Stavanger Norway, and inferred that the Germans were concentrating their invading forces there, and took measures to insure that British reconnaissance planes could not locate them. If Whitehead is correct this is bad news, so wrote it out myself.

W.D. Sullivan

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE July 11, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Transport of Fuel Oil to Spain

1. Petroleum and its products reaching the ports of Bilbao, Santander, Corunna, and Vigo, in Spain, by steamers could easily be transported in the same steamers to Bordeaux or St. Nazaire; similarly, oil landed in Valencia or Barcelona could be transported either to Marseilles or to Genoa. Therefore, these Spanish ports are practically terminal points for Germany and Italy.

That the Germans may be already taking advantage of this fact is indicated by the following clearances and oil statistics. All of the vessels cleared from Port Arthur.

July 2 - Spanish tanker "Campuzano" cleared for Malaga, Barcelona, Valencia, with refined petroleum products.

July 5 - Panama tanker "Loeta" cleared for Vigo and Bilbao with fuel oil.

July 9 - American steamship "Nevada" cleared for La Coruna and Bilbao with petroleum products (since returned).

July 10- American steamship "Aryan" requested permission to depart on July 13 for La Coruna and Santander. Departure permit was held up by the Treasury Department.

Secretary Morgenthau - la

July 10 - The Swedish motor ship "Bera", with fuel oil and other petroleum products requested clearance for La Coruna and Vigo. Departure permit was held up by the Treasury Department.

The following information was obtained over the telephone from Standard Oil of New Jersey, which will give us further statistical data by mail:

The Standard Oil Company of New York is the ordinary supplier of crude oil from Iraq to Teneriffe. This source is not available on account of the naval situation in the Mediterranean.

The Texas Company supplies the bulk of the oil to Spain, and Mr. Borie, of that company, will give us detailed information concerning the shipments.

The Standard Oil Company of New York is the principal supplier of crude oil to Portugal, which it obtains from the Aruba plant of the Standard Oil Company of New Jersey.

The British are issuing no navicerts for Teneriffe at present and are believed to be planning a rationing arrangement for Spain, Portugal, and the Canary Islands. In the meanwhile, it is expected that the British Fleet will stop shipments into those countries.

Secretary Morgenthau -2

2. There is an oil refinery at Teneriffe in the Canary Islands with a crude oil capacity of 5,000 barrels daily and a cracking capacity of 4,100 barrels daily. Its total annual capacity would be 325,000 barrels. ( Germany consumes around 40,000,000 barrels of oil a year.) The waters around the Canary Islands have been used by British ships to refuel from tankers. It is also thought that submarines fuelled in these waters, nationality unknown. It is certain the Spanish Government is increasing the size and capacity of the principal airfield on Teneriffe, and it is possible that they are preparing other smaller fields.

Mr. Dunn, in the State Department, is sending a dispatch to the consul at Teneriffe to inquire if the capacity of this refinery has been or is being increased and whether there has been an unusual number of tankers arriving at or departing from the Canary Islands.

The Standard Oil Company of New Jersey advised that the British Government is restricting the number of navicerts for crude oil to Teneriffe, apparently in an effort to prevent more than the normal amount of oil going to that port, and that the British authorities are in control of the export of oil from the Dutch West Indian ports and are not permitting the export of oil that would fall into German hands.

Secretary Morgenthau - 3

There are no pipe lines from France to Italy or Germany, or from Italy to Germany. Any oil landed in France would have to go by tank car to Germany or Italy. There are sufficient tank cars in France to supply French industry. These tank cars would be available to transport oil to Germany.

3. I conferred with Mr. Dunn on this problem and found that Secretary Hull had already initiated measures towards stopping the American flag steamers. Mr. Hickerson, of the State Department, was working in liaison with Mr. Basil Harris. Mr. Dunn had general direction of the State Department's actions, and they are prepared to do everything possible.

Mr. Dunn was of the opinion that the State Department could do nothing towards stopping ships under foreign flag, but Mr. Cairns assured me that the domestic law covered foreign ships as well as American ships. In fact, Mr. Cairns was convinced there is sufficient legal authority to stop both foreign and American ships carrying cargo from American ports. He further thought that shipments from foreign ports in the Caribbean could be stopped because most of the oil wells are owned by American companies, and they would be responsive to any suggestions from the Government.

4. There will be a conference between Treasury and State Department officials at 4:00 P. M. today, when a procedure and common line of action will be determined.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE July 12, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The European Situation

1. It is plain that the German air attacks on the United Kingdom are increasing in numbers and intensity. They are keeping up an almost continuous air attack. At present it is concentrated mainly on south and southeast England.

The British Air Ministry announces that since June 13, 99 German planes have been shot down near Britain. This would average 4 1/2 per day. In the last two days the British have reported that 28 German planes were shot down. This increased number was doubtless a result of the increased number of German planes attacking England.

2. The British bombing planes have been devoting their attention to possible German troop concentrations along the Channel coast, and to German industrial cities. It is impossible to say with certainty whether the British attacks are carried out in any volume. As they have fewer planes, it is probable that their attacks lack the volume of the Germans.

3. The Germans have had sufficient time to prepare to invade England, if they have been unhampered. The delay in attempting an invasion may be due to (a) the Balkan situation, which is now

clearing up; (b) derangement of German plans by British attacks on German troops and vessels assembled for the invasion; (c) the desire of Germany to further damage the defenses of England before attempting an invasion.

Reports from the United Kingdom indicate that the British preparations for invasion are complete. The British Government announces that it will not invade southern Ireland first, but is ready to respond to a call for help from De Valera. This is the same attitude the government took toward Norway, Holland, and Belgium, and resulted in the Germans gaining an initial advantage by seizing the initiative.

4. In the Mediterranean it appears from the Italian accounts that the British are still maintaining their convoy system in the middle of the Mediterranean, westward of Malta, in the narrowest part of the Mediterranean Sea, and where Italian strength is greatest. This convoy may have been a sporadic movement of particularly important ships. If the British Navy can maintain communications by water in the middle Mediterranean, it means that the Italian Navy and air forces are very inefficient.

5. The situation in the Far East is about the same, but the Japanese Army and Navy are reported to have agreed on a program of expansion southwestward into the Malay Archipelago. If this be true, we can expect some new move by Japan in the Far East.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 13, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. German air raiders extended their operations to Scotland and Wales and continued their efforts against England. British authorities report that they have shot down 48 enemy planes, mostly bombers, in the past 72 hours. Apparently the Germans are still able to send successive waves of planes to bomb the United Kingdom. The British Air Force attacked German airdromes in Holland, and munitions works, blast furnaces and other objectives in Germany. In their reconnaissance flights over German-occupied ports in France, Belgium, and Holland, the British state they have not yet discovered troop concentrations indicative of an immediate invasion of England. They have bombed several concentrations of barges and small vessels in these ports that might have been employed for an overseas movement.

2. The Germans claim that they have surface ships operating on the high seas that have brought several merchant ships into German ports. If this is true it is important, for it means that German raiders are again at large and attacking British commerce. At the present time the British Navy is overburdened with work in contesting the control of the Mediterranean with Italy, protecting

its sea lanes, and standing by to resist a possible German invasion. It is now an excellent opportunity for German surface raiders to operate against British sea-borne trade.

3. In the Near East the situation is unchanged. In the Far East Great Britain has conceded some of the demands made by Japan to prohibit traffic via the Burma Road with Free China. In its present situation Great Britain is obliged to comply with these ultimatums from Japan.

4. In the Mediterranean the Italians claim to have done extensive damage to British naval units with their aircraft. The British have denied these claims, stating that they had beaten off eight attacks of Italian aviation with negligible casualties. Along the Kenya-Ethiopian border a British garrison is besieged by Italian troops. A British column is advancing towards Moyala in an effort to relieve the garrison.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 15, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. In the air the British and Germans continued their attacks and counter-attacks. There is considerable discrepancy in the reports of losses and damage done. On the whole, I accept the British figures as being more nearly accurate. We have no positive information about the extent of damage done.

The fact that the British are still running convoys through the English Channel means that they are still able to keep open the sea communications with the port of London. Many of the air experts said that when the Germans were established on the French and Belgian coasts they could blockade London from the air. So far the Germans have not been able to do that.

2. In the Mediterranean the British lost a submarine and a destroyer, apparently at the hands of the Italian Navy. The British claim that already they have sunk twelve Italian submarines. The Italians started with approximately one hundred; to sink twelve percent of them in five weeks is a noteworthy accomplishment. The British have admitted a total loss of eleven submarines during the war.

3. The First Lord of the Admiralty asserted that the British have actually more tonnage under the British flag than they had in

Secretary Morgenthau - 2

September, 1939, when the war began. In addition, they have neutral shipping under charter, as well as the shipping of their allies, such as Norway, Holland, and Belgium. Churchill claimed that there were more reserves of food than were on hand in September, 1939. It is possible now to take enormous quantities of canned and dehydrated food with very little tonnage. If the British Ministry of Food is provident, it can easily store up enough provisions to see them through this winter.

Churchill, in his radio broadcast, again asserted the intention of the British to fight to the end. Negotiations apparently are continuing between Great Britain and Southern Ireland in an effort to insure prompt assistance from England in the event Germany attempts to invade Ireland. I think that Southern Ireland is more apt to be invaded than England. It is also quite possible that the Germans will strike in the Shetland, Orkney, or Faroe Islands.

4. On the diplomatic side, the most important development was a statement from the Foreign Office that England was acting as an intermediary between China and Japan. A similar announcement was made by the British governor of Singapore.

5. The situation in the Near East is outwardly unchanged. The demobilization of the French Army in Syria has added to the burdens of the British Army protecting Egypt and the Suez Canal. However,

Secretary Morgenthau - 3

both Palestine and the Suez Canal are easily defended. The British Army have had considerable experience in that area and should be able to take care of the situation. Turkey asserts that the Soviet have not made any demands for a share in the control of the Dardanelles.

If Russia is going to continue to collaborate with Germany, it would be easy to understand Great Britains negotiations with Japan in the Far East and support of Turkey in the Near East. If Britain seriously tries to detach Russia from Germany, she will have to support Russia against Japan in the Far East and support Russian claims in the Near East. The attitudes of Great Britain towards Japan and Russia are plainly opportunistic. This is understandable, because in her present situation Great Britain has little choice.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 15, 1940

TO Secretary Morgenthau  
 FROM Captain Puleston  
 Subject: Disposition of French Fleet

The following, based on information obtained from Naval Intelligence, gives the present disposition of the French Fleet:

	<u>Under French Control</u>	<u>Under British Control</u>	<u>Sunk or Out of Action</u>
<u>Battleships</u>	"Strasbourg", first class battleship, torpedoed off Oran but escaped to Toulon	"Courbet", in Portsmouth, "Paris", in Plymouth, and "Lorraine", in Alexandria	"Dunkerque" "Jean Bart" "Richelieu"
<u>Demilitarized Battleships</u>	"Condorcet" "L'Ocean"		
<u>Aircraft Carriers</u>	"Bearn", at Martinique		
<u>Heavy Cruisers</u>	"Algerie" "Dupleix" "Foch" "Colbert"	"Duquesne" "Tourville" "Suffren" All three at Alexandria	
<u>Light Cruisers</u>	Eight	Two	One
<u>Destroyer Leaders</u>	Twenty-four	Three	One

Secretary Morgenthau - 2

	<u>Under French Control</u>	<u>Under British Control</u>	<u>Sunk or Out of Action</u>
<u>Destroyers</u>	Twenty-four	Eleven	
<u>Submarines</u>	Sixty-nine	Nine	

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 15, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Summary of Data on the Spanish Oil Situation  
(Supplementing Previous Reports)1. Statistical Summary:

	<u>1937</u>	<u>1938</u>	<u>1939</u>	<u>1940</u>
Spanish Oil Consumption*	5,700,000	6,100,000	6,500,000	
Imports from:				
United States	1,600,000	2,800,000	4,200,000	2,400,000**
Romania	1,800,000	1,100,000	91,000	none ***
Russia	1,500,000	1,200,000	?	?
Canary Islands	800,000	900,000	?	?
Iran	<u>100,000</u>	<u>none</u>	<u>?</u>	<u>?</u>
Total	5,800,000	6,000,000		
Supplied by Texas Company (year: September to September)		3,700,000	4,200,000	4,900,000****

\* These revised figures furnished by letter from Standard Oil of New Jersey differ somewhat from those furnished over the telephone

\*\* Five months

\*\*\* Three months

\*\*\*\* September, 1939 to June, 1940

Estimated Spanish Consumption (Spanish Mainland and Balearic Islands)

	<u>Barrels 42s</u>		
	<u>1937</u>	<u>1938</u>	<u>1939</u>
Motor Fuel		3,500,000	3,740,000
Refined Oil	Breakdown	125,000	126,000
Gas and Diesel Oil	not	) 1,850,000	803,000
Fuel Oil	Available		)
Lubes		200,000	280,000
Wax and Asphalt		<u>400,000</u>	<u>450,000</u>
Total	5,700,000	6,075,000	6,499,000

Note: Gas and Diesel Oil and Fuel Oil figures include bunkers in the amount of approximately 750,000 to 1,000,000 barrels

2. Since making the contract in 1938, the Texas Company has supplied most of the oil bought by the Spanish oil monopoly. The largest part of this oil comes from the United States, although some is supplied from other sources: the Netherlands West Indies and Colombia.

No figures are available on Spanish imports from Spanish governmental sources. However, from the scanty data on exports by supplying countries, it seems reasonable to conclude that the Spanish imports have been shifted from other exporters to the Texas Company.

Secretary Morgenthau - 3

The three major suppliers of oil to Spain have been the United States, Romania, and Russia. Since the end of the Civil War, there have been negligible exports from Romania to Spain, and while there are no data to substantiate the claim, it seems logical to assume that a large decline has also occurred in Russian exports. Since September, 1939, all indications point to the cessation of all Russian oil shipments into the Mediterranean.

3. The war in the Mediterranean has cut off the possibility of oil supplies from Romania, Russia, Iraq, and Iran. With the Netherlands as a British ally controlling the oil supplies from the East and West Indies, the only major oil sources left are the United States, Mexico, and the new Barco concession in Colombia, controlled by the American Texas Company. The possibilities of blockade evasion, then, are contingent on securing American, American-controlled, or Mexican oil.

4. The British are reported to be preparing to put Spain on an oil rationing basis.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE July 15, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Should China Be Given a Loan  
to Help Stabilize its Currency?

1. From the standpoint of prudent investment, a loan to China to assist her in managing her currency is a risky venture. It is certain that the Chinese Stabilization Fund will be progressively depleted, depending in large part upon how much of a brake it endeavors to exercise on the downward course of the Chinese dollar. Repayment of the loan, then, must depend on the ultimate victory of free China. It is only on the grounds that such a loan would make a contribution to Chinese victory that it is to be defended.

2. For proper consideration of the problem, it is necessary to outline briefly the military problem now confronting China.

The main Chinese objective at the present time is to keep up and to increase the resistance in the Japanese-occupied areas. It is the absorption of men and materials in the attempt to preserve their hold on these areas which prevents the Japanese from over-running all of China. If the occupied areas became a secure Japanese base, the Japanese Army could continue on its march into the interior and complete its conquest. Essentially, therefore,

the problem before China is to maintain this resistance in the occupied areas as a continuous drain on the Japanese lines of communications, until the main Chinese armies become able to take the offensive and push the Japanese into the sea.

To some degree, a parallel might be drawn to our own War of Independence. Had the British been able to stamp out resistance in the interior and establish a secure base which could be continually widened, they would have been able to push George Washington and the remnants of the American Army into the wilderness of the Mississippi Valley. The British Army could march at will over the American continent so far as resistance by the main American forces was concerned, but they were tied down by the necessity of maintaining a line of communications to their seaport bases. As a result, as soon as they went too far inland they were susceptible to defeat. Burgoyne's campaign is the most notable example of this. Cornwallis' surrender was influenced by the same conditions. The cutting of Cornwallis' sea line of communications by the French fleet was the necessary condition for his defeat. Had the British been able to base their army on American territory, then the story of the Revolution would have been quite different.

It is essential that the resistance of the Chinese in the occupied areas be kept alive and intensified. From the very nature of guerrilla operations, they must depend on local supplies; they must live off the country.

The strength of the guerrilla warfare has been the active cooperation and support of the Chinese peasantry among whom they operate. This means that food and supplies must be paid for and not requisitioned. The second corollary is that the payment must be in good money and not worthless money. To go back to our own history again, the American Army suffered terribly during the winter of Valley Forge because American farmers preferred British gold to American Continentals. It is highly important, then, in maintaining the Chinese armies, that Chinese peasants prefer Chinese yuan to Japanese yen.

This is the nub of the whole question, and on this depends the answer whether a loan to the Chinese Stabilization Fund would help China or not.

3. Under the circumstances of the occupied areas where two currencies are engaged in active competition for survival, acceptance of a currency in internal circulation depends largely upon the value of the currency in procuring the few essential commodities coming from outside of the internal economy. Insofar as the purchases are made from Free China, the yuan is of value. However, it seems evident that the few commodities that the Chinese village community must procure outside of its own borders are manufactured goods which Free China can not supply. In other words, for purchasing the marginal and decisive commodities, it is important to the peasant

whether the yuan depreciates more or less rapidly and more or less erratically than the yen.

The efforts the Japanese are making to replace the yuan in North China and other occupied areas shows how important this is considered by the Japanese authorities

Without an operating Stabilization Fund, erratic fluctuations in the yuan are bound to occur. This will tend to result in the displacement of the yuan even in the coastal commercial areas still under Chinese control.

Restricting the circulation of the yuan to the interior of Free China will have several repercussions. All other factors being equal, it will naturally increase the extent of depreciation of the yuan without additional currency issues. Both the Chinese and Japanese are to some extent paying for their operations by currency depreciation. Narrowing the area of the yuan circulation and widening the area of the yen circulation makes it more difficult for the Chinese and easier for the Japanese to finance their war by printing money. With the complete victory of the Japanese controlled currency in North China, the Japanese could by currency expansion make the Chinese pay a still larger part of the costs of the Japanese conquest.

4. One of the objections raised against a loan is that a large portion of the foreign exchange made available will fall into

Japanese hands. It is obvious that this is inevitable. Since Japan controls to a great extent the trade of the occupied areas, a large portion of the proceeds of Chinese military expenditures will ultimately flow into her hands. In the same way, part of the French gold spent by French troops in America during our Revolution flowed into British coffers in exchange for British manufactures.

The Japanese may succeed in establishing their currency in the occupied areas. In order to finance the fighting in these areas, the Chinese Government might then find it necessary to buy directly Japanese yen or Federal Reserve notes with its slender foreign exchange resources. The importance of resistance in the occupied areas is so great that such a procedure might be wholly justified.

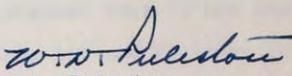
5. Another objection to the loan is that due to the peculiar circumstances of the Chinese government it will profit a certain group of bankers and manipulators. This is probably true. However, this objection overlooks the nature of our relationship to China. It may be stated flatly that we are not assisting China, China is assisting us. China is absorbing the energies of one of the main threats to our national security. Any small aid that we give her is merely a partial payment for the services she is rendering our national defense. Similarly, France aided our revolution fundamentally because it weakened France's enemy, England, not because

Louis XVI was friendly to our republic. The Purist arguments that we should refuse to forward our national interests because in doing so we also profit an unsavoury financial clique, should be ignored. It might even be true that the support of this group might be important for the successful existence of China, unpleasant as the fact might be. Again to return to our War of Independence, France would not have been wise to refuse aid even if certain members of the Continental Congress were feathering their nests in the process.

6. The fact that Chinese resistance to Japan is in our national interests, that China is aiding us by her war, disposes also of the objection that no assistance should be given because Chinese financial policy has not been of the wisest. Unquestionably, the United States should attempt to persuade China to block foreign balances of her nationals (insofar as such a policy can be enforced) and persuade China to finance her war in other ways than by printing currency (if any other ways are possible). But while using its power of the purse to persuade China to adopt certain policies, the United States must still recognize that even if our endeavors are unsuccessful, it is still in our interest to aid ourselves by aiding China.

7. Finally, aside from all other considerations, there is the moral value of such a loan. Free China has suffered a serious setback in the last month in the closing of the Indo-China route. In addition, Japan is exerting every last ounce of effort by continual

mass bombing flights over Chungking to strike despair into the Chinese and sap their will to resist. It is essential that some spectacular move be made by the United States to assure the Chinese of continued support. In the inability of the Government to do anything better, a loan for stabilization of the Chinese currency would be a big help. It must also be pointed out that Chiang Kai-shek has specifically appealed for such a loan. Therefore, even if the loan were utterly useless, it might be worthwhile to grant it. And it would by no means be that.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE July 16, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Army Air Officer's Report on British Aviation

1. One of our young Army Air officers has just returned from England, where he was allowed to visit with various British air squadrons. On his return he reported substantially, "The British Air Force has already defeated Germany".

This was such an important statement that he has been quizzed and is still being quizzed by Army Air and Military Intelligence officers. Today he is to see the Army Chief of Staff.

2. Accompanying the younger officer was a colonel in the Air Corps who is still in England and will continue to make his reports. The colonel was more conservative in his statements but was sufficiently convinced of the efficiency of the British air program to recommend that we adopt their methods. Like most of the other Army officers, when the colonel left the United States he considered the German aviation the best in the world and had a certain contempt for British aviation. The fact that he has now recommended that our Air Corps adopt British methods is to that extent corroborative of the more far reaching opinion of the younger Air officer.

3. The data collected on relative losses of British and German aviation by the War Department and by us here would not of

Secretary Morgenthau - 2

itself justify the idea that British aviation has already defeated Germany. That idea is based more upon the fact that British aviators believe they are better fighters and have superior planes to those of the Germans.

4. It is possible that the Germans are about to put into operation a better fighter. It is known that they have been working on one, and they may regain some of the quality superiority they have lost. The precariousness of air superiority could not be better demonstrated than by the fact that it might shift from one side to the other with the development of a superior plane.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE July 16, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. It was announced over the radio that the Japanese Cabinet, headed by Yonai, had resigned and would be succeeded by one more responsive to the demands of the Japanese Army for a free hand in the Far East. It was also announced that Prime Minister Churchill would explain to the House of Commons the reason for the British closure of the Burma route to Free China. The Chinese Ambassador to London has protested this closure.

Our State Department announced that it had been informed of the British program and had not objected but was sending a detailed statement of its views to London. I gathered from a conversation with Dr. Hornbeck that our State Department was somewhat taken by surprise and found the attitude of the British Government difficult to understand.

2. I know there are many people in Washington, some of whom are in high places, who are convinced that Japan can be placated. I do not think so, and most naval officers who are familiar with the Far East do not think so. Any effort to appease Japan by concessions will only lead her to demand more concessions. If it is not expedient to openly resist her program, we can at least protest it and keep the record straight and at a more favorable opportunity reopen the question.

Secretary Morgenthau - 2

3. It will be extremely interesting to hear the reasons Prime Minister Churchill gives for closing the Burma road to China. If he openly stated that he did it under duress, it would be understandable, for naturally Great Britain has to concentrate on the European situation now. If it is an effort to appease Japan at the expense of China, it is very bad policy.

4. Leland Stowe, writing from the Balkans, states that he is convinced that efforts are going on behind the scene to bring about a negotiated peace between Germany and England. This may explain Churchill's speech on Sunday, when he announced that no parley would be held. Mr. Stowe made a very plausible story, but all the evidence available in Washington is to the effect that the British people are determined to fight this war out.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 16, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Summary of July 2 Dispatch on Japanese Economic Conditions

1. Some Japanese industries are finding difficulties in securing sufficient materials. The rayon industry has been forced to curtail production 30 per cent because of the shortage of imported industrial salts which are necessary for the making of the needed caustic soda. Newsprint supplies to consumers are being curtailed by another 10 per cent. Attempts to increase gold production are restricted by an acute shortage of mining equipment.

2. The cotton industry, due to a decline in shipments to foreign currency markets, has decided voluntarily to restrict production of cotton yarn for export to 24 per cent below the level of last year.

3. The Japanese Government is occupying itself with various plans to secure increasing control over the economic sphere.

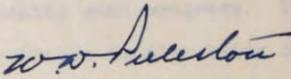
A. The cabinet has approved a materials mobilization plan for 1941 with the following objectives:

1. Replenish war materials.
2. Develop the resources and industries of China and Manchuria.
3. Encourage the export trade to develop importation power.
4. Supply adequate necessities to the population.

B. Progress is being made on a plan to establish an import concern to purchase and distribute all imported materials. Also, an export concern is being considered to distribute orders and establish standard prices on all goods shipped by designated exporters.

C. A council of the cabinet has drafted restrictions on the manufacture of luxury goods for domestic use and provisions for the standardization of articles for domestic consumption.

D. The Finance Ministry plans to persuade companies to pay out less in dividends and to divert the surplus so accumulated into the purchase of government bonds.

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

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 16, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: Summary of Commercial Attache's Report  
On China's Motor Transport Problem, June 7, 1940

1. China has 12,000 trucks. Only 50 percent of these are constantly in operation, the rest under repair or awaiting spare parts. Van Patter, the American motor expert, believes the proportion in use can be increased to two-thirds.

2. There are several promising developments. The American experts' plan for establishment of service and machine shops in strategic centers throughout China is making good progress. The domestic manufacture of parts for motor trucks is also being developed in various sections. A Stewart assembly plant to assemble 1,000 trucks a year, largely from imported parts, has been set up in Kunming.

3. The whole development depends upon imports of gasoline. Some attempts are being made at domestic production of petroleum, and in the manufacture of substitutes, but very little progress has been made or can be made in any significant period.

4. The main route by which gasoline has been imported is the Indo-China Railway, which has been carrying recently around 6,000 tons a month. (To operate 6,000 trucks a month in China,

Secretary Morgenthau - 2

Mr. Sheahan estimated 5,000 tons a month of gasoline would be necessary.) Importation by way of the Burma route is very expensive, since one-third of the load has to be consumed in each round trip. The American Commercial Attache at Chungking believes that transportation by plane would be cheaper.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE July 17, 1940

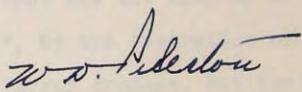
TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. London reports that British planes made their thirtieth straight night raid on Germany. Berlin states that bad weather curtailed air activity against Britain and asserted that no air attacks on Germany were carried out by British planes during the night.

The British Air Ministry were positive in their assertion that they had been carried out and also reported that at Malta they had lost their first casualty in five weeks of repelling Italian air raids when a British fighter plane was crashed after shooting down an Italian bomber. In Valetta, Malta movie theaters have been reopened. It is reported from Istanbul that British planes made their first attack on Italian air bases in the Dodecanese Islands. The Italian air base in these islands is one of their most important. If the British are able to bomb that successfully and continuously, the Italian air menace in the eastern Mediterranean would be considerably reduced. Many of the Italian bombing planes are almost obsolete, in some cases being made of wood.

2. Ciano is reported to be on his way to Berlin to discuss the situation in the Balkans with Von Ribbentrop and Molotov. Berlin discounted the report that it was about to undertake a peace offensive.

3. In the Far East the Japanese landed Bluejackets on the south coast of China, north of Amoy, and occupied Yungning. Theoretically, this would cut the last supply route open to China. Actually, the Chinese junks will continue their smuggling. Nevertheless, this occupation will be a further obstacle to the Chinese obtaining supplies from abroad.



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

Confidential

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 19, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. There were the usual raids by German planes over England while Royal Air Force bombers, in spite of bad weather, attacked the ports from which any attack on England must come. The Germans claim to have raided Aldershot, the largest Army training center in England.

2. At sea the most important event was the sinking of an Italian cruiser, "Bartolomeo Colleoni", by the Australian cruiser "Sydney". The "Sydney" was slightly larger tonnage, but the armament was practically the same.

The Germans claim to have inflicted heavy losses with submarines and air attacks on British shipping. The British acknowledge the loss of two cargo ships by German surface raiders somewhere in the western Atlantic. The survivors were landed in the French West Indies.

3. On the diplomatic front, Hitler's speech was the most important event. In addition to announcing numerous promotions in the Army, Air Force, and Navy, he made what he claimed to be the last offer of a negotiated peace to Great Britain.

Secretary Morgenthau - 2

STATE DEPARTMENT

OFFICE OF PUBLIC AFFAIRS

July 20, 1940

4. There are increasing rumors that Germans are infiltrating into Spain and are trying to force Spain to join the Axis group in an attack on Gibraltar.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 20, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. The Germans renewed their attacks on power stations, warehouses, harbors and docks, storehouses, and anti-aircraft gun positions in southern England and Scotland. They also attacked the shipping on the Channel.

British bombers made night attacks on aircraft factories at Bremen, Diepholz, Paderborn, and Rotenburg. Oil depots at Bremen and Hannover, munition factories at Essen, storehouses at Hamm, the airdrome near Cassel, and ammunition trains east of Bremen.

British bombers made day attacks on barge concentrations near Rotterdam and in Boulogne harbor, and on warehouses at Le Havre. The British claim only one of their bombers was lost in these attacks.

2. The British fighters repeatedly engaged the German bombers who were protected by German fighters, and claim to have shot down four bombers and six fighters. Five British fighters were lost. The Germans claim that their fighters shot down twelve new British Defiants, two Spitfires, and one Hurricane without loss. Obviously, these claims cannot be reconciled.

3. The only new note in Hitler's speech was his statement that Germany now has a four-year plan and can continue to wage war indefinitely. A large part of his speech was obviously intended for home consumption to retain the high morale of the German armies and to prepare them for further sacrifices in case an invasion of the United Kingdom is attempted.

The next most significant item in Hitler's speech was his praise of Russia and the assertion that the union between Russia and Germany was complete, and that Great Britain would be unable to detach Russia from her alliance with Germany. It is difficult to see how Hitler can keep Russia on his side and retain the assistance of Japan. He has succeeded in keeping Russia and Italy working together for him, but only by conceding to Russia an almost free hand in the Near East. If Germany becomes heavily engaged with England, it is almost a certainty that Stalin will go deeper into the Balkans and probably insist upon joint control of the Dardanelles with Turkey.

4. The Italian press hails Hitler's speech and proclaims that at an early date the invasion of England will commence, and adds that it will probably be accompanied by an Italian attack in the Mediterranean, possibly against Gibraltar. I think it is very likely that the Germans, who are already reported to have sent Nazi troops into Spain, may try to capture Gibraltar before they attempt the invasion of England.

5. In the Mediterranean a British cruiser, supported by a small detachment of destroyers, sunk an Italian cruiser in a running fight northwestward of Crete. The engagement lasted three hours, and the Italians retreated under cover of a smoke screen. This action took place near the scene of the last British-Italian engagement and indicates that the British Navy is operating against the Italian line of communications with Tripoli. The fact that the British Navy feels equal to this undertaking and pursues Italian ships until they gain the protection of their own ports indicates that the British may be able to maintain their own line of communications through the Mediterranean. Even if they do not succeed in maintaining their own, they are certainly making it very difficult for the Italians to maintain theirs with Tripoli.

6. In the Far East the new Japanese Government under Prince Konoye has formed its cabinet and agreed upon a policy of closer relations with Germany and Italy, and a vigorous effort towards bringing the Chinese war to a successful conclusion. Prince Konoye is organizing a single political party modelled on the Nazi and Fascist order.

Simultaneously, Japanese rowdies in Shanghai beat up Hallett Abend, the dean of American correspondents in the Far East. This is the second time Abend has been assaulted by thugs probably hired by Japanese authorities.

7. The parliaments of Esthonia, Latvia, and Lithuania are expected to request admission into Russia's supreme Soviet.

Secretary Morgenthau - 4

Moscow indicates that they will be accepted.

8. The reaction in Britain to Hitler's demand that they negotiate peace or be destroyed was to redouble their efforts to increase their defenses. The London press unanimously demanded continuance of the war.

*W. D. Puleston*

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

TREASURY DEPARTMENT

-80

INTER OFFICE COMMUNICATION

Confidential

DATE July 22, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. The German air raids are now concentrating most of their attention on British convoys in the English Channel, and they are using bombers in numbers up to forty protected by an equal number of fighting planes. The fights that ensue over these convoys are very severe but in general it appears that the British are inflicting greater losses than they receive.

It is impossible to decide with any accuracy the losses suffered and inflicted, but the fact that to date the Germans have not been able to prevent convoys passing up the Dover Straits through the Downs to London is significant. If they can not do this it is hard to see how they can protect their own ships if they attempt an invasion of England. These German attacks on convoys are doubtless inflicting losses on merchantmen and the escorting men of war. The British admitted the loss yesterday of one destroyer and one minesweeper and the submarine "Salmon", one of the smaller type. The "Salmon" had a brilliant record in the Norwegian campaign.

2. In the Mediterranean there were no important happenings. Italy continues to claim that she is sinking and damaging British

ships, but in the two engagements the Italian naval detachments made full speed for their home ports.

3. Russia has embodied the small Balkan states of Esthonia, Latvia, and Lithuania in the Soviet Union. It is reported from Bucharest that Rumania is now making conciliatory approaches to Russia. The situation in the Near East is turning slowly but surely in favor of the Soviet, and Rumania is probably trying to follow a realistic policy and not get committed too heavily either to Russia or to Germany. Reports from Turkey indicate that she will do her utmost to conciliate the Soviet. The longer the war lasts the stronger Russia becomes relative to Germany. The real weakness of Russia is the vulnerability of the Baku oil fields, for Russia is dependent upon this fuel for her agriculture as well as for her industry. But the destruction of these fields would certainly cause Russia to capture or destroy the Rumanian oil fields, which would be a fatal blow to Germany.

4. London reports that Foreign Minister Halifax will make a reply to Hitler's last speech rejecting any peace proposal. He will be followed by Winston Churchill in the House of Commons later in the week.

5. Yesterday some German newspapers attacked President Roosevelt. This is the first recent attack made by Germans on the Administration in spite of the President's outspoken denunciations of Hitler.

Secretary Morgenthau - 3

DEPARTMENT

OFFICE OF COMMUNICATION

DATE: JULY 23, 1946

6. In the Far East the new Japanese Premier, Fumimaro Konoye, is still engaged in constituting a Cabinet.

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

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

TREASURY DEPARTMENT

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Confidential

INTER OFFICE COMMUNICATION

DATE July 23, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. The British and Germans continued their air operations along the usual lines.
2. The British and Italian Air Forces attacked enemy objectives in the Mediterranean area.
3. Lord Halifax rejected Hitler's last offer of peace.
4. Secretary Hull offered the support of the United States to a common American protectorate of European possessions in the Western Hemisphere that might be jeopardized by events in the world war.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE July 24, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. The United Kingdom is still increasing its defense preparations. The most significant recent development was the mine field laid to prevent entrance into the southern part of the Irish Sea and the reinforcements of British soldiers being sent to Northern Ireland. I think the southern part of Ireland is the easiest place for the Germans to effect a landing, but their communications with the nearest point in France would be three hundred miles long and open to continuous attack by the British Navy. Nor would the occupation of Southern Ireland have any immediate effect on the defense of the United Kingdom.

2. The Germans could possibly land either in the Shetland or Orkney Islands, but these have also been reinforced, as have the Faroe Islands and Iceland.

3. The fact that the Germans have delayed their descent on England proper may be due to several reasons, (a) desire to settle the Balkan situation, (b) necessary preparations on the part of the German Army, Navy, and Air Force, (c) disruption of these arrangements by continuous British air attacks. Probably all three reasons have united to delay the long advertised attack.

I attach hereto a very interesting expression on the chances of invading England, by Seversky. These reasons agree substantially with the reasons previously expressed by Captain Kelsey and Colonel Frederick Palmer.

4. In the east, Russia feels strong enough to bring pressure against Finland. It was reported to the State Department some time ago that Germany was selling munitions to Finland. Hitler is calling a meeting at Salzburg of the Bulgarian and Hungarian Foreign Ministers, which will be attended by the Rumanian Foreign Minister. Plainly Hitler intends to get a solution of the Balkan problem if possible, and it is reasonable to think he would like a peaceful solution in order to leave him free to attack England.

5. The Germans carried out their usual air attacks on British towns and convoys. The British retaliated by attacking German air factories in Germany and ports in German-occupied France, including Dunkirk; this is the first mention of an attack on Dunkirk by the British. They also bombed German air fields adjacent to these ports.

It is obvious that the British are reconnoitering regularly over ports from which Germany could launch attacks on the United Kingdom. This will make it difficult, if not impossible for the Germans to launch a surprise attack on England.

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

MONDAY, JULY 22, 1940.

## SEVERSKY DOUBTS BRITISH INVASION

Plane Designer Regards Air  
Defense as Insuperable  
Barrier to Germans

SEES STRATEGY IN THREAT

He Thinks Object Is to Tie Up  
London Forces at Home, Then  
Attack in Mediterranean

*The possibilities of a successful German invasion of Britain are discussed here by a noted flier and airplane designer, Russian-born, who now is an American citizen. He has been engaged in airplane designing and manufacturing in the United States for several years. He visited Europe a few months ago.*

By MAJOR ALEXANDER P. DE SEVERSKY

North American Newspaper Alliance  
British defenses and the nerves of the world have been keyed up for weeks in expectation of a German invasion of Britain. Several specific dates have been fixed by officially-inspired rumor for the launching of the attempt. Now, Chancellor Adolf Hitler's "last-chance" speech, coupled with demonstrative preparations for the undertaking, would

seem to make the invasion an imminent possibility.

Nevertheless, I remain convinced that there will be no such invasion—unless Germany possesses a huge secret armada of new types of fighting aircraft about which the outside world has as yet no inkling.

There is a great gulf between the political logic of the Fuehrer's threats and the tactical realities of the situation. If victory has gone to Herr Hitler's head and he overrules the objections of his strategists in this connection, then Germany is heading for a terrific failure.

### Ballyhoo Held Strategem

Indeed, there is room for the suspicion that the deliberate German onslaught against the British Isles is a strategem. It may well be intended to compel Britain to keep her best men and machines at home—to permit the Italo-German combination to strike more vigorously in some different direction, let us say, in the Mediterranean. The Nazis have again and again shown themselves past masters in exploiting the principles of surprise in warfare.

The effective invasion of the British Isle is impossible as long as its defenders retain mastery of the skies over the island and over the English Channel. The transporting and landing of large numbers of troops are unthinkable without the shield of a solid ceiling of air protection. This was demonstrated in positive terms in the Dunkerque evacuation, which was possible only because the British held the air.

It has inspected or flown every

type of bomber and fighter plane thus far engaged in the air duel over Britain, and I have studied carefully all available information on the struggle. Despite the disparity in numbers, I can see no reason for doubting British defensive superiority. On the contrary, the results of the German explorative raids to date indicate that with her present equipment Germany cannot accomplish the first and indispensable stage of an invasion—the wresting of control of the air over Britain. That is why previous "zero hours" set for the promised invasion passed without action and why the new one, in my opinion, must likewise be postponed.

### Winter on Britain's Side

Nazi aerial attacks on Britain thus far have been on a narrow scale, with relatively small destructive effect, and carried through at an exorbitant cost, German losses on occasion running as high as 50 per cent. The scale can be enlarged, of course, but the ratio of achievement and losses will remain the same.

It seems obvious to me, therefore, that summary destruction of British air power—the essential preliminary to an invasion—is altogether unlikely. The only alternative is the tedious process of slowly and laboriously whittling down that defensive air force, which is extremely expensive in men, equipment and, most important—time.

It has not been generally understood that bad weather, while improving England's defensive position, will not seriously hamper her offensive efforts in the air. Germany has many more flying days in

the late Fall and in Winter than the British Isles.

Thus the advantage of Winter operations will be decidedly on the British side. The invasion must be undertaken soon or postponed until next Spring, and it cannot be undertaken with any real hope of success unless British defensive air power is broken down. This the present German equipment cannot achieve.

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 25, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Military Lessons of the World War,  
Compiled by Military Intelligence.

Through Colonel Magruder, of Military Intelligence, I have been receiving regularly copies of these "lessons". Major <sup>Smith</sup> White, on General Marshall's staff, said you had seen one of these and asked General Marshall to forward them regularly.

I have a complete file and have been furnishing you extracts from them from time to time.

Shall I send you the entire file? Some of it you will find interesting; some of it may be a little too technical.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 25, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. There was an increase in the German air attacks on British shipping all along the British eastern and southern coasts, this in spite of heavy rain storms. The British report that they destroyed twelve enemy aircraft, including one American Chance Vought that was in a squadron of Chance Voughts captured by the Germans in France.

The British retaliated by attacking German aircraft factories at Gotha, Kassel, and Wessendorf, oil depots at Hamburg and Gelsenkirchen. Both in Holland and Germany the British bombers attacked railway communications, anti-aircraft batteries, and twelve airdromes.

2. On the sea six German speed boats were attacked by one British speed boat; the German speed boats withdrew, apparently they were only on a scouting expedition.

The German High Command claims that their attacks on English convoys sank five commercial vessels, totalling 17,000 tons. This is probably an exaggeration, but the Germans undoubtedly are sinking some British merchant steamers.

The German Air Force also claim to have sunk a British submarine.

3. In the Mediterranean the British and Italians carried out air attacks on enemy objectives. The Italians claim that one of their submarines sank an Australian destroyer and a submarine.

In Rome a false alarm set the anti-aircraft batteries going and fragments of the shells killed two persons and injured several others. If Rome is ever attacked, there will probably be a real panic because the Italians are not good organizers and their people are excitable and can be stampeded.

4. On the diplomatic front the Axis powers seem to be succeeding in keeping the Balkan situation in hand. The Rumanian Government is reported to have taken over British Shell Company's Rumanian wells, the largest producers in Rumania, and all tank cars. This indicates that they intend to supply Germany with oil in the hope of preserving some measure of independence.

5. In the Far East there was a brawl between American sailors and Japanese in Tsingtao. Our naval patrol attempted to intervene, and they are reported to have been attacked by Japanese civilians at the instigation of a Japanese Navy petty officer.

6. In Havana Argentina has raised her usual objections to any form of agreement proposed by the United States. We can depend upon Argentina to oppose any United States proposal. Argentina fancies herself the leading country of South America, and she looks forward

to being the center of a coalition that will dominate the South American continent.

The particular reason for her opposition to Secretary Hull's proposal for a joint mandate to take over any European possessions in the Western Hemisphere is the Argentine claim to the Falkland Islands. These islands are claimed by Argentina, and if Great Britain gets in extremities, it is almost a certainty that the Argentinians will attempt to seize the Falkland Islands.

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

TREASURY DEPARTMENT

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Confidential

INTER OFFICE COMMUNICATION

DATE July 30, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

British and German air forces continued their attacks. Italy and Great Britain carried out air attacks and minor land operations in Africa.

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

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE July 30, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Present German Position in Metals

Summary: The German conquests since the beginning of the war, resulting in the acquisition of metal sources and reserves have eliminated several important German deficiencies. German domestic production of metals and her war reserves, plus the acquisition of new sources in the conquered countries and the stock piles captured ensure Germany's ability to continue the war as far as her metals supply is concerned for several years in spite of the English blockade. The absence of large-scale military expenditure makes possible still longer endurance.

Germany's greatest present weakness in metals is in the ferro-alloys. She can completely satisfy her needs of manganese and chrome, but only by imports from Russia in the instance of the former, and Turkey and Greece of the latter. In the other ferro-alloys all available sources are insufficient. Even if all sources for ferro-alloys were eliminated, domestic production, stocks, acquired or captured and substitution would enable Germany to continue the war. However, there would necessarily result a falling off in the level of efficiency of all munitions and material which could be of considerable significance.

1. Iron

The conquests of Norway and France have removed one of Germany's vulnerable spots: her previous great dependence upon imports of iron ore.

2. Zinc

The conquest of Poland changed a deficit in zinc into a surplus. By substitution of zinc for the deficit metal, copper, in many uses, German dependence upon copper is reduced.

3. Mercury

The alliance with Italy and contact by land with Spain ensures adequate supplies of mercury.

4. Cobalt

French Morocco is the third largest producer of cobalt in the world. In spite of the British blockade, sufficient cobalt can now probably be secured by Germany to meet her needs.

5. Aluminum

The highly important aluminum which substitutes for a good deal of copper and tin in German consumption is dependent upon imports of bauxite. The sources open to Germany (Hungary, Yugoslavia, Italy, France, and Greece) are, however, more than adequate to meet her present needs.

6. Lead

Germany produces one-third of its apparent peace-time consumption of lead. The sources now open to her: Yugoslavia, Spain, and Poland cannot at present rates quite fill up the deficit.

During the last war even with her great military expenditure Germany was able to carry on with half her peace-time supplies. Germany has large war reserves of lead in addition to large civilian stocks in the form of automobile batteries. Germany should, therefore, not suffer too great difficulties in regard to her lead supplies for some time.

#### 7. Copper

German domestic production of copper is only a small part of normal domestic needs (probably not more than one-sixth). The sources open to Germany -- Yugoslavia, Spain, and Finland -- do not have available more than about 90,000 tons of copper a year at present production rates (i.e. approximately half of German normal consumption).

Germany had large war reserves of copper at the beginning of the war. In addition, there is a reserve in the copper articles in the hands of consumers which the Germans are endeavoring to collect. Civilian consumption of copper can be almost entirely postponed in wartime, aluminum and zinc can be substituted for copper in many military uses. Therefore, in view of all of the preceding factors, Germany should not experience any great difficulties for several years through lack of copper.

#### 8. Tin

German apparent consumption of tin is fairly small, around 12,000 tons a year. The only significant European production is in Portugal (1,000 tons a year), which is still not under German control.

Seized stocks, particularly from the Netherlands, should be large. The possibility of using substitutes and the utilization of reserves means that Germany will not be greatly hampered by the English blockade of this metal.

#### 9. Ferro-alloys

The supply of ferro-alloys is the weakest sector of Germany's present metal position. While no figures are available, German war reserves, recovery of secondary metal, and the seizure of stocks in the conquered countries should alleviate any German difficulties in most of these metals for some time to come.

(a) Manganese - Germany is normally dependent upon imports for ninety percent of her manganese. So long as Russia, the world's greatest producer, is available as a source, no difficulties should be experienced. Should Russian manganese be unavailable, the position would become more difficult though not impossible. Germany had large reserves which have probably not been exhausted and acquired more through her conquests. Utilization of these stocks and making use of the domestic manganiferous ore would make possible a repetition of the 1914-18 experience when Germany was cut off from outside sources of manganese and was still able to continue steel production but with a decline in quality.

(b) Chromium - Germany imported 175,000 tons of chromite in 1938 and does not produce any. So long as Turkey and Greece are open as sources of supply, any German demand can be met subject to the limitations of transport.

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INTERNATIONAL COMMUNICATIONS

(c) Tungsten and molybdenum - Germany has a negligible production of tungsten. Only tiny quantities are available from other European countries except for the Iberian peninsula. Portugal produces around 3,000 tons a year, Spain, 500 tons. This production, if wholly available to Germany, would amount to possibly a third of German normal consumption.

Germany now controls the largest producer, Norway, of molybdenum in Europe which has a production of 500 tons a year. In addition, the production of Morocco (140 tons a year) is now available to Germany. This supply of molybdenum can be used to supplement the German tungsten supplies.

In the last few years before the war, Germany was the largest absorber of tungsten in the world, swallowing up from one-fourth to one-third of total world production. In view of these factors, while German consumption of tungsten and molybdenum will undoubtedly have to be restricted, her conduct of the war will not be hampered by her inability to import tungsten.

(d) Nickel - Germany produces around 1,000 tons of nickel a year. Norway produces 1,000-1,500 tons and may be able to increase this somewhat. There is also a small production in French Morocco. Greek production of about 1,000 tons a year might also be available. Finnish production should be starting within a few months. Drawing on these sources in addition to reserves should enable Germany to meet the greatest part of her needs.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE July 31, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Conversation with Mr. Sadler on the  
Situation in the Balkans

On Monday, July 29, I canvassed the whole Near Eastern situation with Mr. Sadler of Standard Oil Company of New Jersey. He maintains close contact with the Rumanian Embassy and has other sources of information from the Near East.

He believes Russia is biding her time with a view to debouching into the Adriatic through an agreement with Yugoslavia. According to his theory, Russia would be assisted in this undertaking by the Slovaks, who are a Slav people, and the Serbian part of Yugoslavia.

By advancing into the Adriatic instead of attempting to obtain Constantinople and the Straits, the Soviet would avoid a conflict with Turkey. The combination envisaged by Mr. Sadler would include Great Britain, Turkey, Greece, Russia, Bulgaria, and Yugoslavia, as opposed to Germany, Italy, and Hungary.

I believe that, since the collapse of France, the British Foreign Office has been endeavoring to bring about this combination. When Russia seized Bessarabia, she included the northern part of Bukovina. This would serve the purpose of either a further advance into Rumania or into Slovakia with a view to the advance to the Adriatic.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Until Germany is committed to an attack on Britain, Russia cannot carry out either of these plans, but the moment Germany is fully engaged, particularly if she suffers heavy aviation losses, a Russian program in the Near East would become feasible.

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

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE August 3, 1940

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: World Situation

1. There was a comparative lull in the German air attacks on England. The German High Command reports an attack on an airplane factory in Norwich and in the Humber river and in the Bristol Channel.

The British Air Force continued their attacks on German occupied French, Belgian and Dutch ports in addition to attacks on the industrial cities of western Germany. There is increasing evidence that the British attacks are doing a great deal of damage in German industrial cities.

2. The first objectives of the British Air Force is to break up German concentration and shipping of troops designed to invade England. The second objective is German industry and railways in western Germany. The British have established a priority list of objectives and systematically endeavor to reduce their targets to ruins.

In addition the British apparently are now sending roving single planes to attack and alarm wide sectors of Germany just as the Germans have been sending stray bombers to alarm the western part of England and Wales.

3. The Italians claim to have bombed the British naval squadron in the western Mediterranean. This can easily be true,

Secretary Morgenthau - 2 -

the British squadrons are near Gibraltar and are in easy range of Italian airplanes. The surprising fact is that the British convoys of merchantmen still seem to be able to pass through the middle Mediterranean.

Simultaneously the British squadron base at Alexandria and Gibraltar dominate the eastern and western Mediterranean in spite of shore-base and Italian aviation.

4. The British Government felt strong enough to take action against Japanese agents in the British Empire by arresting alleged Japanese espionage agents in London and Singapore. It is a well known fact that the Japanese indulge more extensively in espionage than any other nation so it would not be difficult for the British Government to pick out espionage agents at any time.

The attitude of Japan in the Far East is becoming increasingly bolder. However, I believe she will wait the outcome of the summer campaign between Germany and Great Britain before committing herself entirely to an offensive in the Far East.

5. There is a significant change in the comments of American Journalists on the war. A few weeks ago they took the successes of the Germans for granted. Today they are hedging. Mr. J. W. T. Mason, a United States Press war expert now states that the offensive has passed into the hands of Great Britain by the establishment of the total blockade of the European countries. This action together with the defensive measures taken to meet possible German invasion, in the opinion of Mr. Mason, has completely changed the picture.

Secretary Morgenthau - 3 - BUREAU DEPARTMENT

Yesterday I discussed the question of invasion of England with Colonel Magruder. He definitely believes that the Germans will attempt such an invasion. He believes the chances are about even for a successful invasion. Personally I think the chances are at least six to four that Great Britain will successfully oppose any invasion.

The German attacks on England and English shipping would fit into either the scheme of invasion or an attempt to blockade England by air and submarine. The British Ministry of Information states that Great Britain has six months' supply of food on hand. I believe Great Britain can withstand a blockade better than Germany.

In spite of Molotov's protestation of friendship to Germany, I am convinced that if Germany suffers any reverse on the western front this friendship will disappear.

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

## TREASURY DEPARTMENT

Confidential

## INTER OFFICE COMMUNICATION

DATE August 2, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: The World Situation

1. While British and German air attacks on each other slackened, it was reported that German troops were on the march from southern France to positions along the English Channel preparatory to an invasion of England. Simultaneously, the Royal Air Force pressed home an attack on Cherbourg, obviously intended to delay German preparations at that important port.

An Italian editor of Balbo's paper states that the zero hour has struck and that Italian attacks would synchronize with those of Germany.

London and Berlin issued summaries of the results of their previous air attacks. London states that Hamburg and its oil refineries, munitions factories and docks have been pulverized again and again and are in ruins. In addition, irreparable damage has been inflicted on the industrial center of Germany in such places as Duisberg, Dusseldorf, Essen, and Wesel. Kiel and Wilhelmshaven naval bases have been repeatedly bombed.

Berlin states that it has destroyed such important ports as Portsmouth, Southampton, and Bristol. Unquestionably both air forces have inflicted heavy damage during the month of July. The

best information I can get indicates that the British have inflicted as much damage on industrial Germany as England has received.

2. On the sea the British armed merchantman "Alcantara" attacked a German raider off Trinidad. The raider, according to the British account, escaped under cover of a smoke screen, after reducing the speed of the "Alcantara" by a lucky hit in the boiler room. The "Alcantara" put into Rio De Janeiro to effect temporary repairs.

3. The most important event on the political front was the speech of Foreign Minister Molotov, in which he reaffirmed the adhesion of the Soviet Government to its agreement with Germany. He stated that Russia's relations with Italy were improving; on the contrary, relations with Great Britain and the United States were deteriorating and those with Japan were still at an impasse.

Simultaneously the Soviet is putting more pressure on Finland by insisting that pro-Soviet groups in Helsinki be given better treatment. It is possible that Stalin is considering strengthening his position in Finland and the Baltic before going farther into the Balkans.

Mr. Sadler of the Standard Oil, who is well acquainted with the Balkans, particularly with Rumania, believes that Russia is still very much interested in the Balkans and probably will try to gain contact with Yugoslavia through Bukovina and Slovakia and the Hungarian plains.

*W. P. Sadler*

Secretary Morgenthau - 3

It was significant that Molotov believed that the war was just beginning. I am convinced that the Soviet wishes this war to continue in order that she can consolidate her position in eastern Europe.

Authorized German sources expressed their satisfaction with the statements made by Molotov.

4. Some of our Army aviation observers in England do not believe Germany will dare risk her aviation in an all-out attack on Great Britain. Even if she succeeded in crippling or neutralizing British aviation, if she suffered heavy losses she would be unable to confront the Russian Army with its aviation.

In spite of the mutual assurances being passed between Berlin and Moscow, Stalin and Hitler are still suspicious of each other.

5. In the Far East the Japanese spokesman for the Foreign Office has announced Japan's intention of dominating Indo-China and the Malaysian islands. He parried the question whether that included the Philippines

6. Molotov predicted that the war would spread to the Americas and the Far East.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 5, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: European Situation

1. The German Air Force bombed the harbor of Liverpool and anti-aircraft positions in the United Kingdom.

British bombers attacked airdromes in occupied Holland and France and oil tanks at Rotterdam and in the Ruhr.

Both sides are attacking enemy airdromes in an effort to impede air operations.

2. The object of the German attacks are to prepare the way for an invasion of England and the object of the British attacks is to hamper a German invasion. Reports from Norway state that August 8 to 10 is the zero hour for the German invasion of England. This same source reported July 10 to 20, so I think it is still plain conjecture.

Whatever the reason for the German delay in attempting to invade England, it is giving the defense more time to prepare and should be more helpful to Great Britain than to Germany.

3. In the Mediterranean the British and Italian exchanged air attacks and there were minor fights along the Ethiopian-Sudan frontier. In the Red Sea British and Italian planes attacked enemy bases.

4. Tension between Japan and Great Britain is increasing on

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account of the arrest of Japanese in British territory. Apparently the Japanese think they are the only ones who have a right to arrest aliens and charge them with espionage.

The rumor that Japan would seize the railway line in French Indo-China has been denied.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 6, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: German Invasion of England.

1. The British press carry in large headlines a warning that devastating air raids may be expected within two weeks preliminary to a German attempt at invasion. Before the Germans could attempt with any success an invasion of England they must accomplish three preliminary tasks.

(a) The practical destruction of the British Air Force in order to insure continuous air superiority.

(b) To deny the English Channel and southern part of the North Sea to the British Navy by their air force.

(c) Land armies in the United Kingdom against the opposition of the British Army and remnants of the British Air Force and Navy.

2. If the Germans could accomplish in rapid succession these three tasks they could probably maintain their communications with Northern France, Belgium and Holland and gradually occupy all of the United Kingdom.

3. If the German High Command should consider invasion of England beyond their powers they would resort to a war against British shipping and British terminal ports with a view to blockading England by aircraft and submarines. To date all air

operations undertaken by Germany would suit either hypothesis of an invasion or a war of a blockade. There is other evidence that Germany intends to attempt an invasion:-

(a) Hitler's repeated assertions to the German people that he would destroy the United Kingdom.

(b) The assembly of barges available to transport troops and supplies in French, Belgium and Dutch and Norwegian harbors.

(c) The reported assembly of troops in easy distance of these barges.

(d) The <sup>e</sup>implacement of heavy guns in the Calais area.

4. The most important argument against an attempted invasion is the fact that Germany could starve England easier than she could invade England and with considerable less risk if Germany could destroy the British Air Force it could probably deny the English Channel to British ships and if England's sea communications are cut she cannot last long.

There are some observers who believe that Germany cannot stand another winter and that therefore Hitler must attempt to invade and crush England. I do not subscribe to this view although it is plain that Germany is going to be on very short rations if the war continues throughout the winter.

5. Whether Germany attempts to invade England or resort to a war attrition she should within the next week or ten days make a large effort with her air force to cripple the British Air Force in its planes, its airdromes and its factories. This would be the

first move in either operation.

6. Today I discussed the question of the invasion with an army friend and he believes that Hitler will invade Great Britain.

I incline to this belief only I think the final decision of the German High Command still depend upon the success of their effort against the British Air Force. And I do not think the German Air Force can so completely vanquish the British Air Force that invasion will be the feasible operation. I am prepared to see the Germans attempt to land in the Shetland, Orkney and Faroe Islands in an endeavor to further surround the United Kingdom.

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

## TREASURY DEPARTMENT

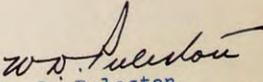
## INTER OFFICE COMMUNICATION

DATE August 6, 1940

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: Various Items of Interest Obtained from Authoritative Sources.

1. British convoys are still operating along the southern and eastern coasts of Great Britain. They are suffering losses both in merchant ships and escort vessels.
2. That part of the British fleet based in home waters still makes sweeps along the Norwegian coast and rarely sights German ships.
3. The primary targets of British aircraft are oil refineries and storage aircraft factories and railways. Secondary targets are airdromes.
4. The British are also adopting some of the German tactics and have laid mines from airplanes in the entrance to Copenhagen and Emden.
5. The British Navy dominates the eastern Mediterranean in spite of Italian air attacks and are able to blockade the Italian Dodecanese Islands.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 6, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: European Situation.

1. British and Germans exchanged air blows of minor importance.
2. In the Mediterranean, Italy claims to have attained a major offensive along the Egyptian-Libyan frontier.
3. The British Government warned the British people to be prepared for a major German attack within two weeks.
4. The British Air Force are apparently keeping observation planes over points along the French, Belgium and Dutch coasts from which an invasion would be launched.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE August 6, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The Future Relations of the United States and Russia

## I. CONCLUSIONS

The President and the Congress have voiced the determination of the American people to prevent the transfer of any European-held territory in the Western Hemisphere to any non-American country. Our Government has invited the Latin American countries to join in a system of hemisphere protection which must depend primarily for its military support upon the United States Navy and Army.

In addition to this recently assumed hemispheric responsibility, the United States has its own interests in the Far East to defend and may be called upon to prevent the submergence of Australia and New Zealand by Japan. Germany in Europe and Japan in Asia are openly opposed to the declared policies of the United States.

Regardless of the outcome of the present struggle between Germany and Great Britain, the United States can more easily sustain these responsibilities if an approximate equilibrium is re-established among the great powers of the world. With an approximate balance between the great powers, and when our rearmament program is well started, the United States could confidently undertake these heavier responsibilities.

Even if the United States could carry the burden alone, it would be wiser not to depend entirely upon its own military and economic power to accomplish its purposes. It should pursue a consistent foreign policy that would induce a parallel line of action by any power whose interests are in the main coincident with those of the United States.

If Russia is regarded solely as a political entity and her natural ambitions carefully considered, she is clearly indicated as the European nation, next to Great Britain, whose interests most nearly parallel those of the United States. Therefore, the United States, by its own independent actions and without making any commitments to Russia should convince that government that it is to Russia's advantage to follow a similar policy to ours in consistent opposition to both Germany and Japan.

## II. RUSSIAN FOREIGN POLICY

### A. General Objectives

In the face of Foreign Minister Molotoff's recent proclamation of Soviet friendship to Germany, the detachment of Stalin from Hitler would seem impossible. But the history of Russia under imperial and Soviet rule reveals that its official statements do not necessarily coincide with its deeds. It is a safe assumption that in the future, as in the past, Russia will follow that policy which furthers Russian interests. Therefore, before accepting Molotoff's declaration, an analysis of Russia's present position and persistent

national ambitions should be made in order to ascertain the limits of the semi-permanent pattern of Soviet foreign policy.

Russia has coveted Constantinople and the control of the Bosphorus and Dardanelles since Peter the Great. During the last century Great Britain opposed Russia's efforts to establish herself in Constantinople. But in 1914 Great Britain reconciled herself to Russia's acquisition of the Straits.

The predominant goal of Russian foreign policy after 1918 was security. A necessary corollary was her effort to prevent the formation of coalitions against her. As the Soviet regime became more secure Russia took a firmer attitude towards Japan in the Far East. In 1926 she made an agreement with Germany against France; in 1935 with France and Czechoslovakia against Germany; in 1939 with Germany against England and France.

Stalin showed by his rapid shifts of position that he is a shrewd negotiator not easily beguiled. And if the United States should, as sometimes suggested, attempt to jockey Russia into an attack on Japan, Stalin would probably find a way to reach a temporary understanding with the Tokyo Government.

Since September 1939 Russia has shown the desire and the ability to recover European territory lost during the last World War. Undoubtedly, modern Russia retains the ancient urge for a year-round ice-free port and still yearns for Constantinople and control of the Straits.

Today the only military threat to Russia in Europe is the German Army. With a powerful Germany confronting her, Russia sorely needs an ally in western Europe to threaten the German rear. Since the collapse of France only the United Kingdom, supported by the United States, or the United States alone in case Great Britain collapses, can be of any assistance to Russia against Germany.

B. Russia, Turkey, and the Near East

From 1920 to 1939 Russian relations with Turkey have been cordial; but in October 1939 the Soviet Government made secret demands upon Turkey for concessions in the Straits that Turkey rejected. Turkey then drew closer to England and France. When France collapsed Turkey regained her freedom of action and made overtures to Russia.

Turkey would probably resist any effort of Russia to gain physical possession of Constantinople or the Straits, but it is probable that Turkey would make extensive concessions to Russian trade and shipping in order to avoid a break with Russia. If Turkey broke with Russia she could depend upon getting whatever assistance Great Britain could give her in the Near East. Russia has a considerable Mohammedan population and would prefer for this and other reasons not to break with Turkey.

Russia can reach the Mediterranean via the Adriatic as well as via the Dardanelles. Russia has a common frontier with Hungarian-dominated Ruthenia, which is inhabited by a Slav people, the Carpatho-Ukrainians. Across the Hungarian plains from Ruthenia are another Slav people, the Serbs, who are the best soldiers in the

Yugoslav army. Russia under the Czars was the patron and protector of the small Slav states like Bulgaria and Serbia. At the present time, Pan-Slavism is growing among the peasant populations of Slovakia, Bulgaria, and Yugoslavia, and could be easily stimulated.

With the help of Yugoslavia Russia could reach the Adriatic and secure a warm-water port without offending Turkey. Great Britain probably would not object. Germany and Italy would oppose the Russian advance to the Adriatic, but the Axis powers would also oppose the Russian seizure of Constantinople. Therefore, Russia can get a port on the Adriatic with less opposition than she can get Constantinople. In addition, she could obtain the right of passage of the Straits and retain the friendship of Turkey and Great Britain.

Today Russian ambitions in the Near East conflict more sharply with German than with British interests. Furthermore, Russian and German interests clash all along their common frontiers to the Baltic Sea. Already Russia is in possession of some of the "living space" coveted by Germany in eastern Europe. The Soviet annexation of the Baltic states gives Russia territory conquered, populated, and dominated by Germans for five hundred years. From 1917 Germany was the only major European power on the Baltic. Today she must share the control of that sea with Russia. The conflict of political and economic interests which caused the break between Napoleon and Alexander in 1811-12 must haunt the minds of the German rulers, and could be the basis of a new balance of power, for a

powerful Russia is the only counter-poise to a powerful Germany in Eurasia.

### C. Russia and Japan

In Asia there is a fundamental clash of interest between Russia and Japan. It is possible that they, like Germany and Russia, can reach a temporary agreement. But there can be no permanent reconciliation between Japan and Russia in the Far East. The Soviet Union has given more assistance to China than any other nation and has, by creating border incidents and by the actual invasion of Manchukuo, compelled Japan to retain some of her best divisions in Manchukuo. Stalin has definitely shown that he will do his utmost to prevent the Japanese from conquering China.

### D. Russia and the United States

The interests of the United States have rarely clashed and often coincided with those of Russia. In 1815 the Czar Alexander I supported the claims of President Madison for neutral rights on the high seas; his action powerfully inclined the British Government to conclude the Treaty of Ghent. During our Civil War when England and France openly threatened to assist the Confederacy, the Russian Government manifested its friendship towards the United States Government by sending naval squadrons to New York and San Francisco.

Today the external policies of the United States parallel those of Russia. Both countries are interested in maintaining China against Japanese aggression. Both countries are opposed by Germany and Japan. Either country may suddenly confront a coalition of Fascist powers.

A parallel line of action by Russia and the United States would have the same effect on Japan as if the United States and Russia were in actual alliance. And the United States could support its policies in the Far East and maintain pressure on Germany in Europe without becoming involved in any alliance or agreement with the Soviet Union. In this way the United States would further its own interests both in Europe and Asia, and preserve its own complete freedom of action.

### III. THE MILITARY POWER OF RUSSIA

#### A. Military Preparations

Russia is the only country except Germany that undertook an intensive rearmament program in the nineteen-thirties. The increasing determination of the Soviet government to prepare for war is shown by their expenditures on their army, navy, and air force.

#### Russian Military Expenditures

<u>Year</u>	<u>Roubles</u>
1933	1,500,000,000
1934	5,000,000,000
1935	8,200,000,000
1936	14,800,000,000
1937	17,500,000,000
1938	27,000,000,000
1939	40,900,000,000
1940	56,000,000,000 (budget)

As a result of continuous efforts, it is probable that Russia has brought her military forces to as high a degree of efficiency as her present government and current industry can achieve.

## B. The Russian Army

The Russian Army of 1940 is a modern army, modelled after the German with the same emphasis on motorized and mechanized units and aviation. German officers and specialists, prohibited by treaty from developing an army in Germany, trained the Russian Army, and together they originated the mechanized form of war on the steppes of Russia. The current military concepts of the two armies were developed jointly during a period of close cooperation that ended in 1935.

Mentally, the Russian soldier has not been as alert as the western European soldier and has required a longer period of training. The mentality of the Russian recruit is probably improving with the increase in education and the recent growth of industrialization. The Soviet Union has also a system of widespread pre-military service training for its boys and youth which increases military efficiency.

The great strength of the Russians is their immense reserves of manpower. Russia has available more men of military age than Germany, Italy, France, and England combined. This has several implications. Although Russia maintained the largest peace-time army in Europe, she never was compelled to call up more than half of the men available in any age class. She always was able to pick the cream of each age class for her army. Physically the Russian soldiers should average better than those of any other European army. This numerical superiority has been increased by training young women

for many of the auxiliary duties of the army, formerly performed by men, releasing men for combat duty.

Consequently Russia has the largest number of trained reservists in the world. This depth in reserves can be contrasted with the German Army, which had been able to train only two full classes by the outbreak of the war in 1939. In September 1939 fully mobilized Germany had only 90 divisions (or around 1,800,000 men) which could be regarded as fit for service. At the same time, Russia had a million and a quarter men in its peace-time army. At the height of the western campaign, Germany, fully mobilized, had 240 divisions under arms, or only a third more than the present strength of the Russian standing army, 180 divisions (i.e. about 3,500,000 men).

The officer reserve of the Russian Army is correspondingly large, compared with that of the German Army. The Stalin purge of the officer corps may well have affected its efficiency. This cannot be stated as an absolute fact, however, in view of the revelations of fifth-column strength in the unbarged western European armies. Incidentally, the German Army has suffered purges, one as recently as the Polish Campaign resulting in the death of von Fritsch, who had been commander-in-chief of the German Army as late as the spring of 1938.

If involved in war with Russia, Germany would for the first time oppose an army numerically superior to its own. Furthermore, the Soviet Union would not need all of its reserves (estimated

as high as 20 million men) in the field, and it would have an extensive protection against parachute and air landing tactics which has not been duplicated anywhere else.

The Russian Army is strong in mechanized and motorized units. According to German sources, as early as 1935 the Russians had 10,000 tanks. The Germans did not reach this figure until the spring of 1940. Probably today the Russian Army possesses more tanks than the German despite their capture of French tanks. During the Spanish civil war the Russian tanks proved to be superior to the German and Italian tanks. The Russians did not attain superiority of equal units but they realized the value of heavy tanks. The Russian tanks varied widely in quality, some being very good, some very bad. However, their heavier armor and fire power proved to be more than a match for the light German and Italian tanks. The tanks used in the Battle of France by the Germans showed their application of this lesson learned in Spain.

The Russians have welcomed new weapons and techniques. Russia pioneered with parachute troops, Germany copied them. Russia developed tank-carrying planes; Germany has not yet employed them. The Russians used several other new weapons in the Finnish campaign: the "Molotoff" bread-basket (a highly efficient multiple incendiary bomb), a new automatic non-jam pistol, and an ingenious experimental non-recoil cannon. These new weapons demonstrate an alert military mind among the High Command, a highly important factor in modern war.

The Russian Army has undergone two recent tests in action, one in the Far East and one in Finland; in the Far East it has proven

itself superior to the Japanese. During the last two years the Russians have defeated the Japanese in every engagement. The last battle occurred in the summer of 1939. The Russians decisively defeated two Japanese divisions, and surrounded the remainder of the army. The Japanese faced virtual annihilation when they were saved by a truce. Three of the best Japanese divisions took part in the battle, and the Japanese officially admitted 20,000 casualties. The battlefield at Kolon Nor was at least 20 miles within the Manchukuo boundary, which shows that the Russians do not hesitate to attack the Japanese on their own soil.

In Finland in the first phase of the campaign, the Russian Army was handled badly, partly because of an under-estimate of Finnish resistance: Believing that the occupation would be unopposed, the government provided only reserve and garrison troops, preceded by an advance guard of brass bands. The bad effects of Russia's initial error were increased by the necessity of operating in one of the most difficult terrains in Europe during a very severe winter, with temperatures ranging from thirty-five to forty degrees below zero. In this first phase of the campaign the Russian Army suffered disaster after disaster in spite of which the Russian soldiers generally displayed their traditional courage and endurance.

In this campaign the Russian High Command proved both its willingness and ability to learn by experience. It replaced the reserves by first-line troops. It sought German advice. Its field artillery was very good and by massing their heavy artillery almost

truncheon to truncheon, the Russians blasted their way through the Mannerheim Line by a frontal attack. Some of our army officers believed the Mannerheim Line could not be breached by the Russian Army. Russian aviation was used to disrupt the Finnish artillery fire as well as to break up their transport system.

Since the Finnish campaign the Russian Government has made continuous efforts to remedy the weaknesses revealed in their army. They have re-introduced the military salute, revived the ranks of general and admiral, and abolished the system of dual authority by political commissars and regular officers. Simultaneously the working hours in Russian industry have been lengthened in order to increase the reserves of material and munitions available for the army.

Today this huge Russian army is still very uneven in quality; some units are very good, some mediocre, some poor; but it is almost a certainty that their military efficiency will continue to increase.

### C. The Russian Air Force

The Russian Air Force is certainly the second largest in Europe. It is not equal in quality to the German, but its quantity makes it very important. The Russians have a much larger reserve of trained pilots than the Germans, and the pilots have probably received more training. In Spain the Russian planes were superior to the German and Italian planes during the early part of the civil war. Towards the end the new German planes, which are in most cases

the same types Germany is now using, performed better than the Russian. In the Finnish war the Russian planes were superior to anything the Finns had, even though the Russians did not use any of their latest fighters or bombers. Because the Russian Air Force was much larger than any other several years ago, they have a large percentage of obsolete planes. Their aviation is superior to the Japanese as far as can be ascertained.

#### D. The Russian Navy

There is less dependable information available about the Soviet Navy than about any other in the world. Certain conclusions can still be drawn, however. Compared with those of other countries, the Russian Navy is weaker than the Russian Air Force or Army compared to its opposite number. The Russian Navy has a very poor record; it has nearly always operated on the defensive, generally in support of some fortress such as Sebastopol or Port Arthur; Russian admirals adopted the "fortress fleet" theory from the French and usually subordinate their fleet to a fort. Their favorite tactic was to remove guns from ships to the shore and fight in a land casemate.

The Russians are proverbially poor seamen; they are probably still incompetent sailors, although in recent years they have displayed conspicuous seamanship in navigating the Arctic Sea.

In accord with its defensive policy the fleet has specialized in submarines, torpedo-boats and mine-layers. In September 1939 Russia was reputed to have the largest number of submarines in

the world, mostly small, coastal defense types. She also has a large number of small destroyers, torpedo boats, and motor torpedo boats ("mosquito fleet"). Nearly every Russian warship is also a mine-layer. The Russian mines have fairly earned a reputation for destructiveness. In the Russo-Japanese war Russian mines sank more Japanese battleships than the Russian battle fleet; in the Baltic during 1914-18 Russian minefields proved their effectiveness.

With their new naval bases in the Baltic, their submarines and torpedo boats, and their traditional talent in mining, the Russians should be able to protect Leningrad from a German amphibious expedition. However, command of the western Baltic and the exits to the Atlantic would still remain in the hands of the Germans.

In the Black Sea Russia has one battleship, one aircraft carrier, six cruisers, eleven destroyers, and thirty-seven submarines. Unless the Turkish fleet was reinforced by British units, the Russian fleet could command the Black Sea which would assist her to protect her oil wells at Batum, or to invade northeastern Turkey. The Russian Black Sea fleet will be bottled up as long as Turkey holds Constantinople.

In Vladivostok the Russians have a very large submarine flotilla together with numerous destroyers and motor torpedo boats. Their announced plan of action is to defend Vladivostok with minefields and destroyers and employ their submarines against Japanese merchant ships, and their aircraft against the industrial part of

Japan. Vladivostok and the other newer bases in the Far East are a formidable threat to Japan -- of which the Japanese are aware.

#### E. Russia's Strategical Position

Russia's strategical position as opposed to Japan and Germany is favorable. Both Germany and Japan have vital areas concentrated and exposed to bombing attack from a nearby Russian frontier, whereas Russia is relatively invulnerable to air attack except in her Baku oil fields. As Russian agriculture and industry are both dependent upon fuel from Baku, this is a dangerous weakness.

The new Soviet frontiers in Europe eliminate one of the most dangerous threats Russia had to her security -- the vulnerability of the Leningrad industrial area to a thrust from Germany. Except for the Baku area which has been safeguarded in the past by Turkish friendship, no vital Soviet area is now exposed to a quick thrust from beyond the Russian frontiers.

Russia has considerable alliance value against either of its two major neighbors. While it is blockade-proof, both Germany and Japan are vulnerable to a complete blockade. Russia's geographical location is such that it effectively complements a blockade of Western Europe or of Japan.

Germany's greatest need in the present war is oil; she is dependent upon her domestic production of synthetic oil (and a small natural production) and her imports of Rumanian and Russian oil. While the English blockade continues, it will be possible for Russia to deny Germany any large external source of oil by ceasing to

export oil to Germany and by either seizing or destroying the Rumanian oil fields, which are in easy distance of the new Russo-Rumanian frontier. English and Russian bombers would then be able to cripple German synthetic oil plants which are difficult to conceal.

Because of the vulnerability of railroads to air attack, and the difference in gauge between Russian and western European railroads, any invasion of Russia would have to depend mainly on highway transport. As long as Great Britain blockades Germany, Russia can make German invasion almost impracticable by destroying Germany's oil supply. While a Russian invasion of Rumania would be attended by grave risks, a temporary occupation which would permit the destruction of Rumanian oil wells would be comparatively easy.

Russia probably has a more reliable internal front than Germany in her recently-acquired possessions. The eastern frontier districts of Germany in particular are populated in large part by Slavs closely related to their brother Slavs across the frontier in Russia. There is, in addition, in Germany a large group of political sympathizers with the Soviet regime, whereas Nazi Germany was never given the necessary liberties to organize a Nazi movement within Russia.

Compared with Japan, Russia's strategic position is very favorable. All of the Japanese industrial and commercial centers are within bombing range of Russian aviation. The many wooden buildings and congested areas in Japanese cities are exceedingly

vulnerable to aviation bombs. Vladivostok and its hinterland together embrace a fortified area designed to resist a siege until it could be relieved by a Russian field army. This fortified area is well protected from a major overland offensive by Japan. It could not be seized by a surprise attack. There are several well equipped and well supplied airfields within this fortified zone.

Its sea coast fortifications, mine fields, submarines, and destroyers protect Vladivostok from an attack by sea. The attached air force can act either on the offensive or defensive and can be reinforced from Russia, as there are many airfields connecting European and Asiatic Russia.

Finally, while Vladivostok is a continuous menace to the security of the Japanese homeland, it is not a vital part of the Soviet Empire, and its capture by Japan would not be a heavy blow to Russia.

#### F. The Economic Base of Russian Military Force

The needs of the German Army have been met by subordinating the entire German industry to the army. The Soviet Union is probably the only country comparable with Germany in this industrial aspect. The Germans were compelled to modify an established industrial system to accomplish this purpose, while the Russians early in their present industrial development were compelled by foreign dangers to subordinate their industrial system to their armed forces. Eighty percent of Russian heavy industry was built after the dangers of air bombing were recognized; for greater security their industrial plants have

been located in the interior of the country in widely separated regions.

Russia is the most self-sufficient country in the world in raw materials and is the third industrial country in the world. It has carried out a far-reaching industrialization program and by 1938-39 was rapidly overtaking Germany in the vital sector of steel productive capacity. As a whole, Russian industry is far below German levels of efficiency. Nevertheless, the manpower available has made it possible to increase output in spite of gross inefficiencies.

The most important military result is that Russia can now wage a modern war without the necessity of depending upon imports of ammunition and material. On an average, Russian munitions will be inferior to German. However, soldiers killed by inferior bullets are entirely dead, and the Russians can afford to lose more soldiers than the Germans.

The weakest factor in Soviet industry is the transportation system. Railway facilities are inadequate for normal industrial needs. This lack of transportation handicaps the strategic movement of Russian troops. In order to minimize this difficulty, the Russian Army uses more motor transportation than any other Army. The Russian railway gauge differs from the standard European gauge, which makes the exchange of rolling stock at frontiers impossible. Lack of strategic railways and of a strategic system of surfaced roads would hamper a Russian deployment in an invasion of European

territory; in recompense, it also renders an invasion of Russian territory by any European country difficult.

Russia has now the largest motor truck and tractor production in Europe, which would prove very serviceable in time of war. It also is the only major European country which produces sufficient fuel oil to meet its own needs.

Compared with Japan, Russia is incomparably the stronger. To mention only the very important steel industry, Russian production is four to five times greater -- and is not dependent upon imports.



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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE August 7, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. The British and German planes exchanged bombs in minor air raids.

The Germans continued dropping leaflets over England and Wales.

2. Apparently the Italians have assumed the offensive along with Libyan-Egyptian frontier. The Italians state they are beginning a major attack on the Suez Canal. The British estimate that the Italians have 250,000 soldiers available in Libya.

The Italians launched an attack from Italian Somaliland against British Somaliland. A British radio stated that there were only small British forces in British Somaliland and that no further help from England could be given them at present. British Somaliland is not important strategically except as it tends to neutralize Aden, which guards the entrance to the Red Sea.

The status of French Somaliland and the important harbor of Jibouti is unsettled. If they fall into the hands of the Italians, British Somaliland will be entirely surrounded.

Secretary Morgenthau -- 2

3. The British East Mediterranean squadron is reported to be supporting the British land forces along the Libyan-Egyptian frontier.

4. The Italian attacks in Northeast Africa may be only a large scale feint to distract attention of Great Britain from the defense of England. On the other hand, if the Germans are not going to attack Great Britain it may be that this Italian attack on Egypt may develop into a major offensive in which the Germans will provide leadership and some aviation.

5. In the far East the tension between Great Britain and Japan has temporarily eased.

*W. D. Puleston*

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

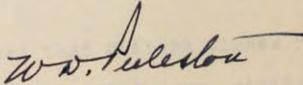
DATE August 8, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: Air Battle over Convoys in English Channel.

The largest air engagement of the war took place today over British convoys in the English Channel. The British claim to have shot down fifty-three German airplanes and the Germans claim to have shot down thirty-four British planes, and to have sunk several British merchant ships.

The British admitted losing three coastal vessels by German submarines.

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE August 8, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The World Situation

1. There was an increase in aerial activity by both the British and German air forces. About fifty planes were engaged in an air battle that arose from an attack on a British convoy in the English Channel by German planes. The British Air Ministry report that nine German planes, six dive bombers and three fighters, were shot down. Two British fighters were missing.

This battle grew out of a second German raid along the southeast British coast and lasted an hour.

2. The German High Command reports that in addition to attacking the convoy, German planes attacked anti-aircraft searchlights, aircraft factories, and munitions works in various parts of central and western England.

3. The British Admiralty announced that British planes had attacked German gasoline storage depots south of Bergen, military objectives in Holland including airdromes, and German sea bases.

4. It is plain from the objectives attacked that the Germans are endeavoring to prepare for an invasion of England or for a blockade of England, and that the British attacks are aimed at disrupting German preparations. In this connection it is reported that the Germans are evacuating civilians from the Ruhr industrial district.

5. In northeast Africa the Italians retained the offensive and are reported to be nearing Berbera, the main British port in British Somaliland. We had a report that the Italian forces in the Dodecanese Islands were suffering from a shortage of food. If the British could compel the evacuation or surrender of the Dodecanese force, it would more than offset the occupation of Somaliland.

6. In the Near East Rumania is still resisting the complete demands of Hungary and Bulgaria. Whether she will be forced to comply is not yet certain.

7. In the Far East the British have stiffened their attitude towards Japan by refusing to allow Japanese merchant ships to enter Hong Kong. Simultaneously, the Japanese Navy Department announced they are prepared to cooperate with the new Japanese cabinet in an expansion of Japan to the southwestward, that is, into Malaysia.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 8, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

With your permission I will leave Washington Friday night, August 16, at 8 p.m.

I will arrange with the Navy Department to have me detached from active duty on September 11, which will be one year from the time I reported.

Prior to my departure I will turn over files that may be useful, to Mr. Cochran and to Mr. White. I will complete all administrative details with Mr. Thompson.

Mr. Kamarek will be with Mr. White and will be able to answer any questions that might come up after I leave. Mr. Cochran knows my contacts in the State Department. Both Admiral Anderson and General Miles have expressed their willingness to continue their close cooperation.

The Chief of Staff of the Army has detailed Major Smith of his office to keep you informed on matters that might not come to the attention of military intelligence. I know Admiral Stark will continue his cooperation.

O.K.  
H.M.G.

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

## TREASURY DEPARTMENT

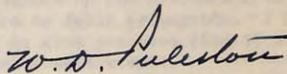
Confidential

INTER OFFICE COMMUNICATION

DATE August 8, 1940

TO Secretary Morgenthau  
FROM Captain Puleston

I think you will find the attached letter of interest. It is a copy of one received by Mr. Wilkinson, of the Royal Shell Company, who furnished some information about the oil situation in the Dutch East Indies.



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

BY AIR MAIL

- 2 -

F. GODBER

St. Helen's Court,

Great St. Helen's,

London, E. C. 3.

15th July, 1940

E. Wilkinson, Esq.,

Asiatic Petroleum Corporation,

50, West 50th Street,

NEW YORK, U.S.A.

My dear Wilkinson,

I am not overlooking the importance and power of the German air force.

While you will have received plenty of news of recent events through the medium of the Press and Radio and therefore will have an adequate knowledge of the progress of the war, it has occurred to me that your conception of the situation in this country and how the present position affects the United Kingdom and the Empire may have been influenced by the distance from which you are viewing it, or even by local atmosphere or false propaganda. I have, therefore, decided to write to you to try to give you some idea of our outlook and of how people in this country interpret recent events.

First of all, I would like to say that there is generally a determination to prosecute the war to a successful conclusion and a sense of optimism that we shall be able to do so. While it is a fact that the Germans have had a number of spectacular successes which may tend to give the impression that they are infallible in what they undertake, it must be remembered that these successes have been on land where they have been able to employ to the full the military preparation and technique on which they have concentrated so intensively during the past few years. Their future tasks are different. Furthermore, having accomplished the conquest of various countries, in the aggregate involving a very large area, they are burdening themselves with the necessity to dominate and keep under control millions of people many of whom are antagonistic and hostile to them. They must also secure these extensive areas against attack from without and see that the population has food and some kind of livelihood. None of these nations is self sufficient and they must therefore impose upon the Germans a burden additional to that which was already weighing heavily upon them as the result of our blockade. The Germans had undoubtedly planned to subdue the various nations stage by stage, and eventually by crushing France to obtain control of her large navy. They imagined that if this could be accomplished, the British blockade could be broken and Britain herself invaded and conquered. Fortunately, due to timely and effective action on our part, this plan has gone awry and considerable importance must be attached to the fact. The British Navy has suffered relatively little; what there was of the German Navy has suffered substantially. The British fleet has been augmented by the Dutch fleet and an appreciable part of the French fleet, and even though the Italians - now our enemies - have numerically quite a large fleet, it is shut up in the Mediterranean and there is no reason to believe

By Air Mail.

- 2 -

that it can be of material assistance in breaking the British blockade. Indeed it shows very little sign of measuring strength with the Navy - and although it is early days yet - it seems more intent on avoiding the issue than of meeting it. While the British fleet maintains its present great strength, and during the coming months it should be largely augmented, it will be impossible for our enemies to obtain adequate supplies of the necessities of war and life - either for themselves or the population of those countries which have fallen victims to their aggression. Our own experience tells us that despite their conquests including France they must already be suffering seriously from shortage of oil supplies of every kind. Possibly this will prove vital to them. It should be equally impossible for them to interfere materially with our supplies from overseas or to invade successfully this island and maintain their communications.

I am not overlooking the importance and power of the German air force. This has proved itself to be an immensely effective weapon, but, on the other hand, it has likewise been proved that our own air force is superior in the quality of its personnel and of its planes. The R.A.F. have been numerically inferior, but each day that goes by is assisting to correct this factor. There has been a remarkable increase in the output of planes in this country and planes are coming from America also in greater numbers. With the support of the Empire, we have almost an unlimited number of men upon whom we can call for pilots. This is far from being the case with the Germans. Moreover the Germans have suffered great losses, both in machines and personnel. They have probably lost a large part of the best of their pilots and their losses have been out of all proportion to our own. Severe attacks will undoubtedly have to be met and it is not to be expected that we shall always hear of comparatively slight damage but what does seem to be the fact is that their pilots have never been as completely and thoroughly trained as our own - that recently they have been sending over men with only a few weeks' training and that to-day at least, like the Italian fleet, on the whole they will not face up to direct attacks. The position in the air will have a very important influence upon the conclusion of the war and because of the quality of our men and machines we are very confident in the part which our air force will play in this.

We have at the head of the Government a man of great personality, indomitable courage and strong determination. He has energy, imagination and initiative and a vast knowledge of strategy and warfare. The problem is not new to him for he foresaw it years ago and never failed to warn of its ultimate danger. He is supported wholeheartedly by a strong Cabinet working with a single purpose, and behind them solidly stand the People - also with one thought only in their heads, namely to win the war. Thanks to the remarkable feat of evacuating practically the entire British Expeditionary Force from Flanders - which incidentally was another instance of where German plans were defeated by our own individual action - we have in this country a large, well-trained and experienced army which has seen modern warfare and know what it means. This army was never defeated and has its tail well up. Having met

By Air Mail.

TREASURY DEPARTMENT

- 3 -

INTER OFFICE COMMUNICATION

the enemy it is full of confidence. It is supported by the new army which has been enrolled and trained since the beginning of the war, added to which are Dominion and Colonial troops from overseas. Preparations to withstand attack, by the varied means ingeniously developed by the Germans and practised in other parts of Europe, have been actively pushed forward and there is every reason to believe that these should prove fully adequate, particularly in combination with the other factors which I have related above.

There is an abundance of food and commodities of every description. Rationing may appear stringent but from my own experience I have never once, from this point of view, noticed any effects from the war. I cannot say either that prices have risen to any important extent.

You will probably be anxious as to the effect of the new parachute warfare upon these islands. It is difficult to prejudge. The Finns seem to have dealt with it adequately. It played an important part in the occupation of the Netherlands and probably also in N. France, but as far as I can judge the numbers involved were definitely less than has been generally suggested and whatever attempts may be ahead of us here very complete preparations have been made to meet them and I cannot myself believe that beyond the expenditure of ammunition to round them up they will prove to be more than a passing menace.

All these points may not be fully appreciated abroad, and it is very important, not only for our own people who are far away from home, but also for members of other nations who are sympathetic with our cause and who are having to rely upon us to save them from Nazi domination to understand what the position in Britain really is. Our Managers abroad can assist in this if they are imbued with the spirit of determination and optimism which is wholly prevalent among the people of this country, who in conjunction with the rest of the Empire are now left to bear the major brunt of the war and bring it to a successful conclusion. It is for this reason that I have written to you fully, and I hope that this letter will be of assistance to you in filling a want which perhaps you may have felt in gauging the atmosphere over here and in understanding the outlook of the Nation.

Yours truly,

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE August 9, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Mr. Wilkinson, of the Royal Shell, furnished us some additional information about the oil situation in the Dutch East Indies. This I passed on to Mr. Harry White. Mr. Wilkinson showed me a letter from the head of his company in England. I had a copy made for you, as I thought you would find it interesting.

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

BY AIR MAIL

F. GODBER

St. Helen's Court,

Great St. Helen's,

London, E. C. 3.

15th July, 1940

H. Wilkinson, Esq.,  
Asiatic Petroleum Corporation,  
50, West 50th Street,  
NEW YORK, U.S.A.

My dear Wilkinson,

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By Air Mail.

- 2 -

that it can be of material assistance in breaking the British blockade. Indeed it shows very little sign of measuring strength with the Navy - and although it is early days yet - it seems more intent on avoiding the issue than of meeting it. While the British fleet maintains its present great strength, and during the coming months it should be largely augmented, it will be impossible for our enemies to obtain adequate supplies of the necessities of war and life - either for themselves or the population of those countries which have fallen victims to their aggression. Our own experience tells us that despite their conquests including France they must already be suffering seriously from shortage of oil supplies of every kind. Possibly this will prove vital to them. It should be equally impossible for them to interfere materially with our supplies from overseas or to invade successfully this island and maintain their communications.

I am not overlooking the importance and power of the German air force. This has proved itself to be an immensely effective weapon, but, on the other hand, it has likewise been proved that our own air force is superior in the quality of its personnel and of its planes. The R.A.F. have been numerically inferior, but each day that goes by is assisting to correct this factor. There has been a remarkable increase in the output of planes in this country and planes are coming from America also in greater numbers. With the support of the Empire, we have almost an unlimited number of men upon whom we can call for pilots. This is far from being the case with the Germans. Moreover the Germans have suffered great losses, both in machines and personnel. They have probably lost a large part of the best of their pilots and their losses have been out of all proportion to our own. Severe attacks will undoubtedly have to be met and it is not to be expected that we shall always hear of comparatively slight damage but what does seem to be the fact is that their pilots have never been as completely and thoroughly trained as our own - that recently they have been sending over men with only a few weeks' training and that to-day at least, like the Italian fleet, on the whole they will not face up to direct attacks. The position in the air will have a very important influence upon the conclusion of the war and because of the quality of our men and machines we are very confident in the part which our air force will play in this.

We have at the head of the Government a man of great personality, indomitable courage and strong determination. He has energy, imagination and initiative and a vast knowledge of strategy and warfare. The problem is not new to him for he foresaw it years ago and never failed to warn of its ultimate danger. He is supported wholeheartedly by a strong Cabinet working with a single purpose, and behind them solidly stand the People - also with one thought only in their heads, namely to win the war. Thanks to the remarkable feat of evacuating practically the entire British Expeditionary Force from Flanders - which incidentally was another instance of where German plans were defeated by our own individual action - we have in this country a large, well-trained and experienced army which has seen modern warfare and know what it means. This army was never defeated and has its tail well up. Having met

By Air Mail.

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the enemy it is full of confidence. It is supported by the new army which has been enrolled and trained since the beginning of the war, added to which are Dominion and Colonial troops from overseas. Preparations to withstand attack, by the varied means ingeniously developed by the Germans and practised in other parts of Europe, have been actively pushed forward and there is every reason to believe that these should prove fully adequate, particularly in combination with the other factors which I have related above.

There is an abundance of food and commodities of every description. Rationing may appear stringent but from my own experience I have never once, from this point of view, noticed any effects from the war. I cannot say either that prices have risen to any important extent.

You will probably be anxious as to the effect of the new parachute warfare upon these islands. It is difficult to prejudge. The Finns seem to have dealt with it adequately. It played an important part in the occupation of the Netherlands and probably also in N. France, but as far as I can judge the numbers involved were definitely less than has been generally suggested and whatever attempts may be ahead of us here very complete preparations have been made to meet them and I cannot myself believe that beyond the expenditure of ammunition to round them up they will prove to be more than a passing menace.

All these points may not be fully appreciated abroad, and it is very important, not only for our own people who are far away from home, but also for members of other nations who are sympathetic with our cause and who are having to rely upon us to save them from Nazi domination to understand what the position in Britain really is. Our Managers abroad can assist in this if they are imbued with the spirit of determination and optimism which is wholly prevalent among the people of this country, who in conjunction with the rest of the Empire are now left to bear the major brunt of the war and bring it to a successful conclusion. It is for this reason that I have written to you fully, and I hope that this letter will be of assistance to you in filling a want which perhaps you may have felt in gauging the atmosphere over here and in understanding the outlook of the Nation.

Yours truly,

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE August 9, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. A day-long engagement between the British and German aviation occurred over the English Channel yesterday. Accounts of both sides differ widely in regard to losses, but they both agree that the battle was on a large scale. Some accounts say the Germans employed up to 800 planes. They could employ this number, but a correct estimate of planes in the air is very difficult, and I think any number between 500 and 800 might have been employed.

The British Air Ministry and Admiralty both express themselves as satisfied with the results of the largest major air engagement to date. The British claim to have shot down 53 German planes and admit the loss of 16. The Germans claim to have shot down 34 British planes and admit the loss of less than 10. There is no way to reconcile these statements.

One British squadron of fighters was employed three times during the day. This speaks highly of the condition and morale of the British pilots and machine gunners. The necessity for employing the same squadron three times during the same day emphasizes the numerical inferiority of the British aviation.

The British are continuing to send coastal convoys along the eastern coast of England and into the harbor of London. In the

London docks a mysterious fire broke out in a huge storehouse. The blaze could be seen for miles. It could have been used as a beacon had the German aviation been concentrated on the destruction of the London docks.

While engaged in this major engagement in the English Channel the Germans were still able to send planes over western England and Wales, which again emphasizes the German numerical superiority.

2. In northeastern Africa the Italians made little if any progress along the Libyan-Egyptian frontier; however, they did continue their advance into British Somaliland. If they capture Berbera they will acquire two new landing fields and a fairly good harbor.

3. In the Far East the British announce the withdrawal of their army detachments from Peking, Tientsin, and Shanghai. The reason given was the need for these soldiers elsewhere. The only English garrison in China remaining is at Hong Kong.

Simultaneously, the Japanese took a more provocative attitude towards Great Britain. One influential group demanded that Japan declare war on England.

4. The stiffening of the Japanese attitude in the Far East, the Italian offensives in northeast Africa, and the increased German air attacks all point to an early attempt at invasion of Great Britain. If Germany is unable to secure uncontested control of the air over the English Channel, she will probably abandon any effort

at invasion and concentrate her efforts on blockade. In my opinion she will not attempt to invade the United Kingdom unless she is able to practically annihilate the British Air Force.

5. In the Near East the Rumanian Prime Minister announced that Rumania would cede Transylvania to Hungary and southern Dobrudja to Bulgaria. He requested the support of the Rumanian people in the sacrifices the government had decided to make. A radio broadcast from Bucharest stated that the Iron Guards, the dominant political party in Rumania, had announced that it would not permit the cession of this territory. If this territory is ceded the situation in the Balkans will be, for the time being, stabilized, which will leave Hitler free to concentrate all his efforts against Great Britain.

The crisis of the war may be approaching.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 12, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: European Situation.

1. The Germans continued their heavy attacks on England all day. They included an attack on the convoys of seventy ships on the East Coast opposite Harwich and two major attacks on Dover and Portland the base of the British navy. The British and German claims of the result differ widely. The British claim to have shot down sixty planes and to have lost twenty-six. The Germans claim over seventy British planes with a loss of sixteen of their own.

Both sides agree on the intensity of the attacks and the large number of attacking and defending planes engaged and a British source estimates that four hundred German planes were employed. During the attack on Portland, the Germans claim they were outnumbered by British fighting planes and this might easily be true and would indicate that the British scouting service is alert, for it would require good information to enable them to assemble superior force when the Germans can choose the time and the place of attack.

The Sunday attack was the second major daylight attack in forty-eight hours. During the intervening nights the German claim they have kept up sporadic raids over the United Kingdom

and one German plane passed over the north of Ireland.

2. On Saturday I discussed the recent phases of the German attack with Admiral Anderson, Colonel Magruder and Major Betts. Admiral Anderson still believes the Germans cannot invade Great Britain. He points out that in spite of the German efforts the British coastal convoys are continuing along the south and east coast of the United Kingdom.

Colonel Magruder and Major Betts are not convinced that Great Britain can resist a German invasion. They point out that so far the Germans have not employed as many as a thousand planes a day and it is pretty well established that the Germans can employ a thousand planes a day if they desire. The Army believes the German air operations are preliminary with a view to "softening" the British defenses and lowering the morale of the British public. Tactically they believe these attacks on the south and east coast are designed to draw the bulk of the British aviation of that area in the hope that a sudden "all out" attack they can blast the British air force to pieces. The Army do not believe that the Germans will attempt to invade the United Kingdom until they have practically neutralized the British air force.

3. It is known that there are large German army forces assembled in Norway. Stavanger has been made into a large extremely well defended air base with a landing field longer than required for the largest planes. It is conjectured that the Germans may still have some heavier planes under construction

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and that this longer field is designed for their use.

4. Colonel Magruder believes that the Germans will probably attempt to seize the Orkney, Shetland and Faroe Islands preliminary to any invasion of England.

There is nothing to indicate that the Germans can surprise the British aviation on the ground and destroy them in large numbers as they succeeded in doing in the invasions of Holland, Belgium and France. The British have kept the emergency air fields in German occupied countries under continuous observation and frequent bombardment. For example they have made two major attacks on the Guernsey air field within the past seventy-two hours. The British aviation is still able to fight off the attacks so far launched against them and simultaneously carry out day and night bombing raids over German and German held ports.

5. I believe that the German High Command will not make a final decision to invade England until it knows the result of its present preliminary operations. It is an old German maxim not to project war operations beyond the first contacts with the enemy. Unquestionably the Germans are doing a great deal of damage in England. On the other hand they are meeting determined resistance. Only the Germans and the English know the relative results. I incline to believe the British statement with a possible addition of ten per cent to their losses, and I do know that the German former claims as regards the sinking of British naval vessels have been fantastic. Both our Army and Navy

Intelligence give more credence to the British than to the German statements of losses.

6. Time is passing and if the Germans are going to try a knockout blow to England they must move soon. I am prepared to see a continuation of intensification to the present attacks on England with a possible invasion of the Faroe, Shetland and Orkney Islands, and an attempt on Southern Ireland.

Hitler has advertised his attack on England so widely that I believe he will have to make some effort at invasion.

7. In the Mediterranean there is a reported uprising of Albanian tribesmen against Italy and a threat from Rome that the Greeks had better beware of encouraging the Albanians. The British have fairly well blockaded the Italian Dodecanese Islands and the Italian naval forces have not apparently been able to get in supplies. If the Italians should invade Greece it is likely to cause reactions in Turkey who had a mutual protection treaty with Greece.

8. Hitler can not be sure of the Near East until Rumania has complied with the demands of Bulgaria and Hungary. The disturbances in Albania and the sudden tension between Italy and Greece tends to re-open the whole Balkan question. Any disturbances in that area will be detrimental to Hitler's plans and fraught with unpredictable consequences.

## TREASURY DEPARTMENT

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9. The Italians are continuing their advance in British Somaliland but have not apparently made any further advance into Egypt.

10. There are increasing rumors that Spain is about to join the Axis alliance.

11. The British Government has promised to give India its independence at the end of the war provided India supports the Empire in this present struggle.

12. No further developments in the Far East.

*W. D. Puleston*

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE August 13, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Possible Ability of a Successful German Invasion  
of England

It is possible that you have already talked with Colonel William J. Donovan, lately returned from England. If not, the following will be of interest.

1. Colonel Donovan was given the freest opportunities of seeing the actual conditions in England on his recent visit. He stated that up to that time, the industrial plants had not been seriously interfered with. Some damage had been done, but for the most part the damage had been minor and had been quickly repaired. He left England before the last three days of intensive air warfare.

2. The coastal air command he considered excellently organized and ready to take on the German air force, in spite of a numerical inferiority. He did not know the strength of the German air force and he did not rule out the possibility that eventually they might gain control of the air.

The British airfields are now decentralized and are separated. They are so numerous that they need have only a few planes on each field. The planes are put in operation by a well hooked up communication service. This dispersal of airfields will make it difficult, if not impossible, for the Germans to destroy all these fields and prevent the operation of British air forces as they did

those of Holland, Belgium, and France.

These airfields are well camouflaged and have shelters where the planes can be housed. Even flying over these fields, as Colonel Donovan did, he said it is difficult at 1500 feet to locate them. The fear often expressed that Germans could be over all the airfields in England at once and surprise the English planes on the ground he dismissed as impossible. If they destroy the British air force, they will have to destroy it gradually.

Even with command of the air Colonel Donovan was distinctively of the opinion that the Germans could not successfully invade the United Kingdom. He based this opinion on the condition of the British army and its preparations, together with those of the navy, to beat off an invader, even though the invader had command of the air.

3. Present at the luncheon, which was given by General Miles, was Colonel John W. Thomason, one of our best marine officers. Colonel Thomason has been in command of a marine regiment for the past year with the primary duty of preparing this regiment to land on a hostile shore. Colonel Thomason gave as his opinion that even with command of the air, he would also want a superior army and a whole lot of luck to guarantee a successful invasion.

4. Colonel Donovan said the final and most formidable obstacle to an invasion would be the machine gun on the beach with a little barbed wire out in front. He was given a chance to see that the coasts of the United Kingdom were well supplied with machine guns.

Back of these coastal defenses were various defense zones all provided with troops that could handle any parachutists or German soldiers landed from the air. General Miles was military attache at Constantinople after the World War and had a full opportunity to study the attempted British-French landing on Gallipoli. In general he concurred with the opinions of Colonel Thomason and Colonel Donovan that a successful landing, even with air superiority, is an almost military impossibility.

5. The British scheme of defense also provides a striking force in rear of the coastal zone prepared to take the offensive against any German troops that might land. Colonel Donovan thought General Dill, who planned the defenses, is the best military mind in Great Britain. This agrees with both General Miles' and Admiral Anderson's opinion.

6. Colonel Donovan said that the British convoys in the English Channel were feeling the effects of the German air attacks. He said that most of the supplies were coming in to the western ports, mainly Liverpool and Bristol. He added that sometimes the British air force would use convoys as bait. Squadrons of fighters would be in position and the convoys would start along the Channel well knowing that German bombers would come over to attack. The bombers would be quickly attacked by British fighters.

7. Colonel Donovan was so convinced that the British would successfully resist any attempt at invasion that he was already considering if they could take the offensive next spring. He and General Miles expressed some doubt whether the Germans would make

an attempt at invasion. Colonel Thomason thought Hitler would have to make an attempt, as he had advertised this invasion so extensively.

8. The concensus of the group was that Hitler would be well advised not to attempt to invade England, but to continue his efforts at blockade and to occupy the Shetland and Orkney Islands and endeavor to draw a closer net around the United Kingdom.

9. Captain Kelsey, of the army aviation service, told us that the British air force could beat off the Germans. Colonel Donovan believes that the British army can beat off the German invaders even if they succeed in gaining command of the air. Admiral Anderson, Admiral Yarnell, and I do not believe that they can cross the English Channel in sufficient quantities to make a successful invasion.

*W. D. Puleston*

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

## TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE August 13, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. On Friday, August 9, the Germans began to intensify their air attacks on the United Kingdom. On Saturday there was a comparative lull. On Sunday and Monday the attacks were renewed and intensified. This morning it is reported that the German day attacks have again begun. In addition, throughout the intervening nights German bombers singly or in small groups have attacked widely separated places in England or Scotland and even reached to northern Ireland.

In the day attacks German bombers have been accompanied or preceded by fighting planes. In addition to attacking British convoys, they have bombed (a) airdromes and airfields nearest the Channel, (b) the naval ports of Dover, Portsmouth, Portland, and Plymouth on the Channel; Harwich, Sheerness, and the London docks in the Thames estuary; Bristol and Cardiff in the Bristol Channel.

2. The British reaction to the German attacks has been (a) defense by anti-aircraft guns, (b) attacks by British fighters on German planes, and (c) counter-attacks on German airdromes in France, Belgium, and Holland. To date the British reaction has been vigorous and apparently successful, although the Germans claim they are wearing

Secretary Morgenthau - 2

the Royal Air Force down. Berlin further claims that it has already "softened the British resistance" and that the Germans command the air over the English Channel.

The German claims are exaggerated because British convoys could not proceed in the English Channel and Thames estuary if the Germans commanded the air.

3. To date six hundred appears to be the highest estimate of planes employed in one day; opinion here is that the German air force can employ a thousand planes in one day and keep it up for several days. So it is plain we have not seen the maximum German effort so far.

4. From the pattern of the German attacks, it would seem that they will attempt to land simultaneously, if they invade England, in Dover, near Portsmouth, near Portland, and perhaps at Harwich. These landings if successful would place the German army in a favorable position to pinch out London. Landings in these ports would reduce the passage over water to the shortest distance, thereby reducing the chances of the British Navy to interpose. If Germany seriously intends to invade England, her best method, I believe, would be the direct one of trying to invade southern and eastern England. If successful, the blow would be decisive, whereas landings in the Faroes, Shetland or Orkney Islands, or even in northern Scotland would mean just the beginning of a campaign on land.

Accompanying such an invasion by water would be an invasion by air in which the Germans could probably embark fifty

thousand troops in transport planes. It is the merest conjecture to estimate the number of this fifty thousand that could be landed in England, but they could certainly land enough to harass the British communications in the rear. However, the British have prepared against this very maneuver.

5. Reports from England indicate that the morale of the British has not been softened and while some of their factories have been hit, some of their port facilities damaged, and many of their ships sunk, the British defenses are still intact.

The continued attacks made by the Germans on the British balloon barrage is proof of the effectiveness of this form of defense. Otherwise, the Germans would have ignored them. If the British have reserve balloons on hand, it will be easy to replace those shot down by the German air force.

6. The most dangerous feature of these continued German attacks on the British air force is that by their numerical superiority the Germans will keep the British air force fighting so continuously while they are able to rest their crews, that they will literally wear down the British defense. To date there is no indication that the British aviators are growing tired or stale, but there is a limit to physical endurance. These continuous attacks also keep the British aviators so busy that they cannot reconnoiter enemy territory to see if the German army is forming up for invasion.

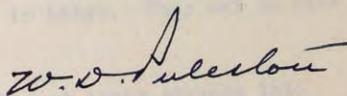
7. In spite of all these advantages of the Germans, I still do not believe that they can successfully invade Great Britain, and

TREASURY DEPARTMENT  
UNITED STATES GOVERNMENT

I incline to the opinion that no decision on this point has yet been made by the German High Command. These attacks already made serve equally well a program of blockade. And it may well be that the Germans will not attempt to land soldiers on a large scale in the United Kingdom.

8. In the Mediterranean and African area nothing of importance happened on the military, naval, or air fronts. There is something happening in Greece and Albania to disturb Mussolini. Just what it is, is not clear. The Italian press accused the Greeks of helping Great Britain by supplying fuel oil to naval vessels and airplanes. In Somaliland the British and Italians are in contact about forty miles from the British port of Berbera.

9. There is no substantial change in the situation in the Far East.



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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE August 10, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. The German planes intensified the air attacks by night and day over England. They made dive bombing attacks on captive balloons and generally increased their air effort against English airplane works and munition plants. The Germans also claim to have bombed the docks at Newcastle and the shipbuilding yards at Sheerness and Chatham. The British made their usual raids over objectives in Germany and are continuing to lay mines with airplanes in German waters. This general intensification of air attacks on both sides may indicate an early development of the long-advertised attack on England.

2. In the Mediterranean the British report a successful raid on Tobruk, the principal Italian base in Libya. They set on fire several ships.

The Italian troops have continued their advance into British Somaliland and report that the British forces are fortifying themselves for a stand at Berbera.

3. There are unconfirmed reports that the Rumanian Prime Minister is afraid to carry out his promises to Bulgaria and Rumania in the face of opposition by the Iron Guards, a chauvinistic Rumanian organization.

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

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

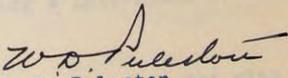
DATE August 14, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Charts and Maps

I am turning over to Mr. Banyas the basic maps that the Department purchased and numerous Hydrographic Office charts that I obtained during the past year. Mr. Kamarck, who will be in the Division of Monetary Research, knows now how to group these basic maps to form any area you desire, provided we have the basic map. Mr. Banyas is entirely prepared to build up the maps under Mr. Kamarck's direction.

In case you desire maps of other regions Mr. Kamarck can get them from the Army War College and can get charts from the Hydrographic Office or the Coast and Geodetic Survey.

With these arrangements I believe you can have assembled on short notice a map of any region you desire.

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Confidential

DATE August 14, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: The European Situation

1. There was a comparative lull after midnight until 10 A.M. this morning in the German attacks over England. This lull followed the largest scale air engagement of the war, in which between 500 and 600 planes were employed. It is impossible to reconcile the conflicting statements of losses, but they were probably heavy on both sides. I think the British statements are more to be depended upon.

It is plain that the Germans are endeavoring to put the British fighting planes out of commission. It is also plain that to date they have not succeeded. From the account given by Colonel Donovan and Captain Kelsey, we know the British Fighter Command are aware of the purpose of the German air attacks and have decentralized their planes and have equipped numerous air bases so that they cannot be knocked out by demolishing a half-dozen or more big airfields.

2. In addition to fighting off the German attacks with their fighting planes, the British bombers have continued their attacks on German bases all the way from Jutland to Brest, and have also made a squadron attack on Milan, which is the center of the Italian

aviation industry. In the attack on Aalborg, Denmark, the main German air station in Jutland, the Germans claim to have shot down 11 bombers out of 23. The British admit the loss of 12 bombers during those attacks, so it is possible that this big bag was made over Aalborg. In the last big attack on Stavanger airfield, the British bombers suffered heavily. This indicates that the Germans are determined to protect their Danish and Norwegian air bases. They commenced fortifications here before they did those in Holland, Belgium, and France, so their fortifications are probably stronger. It is very probable that in any efforts the Germans make against the British they are depending on using these two fields, Stavanger in Norway and Aalborg in Denmark, for their largest bombers.

3. These continuous day and night attacks both in England and in Germany are bound to affect adversely the industrial output and the nerves of the civilians. The British bombing planes cannot reach east of Berlin. This leaves a large part of Germany unscathed, but the British can keep western Germany under almost continuous bombardment.

4. The British report that some of their Mosquito Fleet drove off some of the German Mosquito Fleet that was apparently making an attempt at reconnaissance. This incident, small in itself, indicates that the British will not be taken by surprise by a suddenly launched invasion over the water.

5. Rome is threatening dire things to Greece in a squeeze play apparently intended to secure a part of Greek territory for Albania. Rumania is still negotiating with Hungary and Bulgaria, and I do not rule out the possibility that Rumania may yet resist. The Soviet government expressed its sympathy with the Bulgarian demands for Dobrudja. This is natural. The Bulgarians are Slavs, and up to 1913 looked towards Russia as a patron. Any outbreak in the Balkans would tend to cut off supplies to Germany and be so much benefit to Great Britain.

6. In British Somaliland the Italian advance towards Berbera has temporarily slowed down. There is a report that Berbera has been reinforced by troops from India.

7. There are no further developments in the Far East.

*W. D. Puleston*

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

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE August 14, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

1. The following is an extract from a report of the American Consul at Tenerife, Canary Islands, dated July 15.

"The three German tankers which sought shelter in this port shortly before and after the outbreak of hostilities on September 3, 1939, eventually were required to discharge their crude oil cargoes into the local refinery's deposits, and from which, withdrawals of various amounts have been effected from time to time. Within the past several days, one German tanker, it is reliably stated, after loading some 1500 tons of fuel oil and approximately 4,000 tons of gas oil, proceeded out of the port and took up anchorage some distance at a remote location in the outer roadstead from which she clandestinely departed some time during the late hours of night after, it is reliably stated, repainting her hull, identified by the Spanish colors, and, it is also very reliably stated, closely followed by the Spanish mine layer "Marte".

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"With respect to the five Italian and two German tankers now lying in this port, according to a reliable source, the local authorities recently seriously discussed the question of

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the advisability of their continued anchorage in the inner harbor and alongside the mole owing to the fire hazard they would unquestionably represent in case of attack or from some innocent and unforeseeable cause. It is stated that the question of their transfer to the small fishing port of Los Cristianos, situated in the extreme southwestern and little frequented section of the island was suggested, a measure which, if carried into effect, and the tankers were appropriately loaded prior to departure from this port, would render them easily accessible to German submarines requiring Diesel or gas oil supplies."

2. It is perfectly plain that if the Spanish authorities are cooperating with the German authorities it would be a simple matter to fill the German submarines off these islands.

3. The entire report has been given to Mr. Harry White as it has some other statistics about fuel oil.

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

## TREASURY DEPARTMENT

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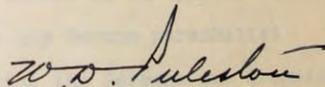
## INTER OFFICE COMMUNICATION

Confidential

DATE August 15, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: Possible Invasion of England

I went over the question of the invasion of England with Colonel Magruder again today. He had learned through General Miles of what Colonel Donovan saw on his visit to England. Colonel Magruder thinks the Germans will hesitate to invade England proper. He believes they will strike at the Orkney, Shetland, or Faroe Islands and endeavor to establish themselves in a position to dominate the northern entrance to the Irish Sea and thus cut the British sea communications in that area. I incline to agree with him.



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

## TREASURY DEPARTMENT

Confidential

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*W. D. Puleston*  
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TREASURY DEPARTMENT

169

INTER OFFICE COMMUNICATION

DATE August 15, 1940.

TO Secretary Morgenthau  
FROM Captain Puleston

Subject: European Situation

1. There was a comparative lull in the German attacks on the United Kingdom during the past twenty-four hours. The Germans claim this was due to bad weather and stated it made little difference whether they attacked England today, tomorrow or even next month, that her destruction was already assured.

The Berlin official news yesterday morning announced with a great flourish that German planes were going to attack all parts of England. In the Birmingham area the Germans dropped a number of parachutists variously stated from twelve to fifty. So far the British have been unable to locate any German parachutist soldiers. Some British authorities think the Germans are dropping these parachutes as a hoax to deceive the British and cause them to relax their precautions.

2. Unquestionably the German attacks have done considerable damage to the harbors of Dover, Portsmouth, Southampton, Portland and Plymouth, but they have not been able to dominate either the British Air Force or to subdue the anti-aircraft batteries. The Germans attacked British troop concentrations in one locality, probably near Aldershot as this is the headquarters of the Southern Command.

3. The British Admiralty reports that they drove back some of the German motor boats that attempted to attack British shipping.

4. From Switzerland comes word that the Germans will not attempt to invade the southern coast of England but will make their descent on the north east coast of England and in Scotland from ports in Norway and Germany. Probably no one knows what the German intentions are, not even Hitler. The German plans will depend on the success or failure of these preliminary operations. The basic formula of German war plans is "not to carry the plans beyond the point of first contact with the enemy".

5. In the Mediterranean the Greeks report that one of their cruisers was torpedoed by a submarine of unknown nationality. This may have been an Italian submarine and may prove to be the first effort of Italy against Greece.

In British Somaliland the Italians are meeting increasing resistance in their effort to capture Berbera.

6. In the Far East a most interesting item was a reported agreement between Admiral Hart and the Japanese on the occupation of the international settlement in Shanghai. For the time being the Americans and Japanese in Shanghai appear to have appeared a satisfactory solution of the policing of the international settlement.

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

TREASURY DEPARTMENT

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Confidential

INTER OFFICE COMMUNICATION

DATE August 15, 1940

TO Secretary Morgenthau

FROM Captain Puleston

Subject: German Air Attacks on the United Kingdom

1. Both London and Berlin report that the German bombers attacked the United Kingdom throughout the day in the greatest force yet employed. They flew over southeastern England up the estuary of the Thames to the Tilbury docks along the Tyneside area attacking Newcastle and the Vickers-Armstrong Munition Works. Among other objectives attacked was a railroad train.

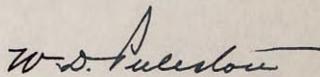
British anti-aircraft guns kept the German planes flying high and they were attacked by British fighters. London claimed that 55 planes had been shot down and 27 probably damaged.

The German aircraft also attacked anti-aircraft batteries near Aberdeen and a convoy of merchant ships along the eastern coast.

2. London estimates that more planes per hour were used than in any other attack. The British claim to have lost only seven planes, of which four pilots were saved.

3. The damage done by these waves of bombers must have been extensive. It appears now that it was the weather that caused a lull in the air hostilities yesterday. Although suffering heavier losses than the British, the Germans by their continuous attacks

are keeping the entire British fighting force almost continuously employed. This is the best way for the Germans to employ their numerically superior air force.



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TREASURY DEPARTMENT

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Confidential

INTER OFFICE COMMUNICATION

DATE August 16, 1940

TO Secretary Morgenthau  
FROM Captain Puleston  
Subject: German Air Attacks on the United Kingdom

1. This morning Germans renewed their attacks on the United Kingdom employing the same methods and apparently a larger number of planes. The purpose of the attacks is to wear down the British Fighter Command until it is entirely destroyed.

The British press and the British official communiques claim that yesterday's battle was a victory for the British air force, and that they had not yet disclosed all of their airfields or their reserve aviation.

The German press is equally confident that this is the beginning of the end for Great Britain. The German press warns the Germans not to expect a sudden victory over this "most obstinate" enemy.

2. I still believe the British accounts of losses are more accurate than the German accounts, primarily because some of the German reports have been proved definitely false and others are fantastic; secondarily because the British are in a better position to know the losses they inflict on the Germans.

3. The British have enough bombing strength left over to continue their attacks on Italy and some German objectives. If

this air war is to culminate in an attempted invasion, British bombers would be an essential part of the British defense. The British are aware of this. Either they believe they have enough bombers to employ now on the offensive and have a reserve left for defense, or they believe they can be better employed now in retarding the German air offensive. Personally, I think the British bombers can be better employed as offensive machines now than to be kept in reserve for future action.

4. I believe that the outcome of the war may easily hinge on the results of these air battles alone. If the Germans can destroy the British air force so that the German bombing planes can continuously bomb England without air opposition, it will be practically impossible for the British to continue the fight. If the British can maintain their fighting squadrons they can inflict such losses on the German bombers that the German air force will be so far reduced in power that the German threat to the United Kingdom will disappear.

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