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December 6, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389 was held in Mr. Foley's office at 3:30 p.m. on December 5, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), B. Bernstein, Dietrich, Schmidt, Lawler, E. M. Bernstein and Timmons for Treasury; Messrs. Acheson, Fisher and Meltzer for State; Messrs. Shea and Jurenev for Justice, and Mr. Knapp for the Board of Governors of the Federal Reserve System.

Mr. Foley told the committee that Mr. Acheson had heard that Mr. Homer Cummings in a recent conversation had said that the firm of Covington, Burling, Rublee, Acheson and Shorb had written an opinion that the stock of General Aniline & Film could be trusted and thus be put beyond the reach of an alien property custodian. Mr. Acheson said that he had no knowledge of this opinion and did not know whether it was written before or after he severed his connection with such firm. In view of these facts, Messrs. Foley and Shea stated that they knew of no reason why Mr. Acheson should not participate in the deliberations of this committee with respect to the General Aniline & Film Corporation, or any other case.

Mr. Foley read to the committee a telegram received from a member of the group which is touring the various Federal Reserve districts speaking to bankers and attorneys about the freezing control. Mr. Foley said that the meetings have been unusually well received and that the whole group is doing a very fine job.

The State Department in a recent letter to the Treasury Department has stated that the Belgian Government has requested this Government to guarantee safe conduct for a Belgian boat, the SS "Frederick", now held by the Germans at Casablanca. It is proposed that this small vessel would come to the United States and return with a cargo of supplies for Belgian prisoners of war. It was agreed that the State Department should be advised that the Treasury Department perceived no objection to this arrangement, provided that no supplies were carried other than those destined for ultimate consumption among Belgian prisoners of war.

Mr. Schmidt referred to several applications involving transfers from the account of the National Bank of Switzerland to the Spanish Exchange Control Institute. These transfers total approximately \$3,000,000 and are stated to be payments by Switzerland to Spain as charter hire on vessels carrying cargo from Spain to Italy, from whence the cargo is moved overland to Switzerland. Mr. Acheson indicated that as these applications are part of the whole Swiss problem he thought no action should be taken thereon at the present time.

The Swedish Minister has informed the Treasury Department that there are in Switzerland at the present time approximately \$4,000,000 worth of Danish dollar bonds and \$4,000,000 worth of Norwegian dollar bonds. The Swedish Legation suggested that a plan be worked out with the paying agents of the bonds whereby coupons would be pre-cancelled then sent to the United States and the interest thereon paid into Swedish accounts. The committee agreed that the Swedish Minister should be informed that approval of this proposal would not be in accordance with our policy in administering the Executive Order.

Mr. Schmidt referred to the recent allocation by the Stabilization Board of China of \$700,000 for the purchase of coal for Shanghai from French Indo-China. The representative of the Bank of Indo-China in the United States, M. Soliva, has stated in a letter to the Treasury that the Indo-Chinese Government will insist upon receiving these payments into either the Special "A" account or the Special "B" account of the Bank of Indo-China before allowing the coal to be exported. These accounts are both free for the purchase of merchandise for shipment to Indo-China. It was agreed that a cable to Manuel Fox should be drafted setting forth the facts and stating that we are inclined to deny the crediting of the purchase price of coal in these free accounts, and requesting his views with respect thereto.

Reference was made to a pending application involving the sale by persons resident in Canada of a villa in France, payment to be made out of the account of a Swiss holding company owned in part by the prospective French purchaser. It was pointed out that this involves the sale of American properties in blocked countries for blocked dollars in the United States,

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and that it constitutes a way in which blocked dollars in the United States may be repatriated. After discussion it was agreed the Treasury should prepare a memorandum discussing the policy questions involved in this type of case.

Mr. Lawler reported to the committee that a new Silesian-American proposal had been submitted to the Treasury Department. The trustees propose to borrow \$1,700,000 from the Union Bank of Switzerland and LaRoche and Company. These funds would be used to pay off the bondholders and the Union Bank of Switzerland and LaRoche would receive an unsecured note in return for the loan. After consideration, the committee agreed that Messrs. Rosenstein and Finkelstein, who have raised the question, should be informed that this proposal does not meet with the approval of this committee.

Mr. B. Bernstein reviewed for the committee several conferences between Treasury representatives and various groups interested in the General Aniline & Film Corporation case, including Mr. Molekamp representing the Dutch Government, Mr. Fritzie representing Dutch banking interests, and Mr. Sharp of Sullivan and Cromwell, attorneys for the Dutch Government and private interests. After lengthy discussion, the committee agreed that this Government should request a ninety-day continuance at the hearing on the stockholders action set for December 10, 1941, in the Delaware Chancery Court at Wilmington. Mr. Acheson pointed out that we must use this period to make a thorough investigation to find out what is happening in the General Aniline & Film Corporation. It was also agreed that we should proceed to install Treasury representatives in General Aniline & Film Corporation to supervise its operations and to conduct further investigations. Mr. B. Bernstein said that in the meantime Foreign Funds Control would continue to hold pending without action the year-old application to transfer 1,500,000 "B" shares of General Aniline & Film Corporation stock from the names of Dutch corporations to I. G. Chemie.

DEC 6 1941

My dear Mr. President:

In accordance with your request of last Wednesday, I looked into the question of how much lag there is in the case of Navy Department payments to shipyards.

The Navy Department supplied me with a list of checks issued on all shipbuilding contracts between November 1 and December 4, 1941, except for certain contracts for small boats and for contracts with shipyards on the west coast (the payments for which are made by disbursing officers in the field). I have been informed that the sample obtained probably covered every shipbuilding contract, with the exceptions mentioned, at least once.

The payment procedure is for the shipyard to file an invoice with the local Navy representative, covering expenditures for a preceding period. The Navy representative forwards the invoice to Washington (except on the west coast) with or without his approval. In cases approved by him, payment is made almost at once; otherwise no payment is made until the controversy is settled by the Navy's Compensation Board.

The attached table presents an analysis, for the sample obtained, of the period involved between the date invoices were submitted by the shipyards to the local Navy representative and the date checks were issued by the Navy Department.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House

See attached
File to Mr. Hoar

December 6, 1941

My dear Mr. President:

I am sending you herewith an analysis of three different estimates of the German oil situation.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Delivered by Secret Service
12:45

Ret

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December 6, 1941

Secretary Morgenthau

Mr. Kamarek

Subject: Estimates of the German Oil Position

Summary

All the available estimates indicate that Germany has been forced to dip into her oil reserves for the Russian campaign. The two up-to-date estimates, those of the British and Russians, both conclude that, as a result, Germany will be forced to restrict her military oil consumption. The British believe that the Germans will be able to do this fairly easily, whereas the Russians state that it may reduce German armored operations.

1. The Russian, British and Treasury studies all agree that up to the invasion of Russia, the axis was able to maintain its reserves intact, i.e. production was approximately equal to the restricted consumption.

2. The Russian and Treasury estimates of the German oil reserves prior to the Russian campaign are both 7,000,000 tons. The British put the figure at 5,000,000 to 5,500,000 tons. An Italian study published in August is more indefinite and says only "some millions" of stocks were on hand.

3. Both the British and Russians agree that in the Russian campaign the Germans have been forced to dip into their reserves. The British calculate the deficit to be 400,000 tons a month, the Russians, 900,000 tons. The Italian discussion does not state so flatly but it can be deduced from the consumption and production figures given that the German reserves had to be drawn on. The Treasury has not made any studies of the German oil situation during the Russian campaign and so no estimates are available.

It is of interest to note that the Italian figures are much closer to the Russian data than are the English figures. The Russians believe that the Germans are consuming 2,000,000 tons of oil a month in their military campaigns. The Italians say that the consumption is 1,500,000 to 2,000,000 tons a month for military purposes alone. The British put consumption for all purposes at 1,500,000 tons.

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4. The excess of consumption over production by November 1, 1941, had depleted German reserves to 3,400,000 - 3,900,000 tons, according to the British, and to 3,400,000 tons, according to the Russians.

5. Both the British and Russians agree that the axis will have to curtail its military consumption of oil. However, the British believe that the Germans can easily save 200,000 to 300,000 tons a month in their military consumption and meet the rest of the deficit by civil saving and increased production. The Russians do not believe that this can be done easily ~~but~~ that the Germans will be forced to finish up their reserves completely and then, "the Germans will have to reduce armored operations or invent new, synthetic means".

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6 December, 1941.

From: ^{III} Shanghai, China.
To : Mr. C. C. ...

Reference Shanghai Municipal Council's request of the 22nd of November to the Treasury Department sent through Campbell, Hongkong, asking for the confirmation of stabilization board's action in allotting exchange to the council for the purchase of coal in Indo-China, payments to be deposited in the French American Banking Corporation, New York, to the credit of Banquebdal, Indo China. Authority from the Treasury is now also requested by the council to pay into same account freight costs on these shipments of Siamese rice. Every possible effort is being made by Hall Patch and the secretary of the council to negotiate U. S. dollar share of freight payment to absolutely necessary minimum. This problem most urgent due to desperately serious shipping position in this area. Presumably you have been kept informed of this matter by the Stabilisation Board.

(signed) SMITH.

TELEGRAM SENT

BF

GRAY

DECEMBER 6, 1941

2 p.m.

AMERICAN CONSUL,
HONG KONG, (CHINA)

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FOR FOX FROM TREASURY.

QUOTE WE have just received from the British Embassy the following memorandum which was prepared in London entitled 'Procedure for Remittances to China':

'As was explained in the Embassy's memorandum of the 24th November, action has already been taken by the British authorities to insist on all remittances passing through the approved banks, whose operations are governed by their undertaking to cooperate with the Chinese authorities regarding the use of exchange so delivered to them.

2. It is now proposed to introduce the following further procedure subject to paragraphs 3. and 4. below:-

(a) Approved banks will open accounts with the Bank of China, London; and where appropriate will open subsidiary accounts in local currency with the Bank

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with the Bank of China in other sterling area centres.

(b) Exchange accruing from financial remittances to China would be placed in these accounts.

(c) Approved banks would be free to use their resources in fapi to make necessary fapi payments.

(d) Approved banks would be allowed to use the balance on their accounts with the Bank of China to meet out-payments resulting from approved applications to the Stabilization Board, whether for trade or other purposes.

(e) Insofar as approved banks need to replenish their fapi or insofar as the Stabilization Board requires it, approved banks will transfer sterling from their accounts with the Bank of China to the Central Bank of China against payment in fapi.

3. To meet the difficulty where drafts drawn in sterling or sterling area currencies are sent to China, it is proposed to instruct banks that such drafts must be so marked as to insure that the resulting exchange is centralized with the Bank of China.

4. Residents in China with sterling accounts (whether with banks in China or with banks in the sterling area) will be free to draw on them in fapi provided that the sterling counterpart passes through the

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through the channel set out above. In addition British subjects (including British firms):-

- (a) will continue to be allowed to make payments in sterling within the sterling area; and
- (b) may have credited direct to their accounts interest and dividends, salaries and proceeds of life insurance policies, etc.

The object of this proposal is that these account holders, while only able to obtain local currency through the appropriate channel, may hold assets in sterling or maintain families in the sterling area.

It has been assumed that Americans in Shanghai are not forced to take the whole of their salaries or unearned income in fapi and meet their American commitments from dollars repurchased from the Chinese.

5. London are prepared to consider similar provisions for other foreign residents in China holding sterling assets, should the American and Chinese authorities wish it.

6. London are anxious to act as soon as possible, and are waiting only for confirmation that the proposals are agreeable to the Chinese and United States Governments.

We would like

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We would like to have your early comments concerning the above memorandum. It would appear to us, subject to further study, that the procedure outlined in paragraph 2 is substantially in accordance with the procedure prescribed in our General License 75.

In connection with the subject matter of subparagraphs (a) and (b) of paragraph 4, we have received an inquiry from American Consul General, Shanghai, as to whether transfers can be made without prior approval of Stabilization Board by individuals or firms from their United States dollar accounts on the books of appointed banks to their blocked accounts in the United States which may be operated only pursuant to Treasury license. We have given some consideration to replying to the effect that such transfers will require a Treasury license, but that in the ordinary case the Treasury will not license such transfers unless prior approval has been obtained from the Stabilization Board. We would like to have your views on this proposed reply, bearing in mind the desirability of parallel policies by British and American authorities. END QUOTE.

HULL
(FL)

FD:FL:ME