

June 24, 1940

Mr. Knudsen called HM, Jr at 11:15 from Detroit, Mich.

The following is a record of their conversation:

Mr. Knudsen: How are you?

HM, Jr: I am fine, thank you.

Mr. Knudsen: I talked to Ford for about an hour and a half today. I was with Edsel and Henry. We argued back and forth for an hour and a half. He is willing to make 10,000 motors for the United States, but he will not make any contract with the Allies. That puts the thing up in the air. If you think it is all right, I will talk to some one else in Detroit and will try to transfer the deal.

HM, Jr: In view of the fact that it is an English motor, I don't think that we can make such a contract with Ford.

Mr. Knudsen: What do you think of my talking with Packard?

HM, Jr: I think it is just fine.

Mr. Knudsen: You did not have such a good impression of Chrysler?

HM, Jr: No, but Mr. Keller, of Chrysler, wrote me firmly that they were no longer interested because they felt the engine did not lend itself to mass production. I know that Packard is very anxious to get some business. I am with you 100%.

Mr. Knudsen: I told Ford that I will hold it off until 11 o'clock tomorrow just in case he wants to think it over. Edsel said that his father changed his mind when he saw the Beaverbrook announcement. I don't understand their attitude. They have been selling trucks to the French.

HM, Jr: After you have talked to Packard, perhaps you and I will see the President.

oOo-oOo

CONFIDENTIAL

June 24, 1940

To: The Secretary

From: Mr. Young

Mr. Ballantyne advised me that the Anglo-French Purchasing Board has never bought anything from Ford in the United States and that no negotiations are pending.

The Anglo-French Purchasing Board has already placed one large order for trucks and is now negotiating two additional orders for trucks with Ford in Canada.

F.Y.

# CONFIDENTIAL

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June 24, 1940

My dear Admiral Noyes:

Will you please transmit the following cable for me to Ambassador Kennedy via secret naval code:

QUOTE - 1. Could you find out what has happened to French aircraft carrier Bearn and its cargo of American airplanes?  
2. I have only turned over the plans for the Rolls Royce Merlin engines III - X - XX to manufacturers. Pending receiving word from Lord Beaverbrook direct through you, I am holding the balance of the plans in custody. Please ask Lord Beaverbrook what he wishes me to do with them. The Rolls Royce representative in this country is making a ~~damned~~ nuisance of himself. -  
UNQUOTE

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral Leigh Noyes, U.S.N.  
Director of Naval Communications,  
Room 2622, Navy Building  
Washington, D.C.

*Ms. Sly, sent lines  
By Messenger 4 20*

CONFIDENTIAL

225

June 24, 1940

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UNQUOTE

Yours sincerely,

(Signed) H. Morawetz, Jr.

Rear Admiral Leigh Noyes, U.S.N.  
Director of Naval Communications,  
Room 2622, Navy Building  
Washington, D.C.

My. lly, secret dir  
B.M. Morawetz 4/20

Regraded Unclassified

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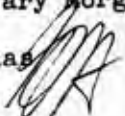
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 24, 1940.

TO Secretary Morgenthau

FROM

Mr. Haag 

Reports from the Work Projects Administration show that employment declined 74,000 to 1,785,000, for the week ending June 12, 1940, from the 1,859,000 persons reported for the preceding week.

Attachments

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

Week Ending 1939-40	Number of Workers (In thousands)
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Monthly  
United States

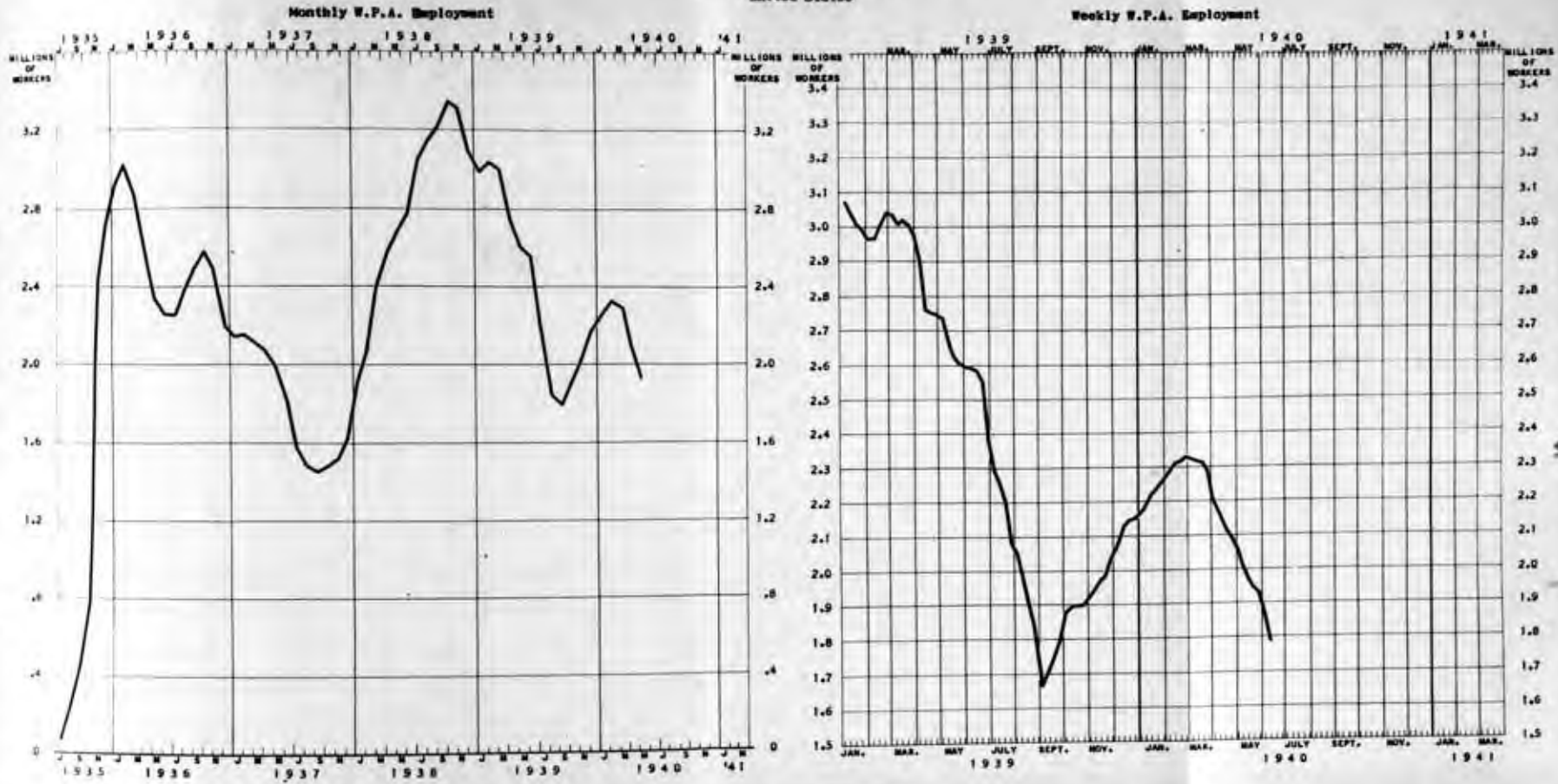
	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORK PROJECTS ADMINISTRATION



June 24, 1940

Mr. Feble

Mr. Cochran

## STRICTLY CONFIDENTIAL

At 3 o'clock this afternoon Mr. Leroy-Beaulieu told me by telephone from New York that Mr. Boyer, who had called on us last week in regard to the Banque Francaise Italienne, is now quite nervous lest the American freezing operations may have so injured the credit of this institution in Latin America that it will be obliged to close. Leroy-Beaulieu thought that unless we may have received some information from Rome in regard to the bank being under Italian control, since the date on which he spoke to me, we might feel free to go ahead toward taking some steps to keep this bank in operation. When I telephoned the above information to Mr. Feble, he asked why the possibility of cobling to Rome was mentioned. I explained that Mr. Leroy-Beaulieu had advanced the idea the other day when he was here that I might be able to obtain some pertinent information in regard to the present operation of this bank through our Ambassador at Rome. I had told him at that time that I did not contemplate such a cablegram, and I informed him further today that the Treasury had made an inquiry in Italy. I made no recommendation to Mr. Feble on this case, but simply reaffirmed my position that we are likely to do more harm than good in delaying transactions without possessing positive reasons therefor. Leroy-Beaulieu has critically remarked that if the Treasury decides the bank is Italian, we leave it free to operate as it pleases, while if we consider it French, we restrict it.

*J. M. P.*

## TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE June 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

There is attached a copy of a memorandum to the Department of Commerce, signed by Mr. Ball, which gives the data necessary for the published records. I took up yesterday with Mr. Simpson of the Division of Foreign Trade Statistics of the Department of Commerce the question of getting the gold shipment under reference carried in the report for the week ending June 19. It will be recalled that we made payment for the gold on June 19, although the cargo did not actually arrive alongside until June 20, and was not unloaded until June 21 and 22.

It was physically impossible for the Department of Commerce to include this item, since the stenciled report for the week ended June 19 had already gone to the printers, and I thought it would be entirely ill advised to have any footnote or correction added thereto which would attract attention. Furthermore, both the officials in the Department of Commerce and in the Federal Reserve Bank at New York thought it more technically correct to show the shipment for the week ending June 26.

Messrs. Gardner and Morse of the Federal Reserve Board have telephoned me today in regard to this entry. I have insisted that it is to be kept absolutely confidential. I told them that any inquiries which I might receive would be referred to Mr. Schwarz.



MEMORANDUM

June 24, 1940

To: U. S. Department of Commerce,  
Division of Foreign Trade Statistics  
Attention: Mr. Simpson

Will you kindly include in your Weekly Statement of Gold and Silver Exports and Imports for the week ending June 26, 1940, an import into New York of 6,902,171.358 fine ounces of gold valued at \$241,575,997.53. This shipment came from France. It will not be covered by any other entry papers.

(Signed) D. W. BELL

D. W. Bell  
Under Secretary of the Treasury

(Init.) H. M. G.

62020016.24.40

# TREASURY DEPARTMENT

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## INTER-OFFICE COMMUNICATION

DATE JUN 25 1940

TO Secretary Morgenthau  
FROM Mr. Foley

On Wednesday, June 19, 1940 general understanding was reached by Messrs. Knudsen, Biggers, Jones and representatives of Wright Aeronautical Corporation on a plan for financing the acquisition of new facilities by private manufacturers who participate in the national defense program. Attached is a tentative draft of an agreement embodying the plan and a two-page summary.

The agreement covers the case of an aircraft engine manufacturer who contemplates buying a tract of land, erecting a new plant, and installing machinery to produce engines for the United States and foreign governments. The object of the agreement is to provide a method for financing these additional facilities through travelling a well-beaten path of finance as far as consistent with sound economy and the public interest.

The agreement achieves this objective by adapting the theory of revenue financing of public enterprises to private corporate participation in the national defense program. A government corporation, wholly owned by the RFC, will lend the private manufacturer sufficient money to expand his plant. The loan will be payable exclusively from the revenue produced through the use of the new facilities, and will be secured by a first mortgage on the plant or machinery. The credit of the manufacturer will not be pledged to the payment of the loan, and no recourse will be possible against any of his property not acquired with the proceeds of the loan.

The loan, as distinguished from the physical plant or machinery, will be amortized by including in the sales price of each engine sold to the United States and foreign governments a fixed sum which will, assuming capacity operations, produce an amount equal to the loan in eight years. This is called the "Amortization Amount." Monthly payments on account of the loan will then be made from the proceeds of the sales and will be computed by simply multiplying the Amortization Amount by the number of engines delivered the preceding month. Interest on the unpaid balance of the loan is payable yearly, at four per cent per annum.

Whenever the manufacturer is without any unfilled orders for engines he is given three choices: (1) he can pay off the loan, (2) he can pay a sum equal to the fair value of the facilities, as determined by the governmental corporation, with the approval of the President, or (3) he can convey title to the facilities to the Government. Only if the manufacturer does not exercise any of these choices can there be a foreclosure sale. However, if the facilities consist only of additions to existing buildings or machinery there can be no foreclosure sale but the Government must demolish the additions, or repossess the machinery unless the manufacturer exercises one of his choices.

Because the manufacturer is thus safeguarded against all competition, it is not in the public interest to utilize this method in the case of industries where Government operation is traditional, such as arsenals and power plants, or in the case of private monopolies, such as the aluminum industry.

Time is of the essence if the national defense program is to succeed. Consequently, the loan must be made even before the contracts for the sale of the aircraft engines are executed so that the new facilities can be built or bought immediately.

The governmental financing agency must take the risk of insufficient orders from which to repay the loan. That risk is too great for private enterprise to assume. Government ownership of all new facilities will not be necessary if the proposed plan is understood as a device to encourage private enterprise and is administered in this spirit, and not in the moneylender's tradition.

It probably goes without saying, but to avoid any possibility whatever of misunderstanding, it may be well to mention that the Amortization Amount bears no relation to the allowances for depreciation, obsolescence and loss of useful value authorized as deductions under the income tax laws and as costs under the Vinson-Trammell Act. The rapidity with which the United States Steel Corporation may redeem its debentures has nothing to do with the period within which it depreciates its physical assets. So, here, the fact that an eight-year period is allowed for the amortization of the loan (i.e. the capital investment) does not affect in any way the period which is allowed for making good the depreciation or obsolescence of the project (i.e. the capital loss); loose use of the word "amortize" has caused much of the existing confusion.

The word "amortize" is derived from the Latin ad (to) and more (death) and means to deaden; hence, to extinguish a debt. And that is all the Amortization Amount under the draft agreement accomplishes.

*E. J. F. H.*

There is attached hereto a draft form of agreement intended to carry into effect a plan for financing expansion of productive capacity of manufacturing plants participating in the national defense program. It contemplates the creation of a corporation to be known as the "Defense Finance Corporation" to be organized under Senator Glass' bill (S. 3938) by the Reconstruction Finance Corporation which would finance an aircraft engine manufacturer desiring to increase his capacity.

Part One, §1 recites that the manufacturer desires to purchase land, construct a plant, and purchase machinery (but only machinery usable for the production of engines purchased by the Army and Navy), and has applied to the Defense Finance Corporation for a loan which has been approved by that Corporation.

Part One, §2 provides that the Defense Finance Corporation will loan the manufacturer funds to buy the land, construct the plant, and purchase the machinery, the loan to be secured solely by a mortgage, it being understood that the credit of the manufacturer is not being pledged to the payment of the loan.

Part One, §3 provides that the manufacturer will include in the sales price of aircraft engines produced in the new plant an amount which, if the plant operates at full capacity for 8 years, will yield a sum within that period equal to the amount of the loan, thus amortizing the capital investment within an 8-year period. It is clearly stated that this formula has nothing to do with so-called "amortization" under the income tax and profit limitation laws, which permits deductions for wear and tear, obsolescence, and loss of useful value in computing net income and profits.

Part One, §4 provides that the manufacturer will repay the loan monthly according to the number of engines produced and sold to the Government of the United States and to foreign governments during the preceding month. Interest at the rate of 4 per centum is payable annually.

Part One, §5 provides that the Defense Finance Corporation can foreclose the mortgage if the manufacturer defaults in payment, but if the default is caused by cancellation of orders the manufacturer can prevent the foreclosure of the mortgage (1) by paying a sum equal to the fair value of the land, plant and equipment as determined by the Defense Finance Corporation, with the approval of the President of the United States, or (2) by conveying the same to the Defense Finance Corporation. In either event the loan would be considered discharged and the mortgage satisfied. A footnote to this section provides that if only additions to existing buildings or the purchase of machinery have been financed, then the Defense Finance Corporation could demolish the additions or repossess the machinery, but it could not foreclose the mortgage, unless the default did not come about through cancellation of orders.

Part Two of the agreement provides the procedure for obtaining advances on account of the loan and expending the funds. It provides that from time to time after the execution of the agreement the engine manufacturer will file requisitions with the Defense Finance Corporation requesting advances on account of the loan, each of which will be accompanied by a signed statement of purposes showing the use to which such advances will be put. If the requisition is satisfactory in form and substance, sufficient funds for the carrying out of the project for a reasonable period will be advanced.

The engine manufacturer will deposit the money so received in a separate account in a bank which is a member of the Federal Reserve system and the Federal Deposit Insurance Corporation and which is satisfactory to the Defense Finance Corporation. The manufacturer agrees to expend such moneys only for the purposes specified in a requisition and approved by the Defense Finance Corporation, the purpose being to safeguard adequately the use of funds loaned without the delay incident to audits.

Part Three of the agreement relates to working capital. It provides that while the engines are being manufactured the Defense Finance Corporation will stand ready to provide working capital by purchasing from the engine manufacturer at par negotiable general obligation unsecured notes payable in 6 months and bearing interest at the rate of 4 per centum per annum payable semi-annually. The maximum amount of such notes will be a specified percentage of the estimated cost of the labor and materials employed by the manufacturer in producing the engines.

The agreement provides that if the engine manufacturer receives any other funds from the Government for working capital, such as, for example, advances by the War and Navy Departments, the amount of working capital notes agreed to be purchased by the Defense Finance Corporation shall be reduced or retired accordingly.

Part Four of the agreement contains special conditions. The manufacturer agrees that all contracts for the manufacture of engines in the new plant will contain provisions promising compliance with the Walsh-Healey Act in producing engines, irrespective whether such engines are produced for the United States or for foreign governments & limiting profits to that allowable under the Vinson-Trammell Act, even though the engines are sold to a foreign government.

This Part of the agreement also contains provisions requiring the manufacturer to furnish certain information, providing that the Defense Finance Corporation shall not be obligated to pay expenses incurred by the manufacturer in performing its duties under the agreement, prohibiting the admission of any members of Congress in the benefits of the agreement, giving the Defense Finance Corporation the right to cancel the agreement if the manufacturer delays unreasonably in proceeding with the expansion of his plant, requiring the manufacturer to carry insurance upon the plant, listing the conditions precedent to the obligations of the Defense Finance Corporation to make any loan or purchase working capital notes, containing the representations and warranties of the engine manufacturer and providing how the agreement shall be construed.

One of the conditions precedent to the obligations of the Defense Finance Corporation under the agreement is that the manufacturer agree to secure from foreign governments agreements saving the Defense Finance Corporation harmless from loss of all or any part of funds advanced under the agreement, due to the cancellation by any foreign government of any contracts with the manufacturer. In this way the same draft agreement can be used whether manufacturers are building engines for the War and Navy Departments or for the British government but the Defense Finance Corporation would be protected against loss, even though it agrees to forgive the indebtedness of the engine manufacturer to it to the extent of any such cancellation.

1                   AGREEMENT dated as of June 30, 1940,  
2                   between the DEFENSE FINANCE CORPORATION,  
3                   (herein called the "Lender") a corpora-  
4                   tion created by the Reconstruction  
5                   Finance Corporation and the \_\_\_\_\_  
6                   (herein called the "Borrower"), a cor-  
7                   poration organized under the laws of the  
8                   State of \_\_\_\_\_.

9                   PART ONE.

10                   General Provisions

11                   1. Preliminary. With a view to increasing its capacity for  
12                   the production of aircraft engines and facilitating the delivery  
13                   thereof at an accelerated rate of production, the Borrower con-  
14                   templates (a) the acquisition of title in fee to a tract of  
15                   land, of approximately \_\_\_\_\_ acres, included within that area  
16                   bounded by \_\_\_\_\_  
17                   \_\_\_\_\_, (b) the construction upon said tract of a manufacturing  
18                   plant, consisting substantially of \_\_\_\_\_  
19                   \_\_\_\_\_, and (c) the purchase of standard and  
20                   special machinery, including but not limited to jigs, tools, dies,  
21                   fixtures, and patterns, for the production of said engines, but exclud-  
22                   ing machinery not usable for the production of said engines of types  
23                   and models approved for purchase by the United States of America or  
24                   any department, agency or instrumentality thereof (herein called the  
25                   "Government"). The acquisition of said land, the construction of said



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26 manufacturing plant, and the purchase of said machinery are herein  
27 collectively called the Project. In order to carry out the Project  
28 the Borrower has made application to the Lender to aid in financing  
29 the Project as a part of the national defense program. Said applica-  
30 tion has been approved by the Lender.

31 2. The Loan and the Mortgage. To aid the Borrower in carry-  
32 ing out the Project the Lender agrees to lend to the Borrower, and  
33 the Borrower agrees to borrow from the Lender, an amount equal to  
34 the cost of the Project as approved by the Lender but in no event  
35 to exceed the sum of \$ \_\_\_\_\_ (herein called the "Loan"),  
36 The Loan shall be secured by a mortgage which shall constitute a  
37 direct first mortgage upon the Project and any property hereafter  
38 acquired for reconstructing, replacing, or repairing the Project or  
39 any part thereof. The mortgage shall be the sole security for the  
40 Loan, it being expressly agreed and understood that the full faith  
41 and credit of the Borrower shall not be deemed pledged to the pay-  
42 ment of the Loan. The mortgage shall be substantially in the form  
43 of Exhibit A hereto annexed, with such changes as the Lender shall  
44 Exhibit A with such changes being  
45 approve (/herein called the "Mortgage"). Except as expressly pro-  
vided to the contrary, all of the covenants and agreements of the

46 Borrower, as set forth in the Mortgage, shall be considered a part  
47 of this Agreement and shall constitute covenants and agreements by  
48 the Borrower with the Lender.

49 3. Amortization of Capital Investment. The Borrower will in-  
50 clude in the sales price of any aircraft engines produced in the  
51 Project for the Government and foreign governments (such engines  
52 being herein called the "Engines") an amount which, with the Project  
53 operating at full capacity for eight years, will yield a sum within  
54 said period equal to the Loan. It is hereby agreed that the amount  
55 to be so included in the sales price of each of the Engines is  
56 \$ \_\_\_\_\_, said sum being herein called the "Amortization Amount".

57 It is understood by the parties hereto that the provisions of this  
58 paragraph 3 bear no relation to, and shall not affect or be affected  
59 by, any determination of fair value pursuant to paragraph 5 hereof or  
60 the ascertainment of excess profit under this or any other agreement.

61 4. Payment of Loan. The Borrower hereby covenants and agrees  
62 to pay or cause to be paid to the Lender monthly on the first day of  
63 each month, beginning with the month next succeeding the month after  
64 the first of the Engines is delivered by the Borrower to the Govern-  
65 ment or to foreign governments, the Amortization Amount multiplied by

66 the number of Engines so delivered during the preceding month, and  
67 shall also pay interest on the first day of January of each year on  
68 all advances on account of the Loan made during the preceding year  
69 and then outstanding and unpaid, at the rate of four per centum per  
69a annum from the date of such advances, until either (a) the amounts  
70 so paid on account of the Loan shall equal the sum of (1) the ag-  
71 gregate principal amount thereof as provided in paragraph 2 hereof,  
72 and (2) the interest on the Loan as provided in this paragraph 4  
73 plus interest at the same rate on any unpaid installments of in-  
74 terest, or (b) provision for the payment or discharge of any un-  
75 paid portion of the Loan shall have been made as provided in paragraph  
76 5 hereof.

77 5. Remedies of Lender. (1) In the event that the Borrower  
78 fails to fulfill its covenant and agreement contained in paragraph  
79 4 hereof to pay or cause to be paid to the Lender any amount re-  
80 quired to be paid by said paragraph for any reason which constitutes  
81 an "event of default" as provided in the Mortgage, the Lender shall  
82 be entitled to foreclose the same as therein provided.

83 (2) In the event that the Borrower is, at any time prior to  
84 the payment of the Loan, together with interest thereon, without  
(b) any outstanding or unfilled orders to manufacture or assemble Engines  
(c) in the Project, which condition shall continue for a period of six

84 months, the Lender shall have the right to foreclose the Mortgage \*  
85 unless the Borrower at its option shall:

86 (a) pay to the Lender the unpaid portion of the  
87 Loan, together with interest thereon, and interest on  
88 unpaid installments of interest;

89 (b) pay to the Lender a sum equal to the fair value  
90 of the Project as determined by the Lender, with the ap-  
91 proval of the President of the United States, or

92 (c) convey to the Lender, by full covenant and  
93 warranty deed, title to the Project in full and complete  
94 satisfaction of the Loan and the Mortgage.

95 PART TWO

96 Carrying Out the Project.

97 6. Time of Essence. When this Agreement has been executed,  
98 the Borrower (unless it has already done so) shall promptly take  
99 all proceedings necessary to acquire the lands, construct the build-  
100 ings, purchase the machinery, and otherwise start the Project, and  
101 shall continue the Project to completion with all practicable dis-

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\* - If the Project consists only of additions to existing buildings and/or the purchase of machinery, in lieu of the words underlined insert "to demolish the additions and/or repossess the machinery."

102 patch in an efficient and economical manner. The Borrower hereby  
103 covenants and agrees that time is of the essence of this Agreement  
104 and represents that it is ready, willing and able to perform its  
105 duties and obligations hereunder expeditiously.

106 7. Requisitions. From time to time after the execution of  
107 this Agreement, the Borrower shall file a requisition with the Lender  
108 requesting the Lender to make an advance on account of the Loan.  
109 Each requisition shall be accompanied by such documents as may be  
110 requested by the Lender (a requisition together with such documents  
111 being herein collectively called a "Requisition"). If a Requisition  
112 requesting the Lender to make such payment is satisfactory in form  
113 and substance to the Lender, the Lender within a reasonable time after  
114 the receipt of such Requisition, will make an advance in such amount  
115 as will provide, in the judgment of the Lender, sufficient funds for  
116 the carrying out of the Project for a reasonable period. Every re-  
117 quest for an advance on account of the Loan must be accompanied by  
118 a signed statement of purposes in which the Borrower must certify in

127 reasonable detail the purposes for which the advance requested will  
 128 be used, and by other documents supporting the request. A schedule  
 129 of such other documents to be submitted by the Borrower to the Lender  
 130 at the time that the first such advance on account of the Loan is  
 131 requested is contained in Exhibit B annexed hereto. A schedule of  
 132 such other documents to be submitted by the Borrower to the Lender at  
 133 the time that the second and subsequent advances on account of the  
 134 Loan are requested is contained in Exhibit C annexed hereto. All  
 135 advances on account of the Loan shall be made at a Federal Reserve  
 136 Bank to be designated by the Lender or at such other place or places  
 137 as the Lender may designate, against delivery by the Borrower of such  
 138 additional documents as may be requested by the Lender. The Lender  
 139 shall be under no obligation to make any advance on account of the  
 140 Loan beyond the amount which in the judgment of the Lender is needed  
 141 by the Borrower to carry out the Project.

142       8. Project Accounts. The Borrower shall deposit all moneys  
 143 received from the Lender pursuant to paragraph 7 hereof promptly upon  
 144 the receipt thereof in a separate account or accounts in a bank or  
 145 banks which are members of the Federal Reserve System and of the  
 146 Federal Deposit Insurance Corporation and which shall be satisfactory

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147 at all times to the Lender. Each of such accounts is herein called a  
148 "Project Account". The Borrower shall expend the moneys in a Pro-  
149 ject Account only for such purposes as shall have been previously  
150 specified in a Requisition filed with the Lender and as shall have  
151 been approved by the Lender. Payments for carrying out the Project  
152 shall be made only from a Project Account. Any moneys remaining un-  
153 expended in a Project Account after the completion of the Project  
154 which are not required to meet obligations incurred by the Borrower  
155 in carrying out the Project shall be applied to the payment of the  
156 Loan.

157 PART THREE

158 Working Capital.

159 9. Working Capital Notes. During the period in which the  
160 Project is being carried out and the Engines are being manufactured,  
161 and subject to the terms and conditions of this Agreement, the Lender  
162 will, in addition to the Loan, aid the Borrower in financing the  
163 manufacture, assembly, and testing of the Engines for delivery to  
164 the Government and to foreign governments by providing working capital,  
165 and for that purpose the Lender will purchase at par, and the Borrower  
166 will sell at par, negotiable, general obligation, unsecured notes

167 (herein called "Working Capital Notes"), in a principal amount not 243-  
168 exceeding in the aggregate \_\_\_\_\_ percent of the estimated cost of  
169 the labor and materials to be employed by the Borrower in the manu-  
170 facture, assembly and testing of the Engines. The determination by  
171 the Lender of the estimated cost of such labor and materials shall  
172 be conclusive. The Working Capital Notes shall be payable six months  
173 from the date thereof, shall bear interest at the rate of 4 per centum  
174 per annum, payable semi-annually, and shall be substantially in such  
175 form as set forth in Exhibit D annexed hereto.

176 10. Requisition for Purchase of Notes. At any time after the  
177 execution of this Agreement the Borrower may file a Requisition with  
178 the Lender requesting the Lender to purchase Working Capital Notes.  
179 If such Requisition is satisfactory in form and substance to the  
180 Lender, the Lender within a reasonable time after the receipt of such  
181 Requisition, will purchase Working Capital Notes in such amount as  
182 will provide, in the judgment of the Lender, sufficient funds to  
183 provide the working capital needed in the manufacture, assembly, and  
183a testing of the Engines for a reasonable period, but not to exceed the  
184 percentage of the estimated cost of the labor and materials to be  
185 employed in the manufacture, assembly, and testing of the Engines  
186 stated in paragraph 9 hereof.



187 The payment for the Working Capital Notes will be made at a Federal  
188 Reserve Bank to be designated by the Lender, or at such other place  
189 or places as the Lender may designate, against delivery by the Bor-  
190 rower of the Working Capital Notes, together with such documents as  
191 may be requested by the Lender.

192 11. Other Working Capital from the Government. If the Borrower  
193 shall receive any funds from the Government, other than from the sale  
194 to the Lender of Working Capital Notes, to aid the Borrower in financ-  
195 ing the manufacture, assembly, and testing of the Engines for delivery  
196 to the Government or to Foreign governments by providing working capital,  
197 to the extent that such funds are so received, the aggregate principal  
198 amount of the Working Capital Notes agreed to be purchased by the Lender  
199 in paragraph 9 hereof shall be reduced, or, if already purchased by  
200 the Lender in the maximum amount, to the extent that such funds are  
201 so received, the Borrower will apply the same to the redemption of  
202 Working Capital Notes.

PART FOUR

Special Conditions.

203  
204  
205 12. Wage and Hour Provisions. The Borrower hereby coven-  
206 ants and agrees that all contracts for the manufacture of the  
207 Engines will contain provisions to the effect that the Borrower  
208 will comply with the Act of June 3, 1936, entitled "An Act to pro-  
209 vide conditions for the purchase of supplies and the making of con-  
210 tracts by the United States, and for other purposes," (49 United  
211 States Statutes at Large 2036) as amended, and all orders, rules  
212 and regulations issued pursuant thereto, irrespective whether the  
213 Engines are manufactured for or sold to the Government or are manu-  
214 factured for or sold to foreign governments.

215 13. Profit Limitation. The Borrower hereby covenants and agrees  
216 that all contracts for the manufacture of Engines for foreign govern-  
217 ments will contain provisions to the effect that the Borrower will  
218 pay to such foreign governments all profit in excess of the percentage  
219 of the total contract prices for the Engines which the Borrower would  
220 have been required to pay into the Treasury of the United States as  
221 excess profit under the Act of May 27, 1934 (48 United States Statutes  
222 at Large 505), as amended, if such contracts had been made by the

223 Secretary of the Navy for the construction and/or manufacture of  
224 any complete aircraft, or any portion thereof, and the method of  
225 ascertaining the amount of such excess profit to be paid to  
226 foreign governments shall be determined in the same way as it would  
227 have been determined if the contracts had been entered into with  
228 the Secretary of the Navy; it being the intontion of this paragraph  
229 13 to limit the profit of the Borrower on contracts for the manu-  
230 facture of Engines for foreign governments to the percentage allowed  
231 by §3 of said Act, as amended.

232 14. Information. During the carrying out of the Project, the  
233 Borrower will furnish to the Lender all such information and data as  
234 the Lender may request as to the carrying out, cost, progress, and  
235 disposition thereof. The Borrower shall report, or cause to be reported,  
236 to the United States Department of Labor monthly, within five days after  
237 the close of each calendar month upon forms to be prescribed, and in  
238 accordance with instructions to be furnished, by the United States  
239 Department of Labor, covering the number of persons on payrolls directly  
240 connected with the Project, the aggregate amount of such payrolls and  
241 the man-hours worked, and an itemised statement of the total expenditures  
242 for materials. The Borrower shall also furnish, or cause to be furnished,

288 at the earliest date practicable, to the United States Department of  
289 Labor all the names, and addresses of all contractors and subcontractors  
290 engaged in carrying out the Project.

291 15. Expenses. The Lender shall be under no obligation to pay any  
292 costs, charges or expenses incident to compliance with any of the duties  
293 or obligations of the Borrower hereunder including, without limiting  
294 the generality of the foregoing, any legal, engineering or accounting  
295 costs, charges or expenses incurred by the Borrower.

296 16. Interest of Members of Congress. No member of or delegate to  
297 the Congress of the United States of America shall be admitted to any  
298 share or part of this Agreement, or to any benefits arising therefrom.

299 17. Undue Delay by the Borrower. The Lender shall have the right  
300 to cancel this Agreement and annul any obligation to make the Loan or  
301 purchase Working Capital Notes if the Borrower shall delay for an un-  
302 reasonable time in carrying out any of the duties or obligations to be  
303 performed by the Borrower hereunder, or unless the Borrower shall  
304 within a reasonable time (a) file Requisitions with the Lender in ac-  
305 cordance with the provisions <sup>hereof,</sup>    and (b) commence the Project or cause  
306 it to be commenced and carried on to completion with due expedition.

307 18. Insurance. The Borrower hereby covenants and agrees to carry  
308 insurance of such types and in such amounts upon the Project or any  
309 part thereof as the Lender may request.

310 19. Conditions Precedent to the Lender's Obligations. The Lender  
311 shall be under no obligation to make the Loan or purchase Working  
312 Capital Notes:

313 (a) If in the judgment of the Lender the financial condition  
314 of the Borrower shall have changed unfavorably in a  
315 material degree from the condition as theretofore  
316 represented to the Lender;

317 (b) If the Lender shall not be satisfied that the Borrower  
318 will be able to carry out completely the Project for the  
319 sum of \$ \_\_\_\_\_, or that the Borrower will be able  
320 to obtain in a manner satisfactory to the Lender, any ad-  
321 ditional funds which the Lender shall estimate to be  
322 necessary to carry out completely the Project;

323 (c) If the Lender shall not be satisfied that the Borrower  
324 has complied with all the provisions contained in this  
325 Agreement;

- 326 (d) If the Lender shall not be satisfied as to all legal  
327 matters and proceedings affecting the Project and the  
328 repayment of any funds advanced hereunder;
- 329 (e) If any representation made by the Borrower in any  
330 document submitted to the Lender shall be found by the  
331 Lender to be incorrect or incomplete in any material  
332 respect;
- 333 (f) If the Borrower shall not obtain binding and legal agree-  
334 ments from the foreign governments with which it has  
335 contracts for the manufacture of Engines in the Project,  
336 said agreements to be in form and substance satisfactory  
337 to the Lender, under which such foreign governments  
338 agree to indemnify and save the Lender harmless from  
339 loss of all or any part of the Loan, or arising from the  
340 making thereof or from the purchase of the Working Capital  
341 Notes, due to the cancellation by such foreign governments  
342 of any of such contracts for any reason other than the  
343 material breach thereof by the Borrower.

344 20. Representations and Warranties. The Borrower represents  
345 and warrants as follows:

- 346 (a) No litigation or other proceedings are pending or  
347 threatened which might adversely affect the Loan,  
348 the Mortgage, the Working Capital Notes, the carry-  
349 ing out of the Project, or the financial condition of  
350 the Borrower;
- 351 (b) The Borrower has not paid, nor does it intend to pay,  
352 any bonus, fee or commission in order to secure the  
353 Loan or to sell the Working Capital Notes hereunder;
- 354 (c) Every statement contained in this Agreement and in  
355 any other documents submitted to the Lender or to the  
356 Government are correct and complete, and no relevant  
357 fact materially affecting the Loan, the Mortgage,  
358 the Working Capital Notes, the Project, or any of the  
359 duties or obligations of the Borrower under this Agree-  
360 ment, has been omitted therefrom.

361 21. Construction of Agreement. This Agreement shall be binding  
362 upon the parties hereto when copies thereof, duly executed by the  
363 Borrower and the Lender, shall have been received by the parties  
364 hereto. This Agreement shall be governed by and construed in ac-  
365 cordance with the laws of the District of Columbia.

366 IN WITNESS WHEREOF, The Lender and the Borrower have respectively  
 367 caused this Agreement to be duly executed as of the day and year first  
 368 above written, but actually on \_\_\_\_\_.

369

DEFENSE FINANCE CORPORATION

370

By \_\_\_\_\_

371

\_\_\_\_\_ CORPORATION

372 ATTEST:

By \_\_\_\_\_

373

\_\_\_\_\_



WASHINGTON D.C.

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25 JUNE 1940

FOR THE HONORABLE SECRETARY OF TREASURY  
FROM MR KENNEDY

BEARN LEFT HALIFAX JUNE 16TH FOR FRANCE AND WAS DIVERTED  
TO NORTH AFRICAN PORT.

LORD BEAVERBROOK TELLING MORRIS WILSON AS HIS DIRECT CONTACT  
TO GET ROLLS ROYCE PLANS FROM YOU AND HE SAID YOU COULD KICK OUT  
THE ROLLS ROYCE REPRESENTATIVE FOR ALL OF HIM.

TOR 1645 25 JUNE

June 25, 1940

9 a. m.

Present:

Mr. Knudsen  
Mr. Young  
Mrs. Klotz

Mr. Knudsen: I can get Packard to take the job. I suppose we ought to get hold of Purvis to find out if it is satisfactory.

HM, Jr: This is Carl Ward's first report. I have a copy here for you, but I want to read a paragraph to you.

"The management showed us an exchange of cables which were highly confidential, wherein the United States divisions of the Ford Motor Company had agreed to help the Allies. This telegram referred to Mr. Henry Ford as well as Mr. Edsel Ford, and indicated that the decision had only just been reached that day. The management indicated that in their opinion Germany was manufacturing 1600 airplanes per month, France and England combined, 1100, and the United States 300, and that further immediate and urgent help was necessary but that, unfortunately, it was needed within the next two months, which seemed improbable. It was said that while the Ford Company had the sole rights for manufacturing Hispano-Suiza motors, they had given them free of charge to the United States Government in hopes that help might be forthcoming from the Ford divisions in America. The management further added that their estimate of manufacturing Rolls Royce engines was 4100 hours, or many times the cost of the manufacturing of the Hispano-Suiza design. It is not known the basis on which these studies were undertaken or made."

Did Ford turn down the Rolls Royce because it was too difficult to make? This does not check with anything

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that you heard. This was after Edsel Ford was in to see me.

Mr. Knudsen: Edsel said that his father said that if he sold engines to the British Government that that would rush the United States into the war. Ford is 77 years old and he is finished as far as business is concerned. Henry Ford asked me to read Tennyson, so you see he is just too old. Edsel said his father was all right until the Beaverbrook announcement came out.

HM, Jr: We got a cable that there are two Hispano-Suiza engines on their way. When Edsel Ford sat here he said, "If you could get the French Government to license the Hispano-Suiza, I would be tickled to death. There is some mix-up between the Rolls-Royce and the Hispano-Suiza and it would be much better if you could get the Hispano-Suiza and then license it to us. We would be very pleased."

It will be interesting to find out, when these engines come, whether they will get them.

When you read this report you will wonder how the French lasted this long.

(At this point, Mr. Knudsen gave HM, Jr a copy of a report that he had written up on his negotiations with the Ford people in regard to the Rolls-Royce engine and which HM, Jr read. Copy is attached.)

HM, Jr: Is this a press release or a story just for me or is it for the President?

Mr. Knudsen: Well, it is for whoever wants it. I thought we would show this to the President.

HM, Jr: I would sew up the Packard Company and then tell the President about it.

Mr. Knudsen: Ford will make a statement that he is willing to make the engines for the United States.

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HM, Jr.: Well, all I can do now is to call Purvis and ask him whether he is willing to have this go to Packard.

Mr. Knudsen: Ford kept pressing me to give them an order for 10,000 Rolls-Royce for the United States Government.

(At this point, HM, Jr spoke to Mr. Purvis and a record of their conversation follows this page.)

June 25, 1940  
9:16 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis. Go ahead.

H.M.Jr: Hello.

Arthur Purvis: Oh, good morning, Henry.

H.M.Jr: How are you?

P: Very well, thank you, and you?

H.M.Jr: Mr. Knudsen is sitting here with me and he is listening to this conversation. He's just returned from Detroit where after several hours with Ford, father and son, the father turned the order down.

P: He turned the order down.

H.M.Jr: Right. Now immediately after that, Mr. Knudsen and I talked and Mr. Knudsen -- we agreed that he should talk to Packard, and Packard are ready to go ahead.

P: Yes. Does Mr. Knudsen feel that they are equipped to do it?

H.M.Jr: Well, he's sitting right here. (Pause)

P: Yes. If he really feels that way, of course, we would be very strongly guided by their judgment though at the time I think we all felt that Ford had the jump insofar as possible deliveries were concerned on other people.

H.M.Jr: Granted. We all agree to that, but he won't do it.

P: NO. So we've just got to go to the other  
.....

H.M.Jr: Yes, you've got to go to Packard and while Packard isn't as big, it most likely can do as good a job -- it's the only alternative we have because Chrysler doesn't want to do it either.

P: Oh, Chrysler doesn't want it.

H.M.Jr: Oh, no. Wait a minute, please. (Talks aside). Well, Mr. Knudsen sitting here says that Chrysler now has a job to make tanks.

P: I beg your pardon?

H.M.Jr: He has a job to make tanks.

P: Oh, I see.

H.M.Jr: So he's -- they can't handle both.

P: No, I see.

H.M.Jr: But what we thought was this -- we wanted a sort of a -- well, let me ask -- (talks aside) -- Mr. Knudsen recommends Packard under the circumstances and so we'd like to know whether he can go ahead and try to complete the negotiation with Packard.

P: Yes. Of course, the basis of it will be different from what we cabled over for Ford, won't it?

H.M.Jr: No.

P: I mean, Ford was prepared to do what he was going to do on the basis of only having the tools to do as distinct from the buildings and also on the basis of not making profits -- that's the way it came out originally. Now I wonder whether we ought to have just a very preliminary idea as to whether the capital expenditures in the case of Packard are going to be radically different from what they would have been in the case of Ford.

H.M.Jr: Well, just wait a minute, please. (Talks aside).

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Mr. Knudsen says it'll be approximately the same because Packard has the building and it'll be just the question of the tools.

P: Yes.

H.M.Jr: And under this new law which has passed, they'd be limited to 8% profit anyway.

P: I see. Yes.

H.M.Jr: I mean, you'd come under the same contract as the United States Government.

P: Well, if the capital expenditure is roughly the same and the recommendation -- after all it's Mr. Knudsen who should know as well as anybody -- is that we go to Packard, I anticipate no difficulty in switching it. I'd rather like, I think, to in view of the very definite nature of a cable I sent them after we -- you thought you'd cleared that -- you remember, the one occasion when it came before and it looked as if it was cleared at one time .....

H.M.Jr: We had cleared it and Edsel had given his word.

P: Yes.

H.M.Jr: Edsel definitely gave his word to Mr. Knudsen.

P: Well, I guess Edsel isn't old enough yet to have a view of his own. I guess when he grows up and gets about twenty-one his father will back him more. (Laughs)

H.M.Jr: Well, I don't know how -- I guess he'll have to wait until he hasn't got a father.

P: It looks like it, doesn't it?

H.M.Jr: So Edsel definitely went back to Detroit and phoned Mr. Knudsen and made a firm commitment.

- 4 -

- P: Amazing.
- H.M.Jr: He made a firm commitment. There's no if, and or but.
- P: No. I suppose the trouble was -- of course, our information since you know, I don't know whether this would interest you, but it might -- I have a little note from our people after that statement was issued by the father saying this: "In connection with the statement given to the Wall Street Journal by Cameron of the Ford Motor Company, so and so has learned that there is more to Cameron's attitude than meets the eye. He is an extremely close friend of Father Coughlin and at one time employed Fritz Kuhn the New York Bund leader who is now in jail."
- H.M.Jr: Well, you think that's news?
- P: Well, it was news to me. (Laughs)
- H.M.Jr: Well, it isn't to me.
- P: Sorry.
- H.M.Jr: No, that's all right.
- P: All right, now, look. I don't think there's going to be any difficulty about it at all. I think I'd like to put it across, but I think we'll be able to give Mr. Knudsen the green light in a very few hours.
- H.M.Jr: Well, now, fine. If you'd phone me or -- and here's the other thing. Mr. Knudsen would like very much to see you and so would I in regard to certain cancellations. Would it be convenient for you to be at my office tomorrow morning?
- P: Certainly. I wanted to see you, as a matter of fact, about one or two things and was going to telephone you this morning.
- H.M.Jr: Well, let me ask Mr. Knudsen what time will be convenient for him. (Talks aside).



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He likes 9:00 o'clock.

P: Nine o'clock.

H.M.Jr: Yes.

P: Now then, about cancellations, what, may I ask just in general? Is he talking about French cancellations?

H.M.Jr: Yes.

P: Because we are issuing to the trade today -- immediately the Armistice was signed, we met and yesterday put into force the legal document that we made on the 16th whereby all that is taken over by the British and any cancellations would be done by the British.

H.M.Jr: Well, we'd like to know from American industries -- Hello. Hello.

Operator: Operator.

H.M.Jr: We're out off.

Operator: Oh, I'm sorry. I'll get him right back.  
(Pause)

H.M.Jr: Hello.

P: Hello, we were out off. You were just saying you would like to know.

H.M.Jr: We would like to know very much what part of the contracts you're going to carry on and what you're going to cancel.

P: Yes. I think in general it's going to be mostly carry on, you see?

H.M.Jr: Well, if you could give us specific -- because naturally American business men are worried and if you're not going to take something, maybe we want to take up the slack.

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P: Well, actually every one of those companies will receive today a letter saying that we are taking them over, and the only difficulty will be if you would just warn Mr. Knudsen is this: we're dealing with contracts covering -- well, I think if you add in the machine tools, tens of thousands of items. Now the actual physical job of checking what we can do is naturally going to take a few days at best.

H.M.Jr: Right.

P: But they're going full speed ahead and I would only be able to talk in general tomorrow morning.

H.M.Jr: Just a minute. (Talks aside).  
Mr. Knudsen is particularly interested in whether it applies to trucks.

P: Yes. All right. Now, then, on trucks I'll come down with the -- endeavor to come down with the answer.

H.M.Jr: He'd like particularly trucks.

P: All right.

H.M.Jr: (Anything else? -- aside) No, just that and then we'll meet at nine tomorrow morning.

P: Good.

H.M.Jr: Thank you.

P: Thank you.

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Mr. Knudsen: I will call Ford and tell him that the deal is off.

HM,Jr: I would get the story to Steve Early right away.

Mr. Knudsen: I will see him now.

HM,Jr: If there is going to be an announcement, it would be much better if it came from the Government first. Then we could give our interpretation first rather than try to explain later.

Mr. Knudsen: I asked him if he sold trucks to the French.

HM,Jr: No. We checked that. It was the Ford Company in Canada. I will tell Nelson what happened. I tried to get him here this morning, but could not.

oOo-oOo

June 24, 1940

*Rec. returned  
6/26/40*

On May 31st officials of the Ford Motor Company, Messrs. Edsel Ford and Wibel, called at the Treasury to talk over their possible participation in an engine program. The result of this conference was that Mr. Ford was persuaded to give up any idea of looking into the Hispano Suiza Engine and agreed to study the Rolls Royce Engine with which the Ford Company was familiar through contact over several months with Maurice Olley, Rolls Royce representative in Detroit.

On June 11th, Messrs Edsel Ford, C. E. Sorenson and Wibel had a conference in Washington with Messrs. Knudsen and Mead and the substance of the conversation was as outlined on the attached sheet, of which Mr. Ford was given a copy. Mr. Ford was made fully familiar with the fact that the Allied Engines would have to be handled through contract with the Allied Purchasing Commission while the American Engines would be covered by contract with the United States War Department. He asked permission to talk this phase of the understanding over with Mr. Henry Ford and the next day called Mr. Knudsen on the telephone and said that the arrangement was satisfactory.

In the meantime the Allied Purchasing Commission arranged for the British Government to give a commitment for 6,000 Engines, while the War Department expressed willingness to place 3,000 Engines, which made the two contracts ready for execution and steps were taken to that effect. Drawings of the Merlin II Rolls Royce motor were delivered to the Ford Motor Company on June 19th.

Mr. Henry Ford, however, suddenly on June 20th, issued a statement declaring that he would enter into no contract with the Allied Purchasing Commission.

Therefore Mr. Knudsen, on June 24th, contacted the Ford people in Detroit and had a conference with Messrs. Henry and Edsel Ford, at which time Mr. Henry Ford confirmed his public statement that he would make any number of Rolls-Royce Engines for the United States Government but that he would not undertake any contract with the Allied Purchasing Commission.

Under the circumstances, it is recommended that negotiations with the Ford Motor Company be stopped, the drawings removed, and another manufacturer given the job of making Rolls Royce Merlin II Engines.

The proposal which we are talking over with the Ford Motor Company is to this effect:

An initial order for 10,000 Merlin Engines —

6,000 to the Allies  
4,000 to the United States,

with an option of 10,000 more, type and quantity to be agreed upon later.

Provisional price \$16,000.00 each subject to revision after six months of production in accordance with cost figures then available.

Ford Motor Company requires no financial assistance but wants the tools paid for in advance, to be absorbed in the billing over the quantity. No buildings will be required except for test and production engineering.

Deliveries are tentatively set at 40 per day, 2 shifts after 12 to 14 months production to start after 8 months.

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON, D. C.

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June 25, 1940.

MEMORANDUM FOR MR. MORGENTHAU:

Early in the afternoon of June 18 General Marshall was informed by the Secretary of War that he, the Secretary, had received word from the White House that the matter of making available to the British Government about ten of our oldest B-17's was under consideration.

A memorandum for the signature of the Secretary of War recommending against this action was prepared by the Chief of Staff and turned over at about 2:30 p.m. June 18 to Mr. Woodring.

The following morning the Secretary of War told General Marshall he wished the memorandum prepared for submission to him and signed by the Chief of Staff. This was done, though the date of the original memorandum remained unchanged - June 18. This memorandum was OK'd by the Secretary of War and delivered by me personally to General Watson at the White House on the morning of June 19. Enroute to the White House I left a copy with the Secretary of the Treasury.

On the morning of June 20 when I visited the White House I was informed by General Watson that pursuant to the unfavorable recommendation of the War Department the proposed transaction would be dropped. I returned to the War Department at about 11:00 a.m. June 20 and personally conveyed this information to the Secretary of War in the presence of Mr. Johnson, the Assistant Secretary of War, who at that time was in conference with Mr. Woodring. I also placed an informal memorandum containing the same information on General Marshall's desk.



W.B. SMITH,  
Major, G.S.C.,  
Assistant Secretary, General Staff.

THE UNDER SECRETARY OF STATE  
WASHINGTON  
June 25, 1940

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Personal and  
Strictly Confidential

My dear Henry:

In accordance with our telephone conversation this morning, I am enclosing herewith a copy of a memorandum handed to me on June 18 by the British Ambassador, as well as a copy of a letter which I sent to the Ambassador under date of June 20.

I have looked into the background of these questions and have carefully investigated the source of the facts upon which my letter to the Ambassador was based.

I am glad to be able to say that the result of this investigation agreeably demonstrates once more the constant and consistent endeavor of this Department to cooperate with the Treasury Department and thus reciprocate your own never-failing cooperation with this Department.

My letter to the Ambassador was based upon a memorandum sent to you under date of June 18 by Mr. Cochran, and a copy

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

of which memorandum Mr. Cochran was good enough to forward to this Department for its information so that my letter to the Ambassador could be prepared in strict accordance with the position already taken by the Treasury Department. I refer to the next to the last paragraph of the memorandum of Mr. Cochran under reference, which states: "Dr. Feis, of the State Department, telephoned me this afternoon to the effect that a communication had now been received by the State Department containing the above quoted message. In order that Dr. Feis might know the Treasury's position, I am forwarding to him a copy of this memorandum."

You will further see that my letter to the Ambassador uses exactly the statements contained in Mr. Cochran's memorandum of his conversation with Mr. Pinsent.

I mentioned the matter to the President just before he left for Hyde Park on June 20, and the President asked me to say to Lord Lothian that, while this Government was not in a position where it could make more precise written commitments than those indicated by the Treasury Department and reiterated by the Department of State, the President was willing to assure Lord Lothian that so long as this Administration continued there would be no change in its policy with regard to the freezing of French assets during the occupation of France by Germany or during the

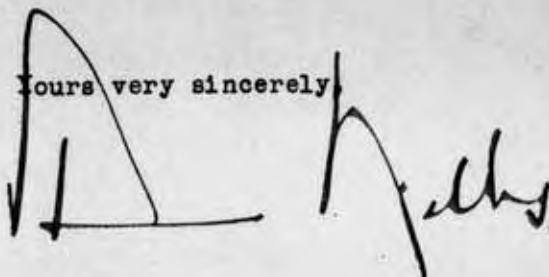


-3-

existence of a French government subservient to and dominated by Germany.

Believe me

Yours very sincerely

A handwritten signature in black ink, appearing to read "H. H. Kelly". The signature is written in a cursive style with a large, sweeping initial "H" and a long horizontal line extending to the right.

Enclosures:

Copy of memorandum of the  
British Ambassador dated  
June 18.

Copy of Department's reply  
to Ambassador dated June 20.

The following is the text of a message which reached the British Ambassador yesterday (17th June) from London:-

Please inform United States Government that in view of obscurity of position and uncertainty whether French offer of armistice will be accepted we did not today take steps to block French gold and balances before banks closed. We shall consider what will be appropriate steps to take tomorrow. We should be glad to know what steps would be contemplated by United States Government to prevent gold held in United States of America by French Government or Bank of France or gold in transit being handed over to Germany and French balances being used for benefit of Germany.

This message was conveyed yesterday evening to the United States Treasury for Mr. Morgenthau's information and consideration, and Lord Lothian would much appreciate an early expression of the State Department's views on the question raised in the second paragraph of the message. He is aware that the "freezing" order of April 10th was extended to cover French assets yesterday, but this action does not in itself deal with contingencies which might arise if an agreement to hand over French assets to Germany were forced on the French Government as part of the price of an armistice.

June 18th, 1940

COPY

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June 20, 1940

My dear Mr. Ambassador:

We have given thought to your memorandum of June 18 regarding exchange.

With reference to the inquiry concerning contingencies which might arise if an agreement to hand over French assets in the United States to Germany were entered into by France, it may be pointed out that an order subjecting such assets to license was issued by the United States Government as recently as June 17. In the event of an armistice or other agreement being entered into on the part of France, there would no doubt be many questions of fact and policy requiring careful consideration before any decision by this Government to license the disposition of French assets in the above-mentioned sense could be reached. This Government cannot at the present time forecast all the contingencies of the situation.

On the question of freezing German and Italian assets in this country, the consensus of opinion, after most careful consideration of the possible advantages and disadvantages, has not favored such action.

Sincerely yours,

SUMNER WELLES

Acting Secretary.

His Excellency  
The Right Honorable  
The Marquess of Lothian, C.H.,  
British Ambassador.

June 25, 1940.  
3:00 p.m.

RE FRENCH SHIPS IN AMERICAN TERRITORIAL WATERS

Present: Harris  
Foley  
Gaston

Harris: I was telling Ed Foley today that I don't think you ought to worry much from what I can find out about these French ships that are heading for French ports. They don't want to go out. Two went out to Halifax and came right back.

Gaston: I have just been entertaining Mr. Tamm of F. B. I.

H.M.Jr: Entertaining him?

Gaston: Yes.

H.M.Jr: That is good. All right, Professor Foley.

Foley: As I told you this morning, Bob Jackson and Francis Biddle were both out of town until tomorrow, so we haven't taken up this question with the Department of Justice. We have here a proclamation for control of vessels, French vessels, in territorial waters of the United States which will be signed by the President and then we have the regulations pursuant to the proclamation called anchorage regulations which will be signed by you and approved by the President.

H.M.Jr: May I interrupt you?

Foley: Yes, sir.

H.M.Jr: What is the difference between the status of France today and Denmark? What I am getting at, if you do this for French vessels, why wouldn't you do it for Danish vessels?

Foley: Well, I assume that there are many more French vessels in our ports --

Harris: Why don't you reverse your question? Why do you do it solely for the French?

H.M.Jr: That is what I am getting at.

Harris: In other words, why don't we make the proclamation so it covers all vessels we want to hold.

Gaston: We don't want to hold the Danish vessels.

Harris: We don't know at the moment.

Foley: Well, I understood that the instructions were to hold French vessels.

H.M.Jr: I know, but God damn it, if I did everything the President told me to do - I will put it this way. If I did everything the President told me to do, I wouldn't be here today. That is a safe statement. Just because the President tells me - if I did everything he told me to do, I wouldn't be sitting here. Let me put it this way to you.

Foley: Well, that is a little stab at me.

H.M.Jr: No, I wasn't thinking about you, no.

Harris: I was just thinking instead of French vessels why didn't you say --

Foley: All belligerent vessels.

Gaston: On what basis do we select France?

H.M.Jr: Why so personal?

Harris: Well, to be quite frank you asked it to be done for France.

Foley: And he says, "Well, if I just did --"

H.M.Jr: I wasn't thinking of you. Look me in the eye. Therefore, you shouldn't do everything I told you to do?

Foley: Yes.

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H.M.Jr: Well, look at me. No, you are wrong. You have done me a grave injustice.

Foley: Okay.

H.M.Jr: No.

Foley: Well, I think if you want to do it that way, Mr. Secretary, we haven't got any problems so far as the Department of Justice is concerned. This is what Frank Murphy said last summer and this is in August. He said, "My dear Mr. President:

"Reference is made to your informal request for my opinion on whether the Secretary of the Treasury under your direction may issue instructions to all collectors of customs substantially as follows:

"Immediately upon your being satisfied that Germany is at armed conflict with another nation, with or without formal declaration of war, seize all German and Italian vessels in American and territorial waters, remove officers and crew therefrom and take all precautions against sabotage in engine rooms or otherwise.

"It is my opinion that in the event of armed conflict between the foreign nations, action on your part in seizing in our ports vessels of one or more of the belligerents and not of the others would be in conflict with International law and could under such law be construed by the nations affected as an act of war."

Now, I don't think that is the proper construction. He says to select French vessels and not give equal treatment to German vessels is taking sides in an armed conflict and it is not a neutral act.

H.M.Jr: I was going to say I agree with him and that makes me Supreme Court timber.

Foley: Okay. I didn't know you wanted to do it for all vessels.

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Gaston: He doesn't. The point is, how can we justify the --

H.M.Jr: I am groping.

Gaston: How can we justify our selection of France?

H.M.Jr: This is a conference. I am groping. I want Basil Harris' opinion. I am trying to - I mean, each day we do things a little bit more and anything we do today - I listened to the speech last night. Did you listen to that?

Foley: I listened to part of it. Stassen's speech?

H.M.Jr: Yes, and anything we do today, they take this magnifying glass and pull it up about a hundred fold and I think you people have got to be just a little bit more careful.

Gaston: On what basis can we distinguish, can you think of any?

Foley: Well, there are probably more French vessels in our ports than any other vessels.

Gaston: I don't believe that answers it. There aren't.

Harris: There are less. In the whole United States there are only about eight vessels.

Foley: Well, these are the vessels that both sides will be after, both the British and the Germans. They have been ordered home.

Gaston: Now there is a possibility.

Foley: And there will be cruisers and armed submarines and armed craft outside our harbors waiting for these boats to come out.

Gaston: Are we in the position of a trustee? The people are wrangling and we don't know who is the rightful owner of these vessels.

- Foley: And to protect these vessels, to protect our own harbors, to protect our own neutrality, it is necessary for us to take certain steps to see that without our knowledge these vessels don't start out and we impound them and we say to the owners that they can't be moved without a special license and that arises because the French have sued for a separate peace and part of the peace terms, Mr. Secretary, are that these commercial vessels be ordered home or to the nearest French port and the British and the Germans will both be looking for these vessels when they come out and there may be a naval engagement right outside New York harbor.
- H.M.Jr: But look, supposing - let me take the Frank Murphy side. Supposing we put this on all things and having slapped the thing on, make all foreign flag vessels get a special permit before they sail, see.
- Foley: Not all foreign flag vessels, but all flag vessels of belligerents.
- H.M.Jr: Well, France is no longer a belligerent.
- Foley: France is no longer a belligerent.
- H.M.Jr: No, I was thinking in terms of all of them.
- Gaston: Belligerents and invaded countries.
- Foley: Of all European countries.
- H.M.Jr: I have got it. All countries in which - what do you call - is within that zone. All countries within that zone. What do they call it?
- Gaston: Combat zone.
- H.M.Jr: All countries within the combat zone. How would that strike you, Basil?
- Harris: Well, that sounds off hand all right.
- H.M.Jr: See?



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- Harris: What it means is that the preponderance are British ships.
- Gaston: Then you impose the same difficulty when you come to deciding as to whether to give a vessel its permit or not. You have the same difficulty of discrimination to refuse to one and to give it to the other.
- H.W.Jr: What I can't get through my head is, after all there isn't very much difference between what Denmark did and what France has done except - I mean, Denmark was invaded. Now, she has got a big fleet. They didn't make it return but the fleet - commercial fleet, I am talking about - escaped and I don't know what flag they are flying, do you?
- Gaston: The Danish flag and operated by the British.
- H.W.Jr: And there is no Danish Government in London, is there?
- Foley: No.
- Gaston: I don't know. The British just grabbed them and we didn't recognize it. I have a feeling about these French vessels that the most satisfactory solution and about the only one in which we can preserve our neutrality is just to pay no attention to them and let them go and let the British grab them.
- Harris: I was talking in the last hour or two to New York. If it is your fear they may go, you haven't anything to fear about. The fear is they won't go. I don't think they have any intention of going now.
- H.W.Jr: Well, that is what we want. We don't want them to go.
- Harris: Well, I don't think they are going.
- Gaston: I think the British want them to go, don't they, so they can get them?

Harris: The British would like to make a deal and take them over, but at the present moment the French are going to stay right in the ports here.

H.M.Jr: Well, there is this argument on between the French Ambassador and Canada. He claims that Canada seized this battle ship there. She came into Halifax and tried to turn around and the Canadians wouldn't let her go. Did you know that?

Harris: I had heard that rumor.

H.M.Jr: Well, that is a fact.

Gaston: I don't think we are being helpful to any side by trying to hold these boats on the present state of facts.

Harris: Well, look at it further. Supposing they did sail. Where are they going to sail to?

H.M.Jr: Well, they might sail to Bahama.

Harris: Well, they would be picked up on the way and it is known in five minutes after they start out and the British have got plenty of boats that could pick them up.

Gaston: Well, they probably couldn't catch the Normandie between here and Brest. Supposing she makes a dash for Brest?

H.M.Jr: Well, it is not very important. Let's say that the Normandie does get over. I don't think it is sufficiently important that we should get ourselves involved in it and criticised.

Gaston: I don't think she is going. I don't think any of them are going.

H.M.Jr: But I don't think at this time with everybody so on edge that it is sufficiently important.

Harris: You see, what you are talking about there is a - I think there is a maximum of eight ships in the whole United States. That is nothing.

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- Foley: Well, why don't we do this, Mr. Secretary, since the President has mentioned only France and we prepared this thing only for France, why don't we get up another set of documents to take in ships of all the countries in Europe and Great Britain?
- H.M.Jr: Then get it for me. I will ask Mr. Hull whether we can come over and have an argument in his office about it.
- Foley: Would you rather clear it with Gaston first?
- H.M.Jr: Well, I will make it for tomorrow afternoon.
- Foley: All right.
- H.M.Jr: You will be here by 4:00?
- Harris: Yes, sir. How can you justify holding French ships and not holding Danish?
- Gaston: You can't.
- H.M.Jr: You can't.
- Gaston: Except --
- Foley: Yes, you can, I think, on the ground, Mr. Secretary, that we are afraid if these vessels start out it may endanger our ports and it may endanger our property because there may be - one of them may be sunk, Mr. Secretary, right in the narrows and block up New York Harbor. There may be a naval engagement right off Sandy Hook.
- Gaston: But why hasn't it happened with Norwegian and Danish ships which have been seized by the British? If the Germans want to have - why don't they have it on Norwegian and Danish ships?
- H.M.Jr: The thing hasn't been as close to us and as important up to now as it is at this time due to the unsettled situation arising from the French surrender.

Gaston: Yes --

Poley: The British and the Germans are after the Fleet and after the merchant marine of France. It is vital to both sides.

Gaston: That is right, too. The Germans haven't asserted a claim to the Danish.

Poley: And they have asserted a claim to the French ships as part of its terms.

(Mr. McKay entered the conference.)

P. S. Jr.: Ask Hull if he can have a meeting tomorrow afternoon in his office. I want to discuss the status of the French ships in United States ports and I will take care of bringing the Attorney General there and if he wants to have any of his lawyers work on this in the meantime, they can contact Mr. Poley.

McKay: All right, sir.

(Mr. McKay left the conference.)

Poley: The statute is awfully broad.

P. S. Jr.: I think we ought to put this up to Hull.

Poley: Well, I think there is no doubt about that. The President would have to get Hull's approval.

P. S. Jr.: I know what will happen. The first thing he will say, "What does Cordell Hull say?" If I say State, Treasury and Justice are unanimous that we do so and so, it makes it that much easier for him. I have grave doubts about doing it just for France. I don't think you are embarrassed yet on any of these ships wanting to sail. Nobody has asked us, have they?

Harris: No, and I think that is the last thing they are going to do.

Gaston: Especially in view of that incident in Halifax.

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W.M.Jr: Well, I don't see what else they can do, do you, Harris?

Harris: No.

Foley: I will do it the other way and we will have them both and I will get in touch with Bob, then, the first thing in the morning when he gets back and see if we can get the thing cleared up over there.

H.M.Jr: We haven't done anything about those three countries, Latvia, Esthonia and Lithuania?

Harris: Weren't you surprised on that memo I gave you on Finland?

H.M.Jr: Yes. Seven ships, wasn't it?

Harris: Seven ships.

H.M.Jr: That had gone in?

Harris: Seven had gone in since May 10.

Gaston: To Petsamo.

Harris: Yes. One is on the way out and they are going to come out wriggling.

H.M.Jr: I had heard that.

Harris: Well, is there anything on your mind, Basil?

Harris: No, not a thing.

H.M.Jr: Lucky man. All I have got is a headache.

Foley: I have got a couple of things I would like to clear.

H.M.Jr: All right.

(Mr. Harris left the conference.)

H.M.Jr: Thanks, Basil. We will let you know about that appointment tomorrow when you can go over with us.

Harris: Yes, sir.

Foley: McReynolds called Larry Bernard and said that Blackie Smith had gotten up an administrative order to provide for a coordinator of purchases to be under the Advisory Commission to the Council of National Defense.

H.M.Jr: McReynolds will be here in six minutes on that.

Foley: Okay, and they want Nelson to be the coordinator. We have redrafted the order that establishes this office and appoints Nelson to the office that is created by the order, but I didn't want it to go out until you knew about it.

H.M.Jr: Well, Nelson comes in this morning and says, "Hasn't McReynolds told you about this thing?" And I said, "No," and he said, "He was supposed to," so I called up Mac and asked him to come over here at 3:30 and tell me what it is all about. I told Nelson there was nothing I could do about it if that is what they want. I mean, if they want him. It just leaves me without anybody here.

Foley: Does that mean that he goes over there full time?

H.M.Jr: Yes. How do they - there are only supposed to be seven. How do you do that?

Foley: There are seven on the council and then - six on the council, six cabinet officers on the council, and then there was provision for seven on this advisory council to the Council of National Defense and then there is provision in the law for the creation of subordinate bodies by the council to carry out special assignments and this will be done under that power and then the order would have to be signed by each of the members of the six cabinet officers. It would presumably be approved by the President but they wouldn't have any - they wouldn't be able to enter into contracts, they wouldn't be able to place orders. What they would try to do is to make a study of the methods and facilities.

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H.M.Jr: He isn't going to give this fellow any authority?

Foley: Well, this gives him all the authority he can get.

H.M.Jr: He can't buy?

Foley: No, he can't buy.

Gaston: He can't issue any orders to the purchasing agents?

Foley: No.

Gaston: He just suggests to them?

Foley: That is right, just advises.

H.M.Jr: That is crazy.

Foley: He can get their needs and plan and study but --

H.M.Jr: When are they going to give somebody some authority to do things?

Foley: Well, under the law, you can't give it.

H.M.Jr: All you need to do is to take one man from Treasury and one man from Commerce and give them the authority. The President has the authority and he could say, "You boys get together and on the stuff you need, you work together," and all this damned nonsense --

Gaston: You have got such a committee now.

H.M.Jr: Have we?

Gaston: Yes. The Director of Procurement is chairman of it.

H.M.Jr: Is there such a committee?

Gaston: Yes. They use it on items on which there might be overlapping or conflict, but there is no reason why they shouldn't be instructed by the President to use it on everything.

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H.M.Jr: Is there such a committee?

Gaston: Yes, there is such a committee and I think an administrative order could make it effective for the whole range of purchases.

Foley: Well, that isn't what these guys want, though.

H.M.Jr: Well, let me just - why don't you fellows wait a minute until Mac comes in? He will be here any minute. I think it is all damned nonsense. I don't know whether it is Louis Brownlow or McReynolds.

Foley: I don't think he is responsible at all. I think it is Stettinius and Biggers and so on. They are the fellows who want to get their hands on purchases.

H.M.Jr: It is all damned nonsense.

Foley: I think Mac is all right.

H.M.Jr: Are you sure?

Foley: I am not sure.

H.M.Jr: Because the original publicity when Nelson came down here came out and said he would do this.



June 25, 1940

My dear Mr. President:

I am sending you herewith Mr. J. Carlton Ward's first report with reference to the French aircraft engine industry.

I have furnished copies to the Chief of Staff, Chief of Naval Operations, and Mr. Knudsen.

Yours sincerely,

The President,  
The White House.

Major Smith took this letter to the President with the inclosure to deliver to the President  
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**CONFIDENTIAL**

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My dear Admiral Stark:

I am sending you herewith for your confidential information Mr. J. Carlton Ward's first report with reference to the French aircraft engine industry.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Admiral Harold R. Stark, U.S.N.,  
Chief of Bureau of Operations,  
Navy Department,  
Washington, D.C.

*Enclosure ✓*

By ~~Handwritten~~ 2<sup>35</sup>

**CONFIDENTIAL** 296

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By Messenger

CONFIDENTIAL 297

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Washington, D.C.

By Messenger

orig. to the Spec.  
Carbon copy to Adm. Staff  
Photostat to Mr. Knudsen.  
6/25/40

The Secretary of the Treasury

Paris, June 4, 1940.

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FIRST REPORT WITH REFERENCE TO FRENCH AIRCRAFT  
ENGINE INDUSTRY.

As you probably know, we were unable to disembark at Gibraltar a week ago last Saturday, on May 25th, as had been planned. Everything was in readiness for our trip through Spain to Paris; but the ship was asked to clear through to Italy without subjecting itself to the usual control and there was, therefore, no opportunity to land. We, therefore, arrived in Paris on Wednesday, the 29th, on the morning train from Genoa without incident.

We at once held a meeting with Colonel Mény, Under Secretary for Air, during which we discussed the problem before us. Colonel Mény stressed two aspects of the problem: (1) insufficient quantity of motors, (2) need for improving quality, and stated that they were equally important. He referred to the fact that they were able to assign two pilots to one of the Curtiss planes with the Pratt and Whitney engine, whereas, due to difficulties with equipment, one piece of French equipment did not take care of one pilot to the fullest extent. He then outlined the fact that they had standardized in France on the manufacture of the Gnome-Rhône, in the air-cooled field, and the Hispano-Suiza in the liquid-cooled field. They apparently give great weight to the air-cooled engine due to its lesser vulnerability, and their program places more emphasis on this type. The current production he gave as 600 Gnome-Rhône motors per month  
and

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and 300 Hispano-Suiza motors per month. Their plans were to get up to 1900 Gnome-Rhône motors per month and 1300 Hispano-Suiza motors per month before the middle of 1941. He considered the various categories of training engines to be relatively unimportant. These included Renault and Salmson.

With the situation at the front, the need for increased production at an early date was stated to be most urgent. The Gnome-Rhône program includes production in the parent plant in Paris, on Boulevard Kellermann, with a forge shop and foundry in Gennevilliers, and a new shadow factory being built at Le Mans, approximately 125 miles out of Paris, together with the production of the Government-owned factory SNCM (formerly Lorraine-Dietrich, also in Gennevilliers). In addition, the research facilities have been put in a new location, separate from manufacturing. Engine testing is also to be done in a separate location, and both are in the vicinity of Paris. Likewise, they have worked out a system of allocating certain parts to the various automobile factories for separate manufacture with the thought of assembling them at their underground assembling station, and this program is stated to be under way. This should be verified by later inspection.

It was stated that the Air Ministry is more concerned with getting an immediate increase in the production of the Hispano-Suiza than it is of the Gnome-Rhône, and felt that we should endeavor to find the reasons behind the relatively low production of

Hispano-Suiza

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Hispano-Suiza motors. The manufacturing program for the manufacture of the Hispano-Suiza is somewhat like that of the Gnome-Rhône. The main, or parent, plant is at Bois Colombes, and is in the process of being moved to an underground quarry in the outskirts of Paris. A second unit, or shadow plant, is being constructed at Tarbes, about 550 miles out of Paris. In addition, the Ford Company of France are to manufacture the Hispano-Suiza motor at Poissy, outside of Paris, and at the same time outside of Bordeaux. The original intention had been to have the Ford Company manufacture the Rolls Royce engine but, upon the recommendation of the Ford Company, they standardized upon the Hispano-Suiza, thus holding France to two principal types of high horsepower engines manufactured here for their aviation service. Of distinctly lesser importance and in addition to the above, it was stated that the SIGMA factory is expected to manufacture Bristol engines of the English air-cooled type with the ultimate idea of a production of 70 engines a month. Similarly, Talbot Motors in Suresnes (Paris) were to undertake the manufacture of Pratt and Whitney motors under French Government license to an amount of 60 engines per month. It is evident that the latter is not in favor with the Ministry for reasons which were not made clear.

A general conversation then ensued and in response to questions with respect to the American aeronautical equipment, it was stated that on the whole it was excellent but that gas tanks were, in certain instances, too vulnerable, particularly when integral with the wing

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wing structure, that engine exhausts were visible at night, which was a bad feature of the American Martin bombers, and that they would like to have more speed at a higher altitude than obtained on the early Martin bombers.

Mention was made of the Brown-Boveri exhaust gas turbine, which they are getting ready to manufacture for high altitude performance on French planes similar in action to our General Electric exhaust gas turbines in the United States.

Propellers were stated to be not a production problem. What they were getting from the United States, plus their own output, they felt to be ahead of engines.

Production of accessories, such as carburetors, magnetos, generators, starting equipment, has been a problem, but at present is not; although it was hinted that this may become a serious problem again in the future.

With this introduction, it was arranged that we start our first inspection the following day at the Government's own factory, S.N.C.M.

Early in the morning we proceeded to Gennevilliers to the Government factory S.N.C.M., and were told that this factory was a very serious problem. We believe that a special importance was placed upon it for the reason that it is the only Government-owned engine factory and that it has done a poor job with respect to production. During the Front Populaire it was stated that this factory, with nearly three thousand workmen,



workmen, turned out only 20 or 30 engines per month. A new management had been put in by the Air Ministry, with the result that its current production is running slightly under 100 a month. Upon inspection of the factory, it was clear that:

1. Production methods, while improving, had been very bad.

2. The Labor attitude seemed serious and willing, but we were informed that during the Front Populaire it was necessary to be a Communist to be a workman, and that the troublemakers had since then all been put into the army.

3. Women were being introduced on machine operations normally allotted to men. There were 2800 workers, including office and management, of whom 1335 worked on machines. There were a total of 233 women workers. For three weeks engine plants have been working the new two 11-1/2 hour shifts, including Sunday. In the S.N.C.M., factory women were released after 7-1/2 hours of work at the maximum, and they used three shifts, the other two being 7 hours each.

4. The present schedule calls for four engines per day. Machining time is still high.

5. Because of war urgency, the usual method of testing finished engines has been completely revised. Now, after the engines receive a first test, an inspection is made by "pulling" two cylinders and if no trouble appears, the engine is shipped. This is strictly a wartime necessity, and is done to get the engines to the front more rapidly, even at the risk of less assurance of quality. This also reduced the  
assembly

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assembly and test time from 640 hours per engine to 400 hours, and turned an inventory of approximately 25 engines into finished production.

6. Spoiled work is high. No exact figures were given, but several sources stated it to run 10% to 12%, which is very much higher than engine practice in America.

7. The raw materials were in all cases not of best quality, although cylinder castings appeared unusually good, contrary to our information before sailing.

8. The shop is not clean nor well lighted by American standards, nor is it well laid out. Efforts have been made to improve some of these conditions but the matter is at a standstill until it is decided if the factory is to be removed from Paris due to danger from bombing, or other enemy penetration.

9. There is a shortage of cutting tools. When this situation was inquired about, it was stated that they would have preferred to have them come from the United States in order to get the needed quality and that the budgets for operations had not permitted the management to purchase in sufficient quantity.

10. The engine is an expensive one from the design point of view, and it is difficult to manufacture certain of the major parts at a low cost.

11. The number of engines actually shipped in May is 115 due to liquidating the inventory, as stated above. The plan for this factory is to bring production up to 150 a month. The engine manufactured

is the Gnome-Rhône 14-N-49, with a nominal horsepower of 980 at 4000 meters altitude, and 850 HP at sea level.

The management of this factory appeared almost eager to receive assistance of any kind and showed every cooperation in furnishing information. The Air Ministry likewise indicated that it did not wish to wait for our complete study before having some indication of our thoughts with respect to this factory. It is assumed that because of the bad production record and the fact that it is a Government plant, the Government is desirous of improving the situation at the earliest moment in order to get more engines and probably to lessen any criticism of the Government operation.

On Friday morning, the American group sat down and discussed the observations of the day before and the method of handling the Ministry's request. It was the original plan to study all facilities before determining what recommendations would be made to the Ministry. In view of the delicacy of the situation, a decision was reached to call in the Under Secretary for Air and lay before him only technical recommendations which would be of assistance in this connection. These recommendations were divided into:

1. Strengthening the organization with respect to the planning function, material control, requisitioning of raw material, etc.
2. Improve the technical aspects of the manufacturing processes, the machinery and equipment, etc.
3. A request for a report on the service difficulty

difficulty with this engine in order to see if its operation in the field could be improved by minor engineering modifications which could be readily incorporated. 307

4. Stressing the need for more careful delineation of responsibility for the various phases of management.

These were presented to the Air Ministry and it was decided to call a meeting of the plant management the next morning at the factory and present the American group's recommendations with both groups present.

Early Saturday morning, June 1st, the American group met with the officials of the S.N.C.M., factory and the Under Secretary of the Air Ministry during which detailed recommendations were presented. The meeting proved successful and, upon its conclusion, we were informed that our approach to the problem had succeeded in building up the morale in the Government plant.

It should be noted that this factory is doing no original engineering work, but is making a Chinese copy of the Gnome-Rhône engine from drawings given it by the parent company under license.

After luncheon, the Ministry then asked the American group to inspect the plant of Talbot Motors. Upon arrival at the factory in Suresnes, it seemed apparent that this also is primarily a Ministry problem. The Managing Director was known to the writer during his visit to the Pratt and Whitney factory

factory in 1938 and the situation is complicated by the fact that he is partly Italian and partly French, and in addition was a British citizen due to long residence in England before taking over the Talbot factory a few years ago. The factory is divided into two units, one of which is represented by the motor car factory and the other is a brand new unit for the manufacture of Pratt and Whitney engines under license from the French Government. After an inspection of the two factories, the Managing Director informed the writer that the many difficulties which had arisen in connection with his relationship to the Air Ministry had made it impossible to go on, and he was anxious to find a way out. He had installed in the new addition over a million dollars' worth of the finest American machine tools and had spent \$300,000 in making the jigs and fixtures from Pratt and Whitney drawings in order to begin manufacture of certain parts and gradually expand into a full-fledged plant.

The original plan of Talbot Motors also included the manufacture of the Pratt and Whitney engine to American dimensions and standards and by an exact duplication of the methods used by the Pratt and Whitney Company in the United States. It was felt that this would introduce into France certain refinements of manufacturing technique which are peculiar to the American engine industry and would be of real importance to France. In line with this policy, the Talbot Company had ordered all its steel forgings

from

from the Bethlehem Steel Company. With respect to aluminum, it had ordered all parts from the Heavy Duty Alloy Company of England. This was necessary because the parts required a refinement of the forging processes not at this time available in France. Likewise, all magnesium parts would come from the Magnesium Castings and Production Company of England for a similar reason. It was their opinion that if this plan were carried through to a successful conclusion, it would be a real contribution to French industry. However, there is little likelihood of this ambitious plan being carried out under the situation now existing between the Talbot Company and the Ministry.

In addition, "Talbot" had given to the Air Ministry in October a list of the machinery which (on an estimated basis) represented several million dollars additional and which would then equip "Talbot" to make complete engines.

There seems to be doubt as to whether this plan also will be carried out, and this probably is one of the Ministry's reasons for requesting the opinion of the American group without further delay.

It is also of interest to note that in the motor car factory most of the equipment was idle and very few of the men were at work which, it was inferred, was also due to the difficulties confronting this company and the fact that it can now go no further without substantial funds from the Government.

Due to the delicacy of this situation, the

Commission

Commission asked for time for further study before attempting any recommendations and expressed the desire to see some of the large privately-operated units before taking up this problem further.

The Air Ministry then suggested that on the following day an inspection trip be made to one of the larger air fields protecting the Paris area, located at Chantilly and half-way to the front line. This is the headquarters of all the aviation groups defending the area from Le Havre to Paris.

Upon arrival at the air field in Chantilly, we presented ourselves at General Headquarters and were greeted by General Pinard and his staff. We were given every opportunity to see all phases of the operations, as well as the servicing of the motors, and to talk in detail with the mechanics and officers who had charge of servicing the power plants. We fortunately were able to suggest the inclusion in our party of Lieutenant Colonel Hunter of the United States Army Air Corps throughout this inspection and this report will, therefore, omit references to the large amount of military information which was given to us, which will be included in his report.

We were also fortunate in meeting the officer commanding a battery of 90 mm., anti-aircraft equipment installed for the defense of Paris and were invited to inspect this equipment on our way back

to

to the city, which we did.

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The force located at Chantilly consisted of two squadrons of Bloch No. 158 pursuit ships equipped with Gnome-Rhône motors No. 14-N-38 which were approximately one month old. The motors replaced older motors which had been installed in these ships. The squadrons had seen considerable air activity, as witnessed by the fact that 9 enemy airplanes had been brought down during the last week by the first group consisting of twelve Bloch fighters. We heard several minor actions during our stay but were surprised to find out that the actual flying time of the engines had only averaged between forty and fifty hours apiece for the month. The second pursuit group of Chantilly had brought down three airplanes during the current week, neither group losing any personnel, although four airplanes had been cracked up in forced landings. The officers at the headquarters and in these groups appeared to be commanded by distinguished officers from the last war, and there was evidence of high morale and confidence. However, before leaving, the General showed us a military map in his headquarters and, after pointing out the front line, forcefully stated that with 800 more airplanes and 500 tanks their situation would be secure, whereas, to quote the General, they were now holding the Germans with their "bare chests".

We were unable to secure any very conclusive evidence as to engine equipment difficulties, for upon questioning the mechanics with respect to various features



features of the motors, the only case where they were unanimously critical was in connection with spark plugs. However, there were two airplane engines under repair at that time in the one squadron of twelve ships in spite of the fact that the engines had had less than 50 hours' service in the air. We were also informed that there was considerable evidence of piston ring sticking. Also, we found a case where there was difficulty from exterior oil fittings. These are avoided in current American designs. In another case, the piston rings had been assembled into the engine incorrectly at the factory.

The location of the carburetor scoop was such that considerable sand worked its way into the engine, and this feature of the planes had been recently changed. The Bloch No. 152 was accredited with a speed of 300 miles per hour, and the new Dewoitine, with which some squadrons were equipped, was reported to operate at the rate of 350 miles per hour. No questions were asked by us with reference to American equipment since it is planned to visit a squadron equipped with American units at the front in the next few days. Two other instances of trouble which were reported, were: (1) a crankshaft breaking in two, stated as probably caused by the inertia of the propeller after the engine suddenly ceased, and (2) in another case the breakage of a propeller, causing it to fly off the engine.

The propellers were of French manufacture and were electrically-controlled variable pitch propellers.

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It was also pointed out that the oil did not scavenge from the lower cylinders, which made difficulty in starting. Trouble was indicated in oil leaks from the cylinder head covers, which are held on by a method similar to that discarded approximately five years ago on the American equipment.

It should again be said that every courtesy was extended, all military equipment was shown in detail, including methods of operations, and with every possible consideration for our comfort, convenience, and safety.

Upon our return to Paris we were taken to a battery of 90 mm., anti-aircraft guns equipped with range-finders and the latest type French fire control, both for day and night firing. Unfortunately, we were told, there were only twelve of these guns in use in three batteries of four each. Colonel Hunter's report will no doubt contain all of the useful military information, and here again we were given every opportunity to see in detail all of the equipment and the battery was put through a special drill in order to show us the use of the equipment. The morale was unusually high, and we were told that the battery had been in place for twelve days, during which it had brought down two enemy planes.

On Monday morning, June 3rd, we were escorted to the Hispano-Suiza factory at Bois Colombes. The Paris units, we were informed, have 9900 workers, of which

which some 2000 are engaged in the production of the Hispano-Suiza airplane cannon. There is also a wait for making 100 Hamilton propellers per month under an American license. Engine production amounted to a nominal production of 250 engines per month, although we were informed that the previous month, the actual rate was 200. It was explained that this, in turn, was caused by the necessity for moving the factory as quickly as possible to an underground quarry, a few kilometers further out of Paris, where the operation will be entirely bombproof, even from the heaviest bombs. This quarry extends back to a period of 700 or 800 years ago and consists of a vast series of galleries amounting to 65,000 square meters in area.

In addition to the Paris units, a new shadow factory is located at Tarbes, for which the production schedule will call for 225 engines per month. Likewise, the Ford unit is expected to come up to 500 engines per month, which means that the Paris factory will ultimately have to be brought up to 575 engines per month in order to reach the total of 1300 Hispano-Suiza engines expected by the Ministry.

A foundry is operated in connection with the Bois Colombes factory and as yet no plans have been made to move this underground. All forgings are procured from outside sources, and we were informed that they have ordered large quantities of steel forgings in the United States, amounting to a  
sufficient

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sufficient quantity for 4800 engines. We were also told that at Tarbes they have 2800 employees and will be adding more. The management stated that it cost 2700 man hours to build an engine on the Paris equipment, but that at Tarbes, with all new equipment, the new engine could be built for 1400 hours. Assembly for engines would also be provided for in an underground plant north of Bordeaux. The horsepower of the present engine is 1000 at 4800 meters, and 1200 HP available for take-off. They expect to manufacture this year 400 of a new type which will be increased to 1500 HP and will be of a four-valve type and higher in RPM.

In this factory also, the Air Ministry has permitted greatly shortening the engine test in order to speed production and to get equipment at the front. However, the engine is still tested in two separate runs with a disassembly in between, unlike the practice at the S.N.C.M., factory, already reported. However, the tests are short and amount only to 3-1/2 hours' running on the first assembly and to a brief run of a half hour after the final reassembly. An inspection of manufacturing equipment and the factory gave the following impression:

1. A good type of workman.
2. A large quantity of women workers.
3. Neatness and cleanliness throughout.
4. Good tooling of the old-fashioned type.
5. Evidences that the engine is being designed with the idea of easier manufacture, although not to

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be interpreted to mean that quality has been pushed aside for production.

6. Several of the General Motors members of the Commission stated that the engine was an easier one to manufacture than the American Allison and were pleased with the general character of the design.

7. The supercharger is a new development and is claimed to possess the operating features of a variable speed supercharger, something which is not yet available in the United States. The Commission, upon request, were informed that they would be given an opportunity to inspect this mechanism in the next few days. The units are received at the factory complete so that inspection was not readily available.

8. All of the newest and best equipment had been moved to the quarry and it was possible that the remainder of the equipment would be moved without much further delay. The speed of these moves, as stated to us, is rather extraordinary, and we were informed that in three or four days the rest of the plant could be relocated.

We were then escorted through the engine wind tunnel. This is a most impressive and important facility and a similar unit is not available at this date in an American engine factory. The writer was informed that the cost of this unit was between eleven and twelve million francs which, at a loose guess, would represent an expenditure in the neighborhood of half a million dollars in America with American labor. The unit consisted of two facilities: (1) a small scale high wind velocity unit for model

installation

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installation with a velocity of 300 miles per hour. Here preliminary studies are made of engine cowling, radiator scoops, carburetor scoops, exhaust pipes, and the like. The efficient installation is evident from figures which we were given in connection with the large unit, (2) the large unit is for complete fuselage or nacelle tests and is made at a slower wind velocity with a tunnel throat diameter of five meters. The wind is furnished by a fan driven by a 4500 kilowatt motor.

We were shown research photographs of smoke jets taken stroboscopically in the tunnel as applied to the new Dewoitine fighter. The importance of this demonstration can be best appreciated by the statement made to us that the speed of this fighter had been raised from 525 kilometers per hour, as now manufactured, to 575 kilometers per hour, and with the use of no more horsepower and at the same time that the liquid cooling temperature was reduced 35° Centigrade. The curves of data showed that the propeller thrust had been increased from 550 kilograms to 890 kilograms, contributed by the improved air flow through the oil cooler, also the Prestone radiator, and the improvement in the exhaust jet effect.

In consequence, the Ministry is now asking this firm to test all engine installations in all new model ships by this method.

We were also shown the altitude testing facilities for engines, which consisted of a unit giving a temperature as low as 55° below 0 Centigrade, and at all desired equivalent

equivalent altitude pressures. We were, therefore, much impressed with the engineering work being done. 316

Unfortunately, this unit cannot be moved, and could readily be destroyed by bombing.

We were then invited to a final lunch by the Minister for Air, his staff and associates, and certain members of the industry. Upon arrival we found the American Ambassador and, four minutes after our arrival, an alert signal was sounded and we witnessed the bombing of the Air Ministry building in which we were located, as well as the adjoining factory of the Caudron Airplane Works before it was possible for us to reach a bomb shelter. Bombs struck the building in which we were located, as well as the immediate neighborhood but, upon the sounding of the "all clear" signal, we were again immediately invited to attend the luncheon, which adjourned to a restaurant removed from the scene of the attack. It was evident at the luncheon that the effect of this first major bombing of Paris crystallized in the minds of the Ministry and certain of the industry leaders who were present the urgent necessity for better protection of factories and their location.

We were then conducted to the underground quarry to which the Hispano-Suiza factory was being moved. As we approached this district, we noticed that several bombs had also fallen in the neighborhood, but no damage resulted other than the destruction of a few workmen's homes.

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It was an amazing sight to see the manner in which these underground galleries had been equipped with machine tools and to find thousands of men and women machining engine parts in this location. The two entrances to the quarry were well protected from the air, and the amount of rock and loam between the roof of the gallery and the ground itself varied from 30 to 60 feet. Overhead were fields and farms and occasionally a small ventilating shaft which looked like a well. The temperature remained very constant and with machines running stabilized at around 55° Fahrenheit. When the machines are not running this temperature drops to a little below 50° Fahrenheit. However, the workmen did not seem to appear uncomfortable and, as stated above, there were a great many women operating the machine tools. For the most part, the equipment was modern and of recent design and manufacture - many machines being of American manufacture.

It was not decided as to the location of the heat treating facilities and motor assembly and test. However, it was evident that the experience of the bombing raid a few hours before had made such a decision much more necessary. Likewise, it was evident that a secondary source of power would be desirable since the power lines had been struck and severed and only been spliced again a short time before we arrived.

Reels of cable have been stationed all around the city and were noticed in railroad yards with  
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the obvious intention of having them available to mend power circuits when put out of action. 318

An emergency system of lighting had been installed in the quarry in the event that all power were severed. It was necessary to build a false ceiling of corrugated gypsum to avoid any moisture or dust, which might fall on the work. Other than this, the working conditions were pleasant and the air was clean and free of any movement, which is helpful to precision manufacturing. Factory offices, planning units, inspection units, electric trucking, and all like facilities had been provided for in a very practical manner. The equipment was in many cases quite modern and much new equipment was in evidence from the outside, as well as some Swiss, English, and French equipment. It was evident, however, that the main reliance is being placed upon the United States machine tools and that this is, therefore, one of the urgent supply considerations. The morale of the workmen seemed high, but we were informed that many highly skilled artisans had been taken by the army and that this was a serious mistake. The management also stated that due to the necessity for keeping over a hundred million francs in United States funds ahead of receipt of materials, the growth of this enterprise and the increase in production had been greatly hampered. It should be noted here that this unit is a private enterprise and outside of obtaining equipment, in certain instances from the Government, it operates as a normal industrial unit.

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It is proper to point out that the standards of operation are much higher than had been encountered in the Government-operated plant. This operation indicated:

1. Enterprising management under most trying conditions.
2. Good attitude by workmen, and high morale.
3. Good equipment and tooling.
4. Good shop management.
5. Use of women and specialized workers.
6. Good inspection.
7. Orderliness and neatness.

On Tuesday morning, June 4th, we were conducted to the Ford plant at Poissy. Here a new factory of model construction which was begun in March 1939 was being completed. It was originally designed to make a new small automobile which was put aside upon declaration of war. The original plan of the Ministry had been to manufacture Rolls Royce engines, but the Ford management, upon studying the Rolls Royce engine, came to the decision that it would be unwise for two reasons: (1) the Rolls Royce engine is the most complicated engine of its type, (2) by manufacturing the Hispano-Suiza, France could standardize on only two main types of engine, namely, Gnome-Rhône in the air-cooled field, and the Hispano-Suiza in the liquid-cooled field. However, this factory is very vulnerable to bombing, and the management quickly realized that

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that it was necessary to solve this problem. It, therefore, moved all of the late American machines and its best equipment to a location near Bordeaux, leaving behind standard equipment which, if lost, would not be irreplaceable. The management stated that its main difficulty was in the fact that it had lost its toolmakers to the army and was 50,000 hours behind in its tool program. The management had made a study of the manufacture of the Hispano-Sulza engine and confirmed the fact that the engine, with new equipment, could be built for much less than the cost at the present Hispano-Sulza factory. These figures are interesting and are as follows: at Bois Colombes 2700 man hours, at Turbos 1400 man hours. The Ford estimate for high production on new equipment: 1200 man hours. It is obvious that this management approaches the manufacture from the automotive point of view and would like to change the design in order to improve production. However, it recognizes that this would have to be a very slow process because of the unusual demands placed upon an aviation engine for quality and reliability, and the fact that designs cannot be altered without a great deal of careful research and testing if the equipment is to function reliably and its life is to be conserved. The factory is in all respects a model one, even to latest American standards, (1) the lighting is excellent, (2) ventilation is excellent, (3) the harness is outstanding, and (4) machine arrangement and process location are efficient.

Only a thousand workers are employed, of which approximately

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approximately half are women. Another unusual feature is that young boys between 14 and 17 years of age are employed. These young boys and the women are worked on short shifts of 7 and 7-1/2 hours, as against 11-1/2 hours for the men. The workmen appeared intelligent, and the morale good. This factory would prefer to make its production from American steels since they are stated to be much more uniform than French steels.

This factory is equipped with a Diesel emergency power plant which was running due to the fact that the power lines had been severed the day before by the bombs. The bombing had extended to this area, although this plant is 12 or 15 miles outside of Paris.

The factory is 65,000 square meters, of which less than one-third is used for the aviation activity, one-third vacant, and one-third is used for assembling trucks. A very model system of truck assembly had been installed, of the latest type found in the United States.

The management showed us an exchange of cables which were highly confidential, wherein the United States divisions of the Ford Motor Company had agreed to help the Allies. This telegram referred to Mr. Henry Ford as well as Mr. Edsel Ford, and indicated that the decision had only just been reached that day. The management indicated that in their opinion Germany was manufacturing 1600 airplanes per month, France and England combined, 1100, and the United States 300, and that further immediate and urgent help was necessary but that, unfortunately, it was needed within

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the next two months, which seemed improbable. It was said that while the Ford Company had the sole rights for manufacturing Hispano-Suiza motors, they had given them free of charge to the United States Government in hopes that help might be forthcoming from the Ford divisions in America. The management further added that their estimate of manufacturing Rolls Royce engines was 4100 hours, or many times the cost of the manufacturing of the Hispano-Suiza design. It is not known the basis on which these studies were undertaken or made.

We were then conducted back to the Hispano-Suiza factory, where an inspection was made of the foundry, the bearing plant, the Hispano-Suiza airplane cannons and the shell plant, and lastly, an examination made of a German airplane motor which had been disassembled, reassembled, and had been test-run, and which represented one of the latest types of German pursuit motors. We were informed that this motor was a very complicated one to make. It is the Jumo No. 211 of 1000 HP to 1050 HP and was said to weigh 675 kilograms. The motor had run only 50 hours and indicated that it would not run very much longer without difficulty. The management gave it as their opinion, based on inspection of several German motors, that the motors, as a general rule, would not run over 50 hours without extensive repairing, and that perhaps this was part of the German plan. The installation of the motor was such that it could be changed rapidly and replaced in the airplane. Its altitude performance was calculated at 4000 meters  
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and, from an analysis of the fuel left in the tank when it was brought down, the gas was found to be 85 to 90 fuel octane quality.

As we went out, a motor was seen on the test stand with exhaust gas trappings of the Brown-Boveri type referred to elsewhere.

J. Carlton Ward, Jr.

Copies for:

The President of the United States of America,

The Secretary of the Treasury,

<sup>ROMUAL</sup>  
~~General~~ Towers,

General Arnold.

JCW/lhh



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June 25, 1940

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Mrs. H. Klotz,  
Assistant to the Secretary  
of the Treasury,  
Washington, D. C.

Dear Mrs. Klotz:

This extra copy of the confidential report of Mr. Ward's Committee could not be sent to Mr. Morgenthau earlier, as Mr. Ward needed all the copies which had been made at the first typing. Until today there has been no pouch going to Washington since the report was re-typed.

Circumstances will probably give me an opportunity of seeing you again soon in America, and I am looking forward with <sup>great</sup> pleasure to our meeting.

Affectionately,

Garnett Bryson

Dated at Bordeaux  
June 14, 1940

TO: Colonel Jules Mény, Sous-Secrétaire de l'Air  
via General Martinot Lagarde - Inspecteur Général  
de l'Aéronautique.

In accordance with our understanding with you, this memorandum will serve to present to you a brief summary of the work, the observations, and the recommendations of the group of American representatives sent to France in response to your request directed to Mr. Alfred P. Sloan, Chairman of the Board of the General Motors Company, and who were gathered together in the United States by the General Motors Company for this purpose.

Upon our arrival in France, at Paris, on the morning of May 29th, we received your summary of the general production plan of the Air Ministry for the production of aviation motors and also the understanding that production of aviation motors in France constituted the limiting feature for the production of complete airplanes. It was also made clear that training planes and motors for training were not a serious production problem. It was also explained to us that the Ministry was concerned with improving the quality as well as the quantity of completed aviation engines.



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This was followed by a succession of visits to various manufacturing and allied facilities, as follows:

- May 30th - S.N.C.M. Factory, Argenteuil.
- May 31st - Conferences at Hotel Maurice (S.N.C.M.)
- June 1st - S.N.C.M. Factory, Argenteuil  
Talbot Motors, Suresnes.
- June 2nd - Chantilly - Air Headquarters.
- June 3rd - Hispano-Suiza - Bois-Colombes.
- June 4th - Ford Air - Poissy  
Hispano-Suiza, Laboratory.
- June 5th - Gnome-Rhône - Gennevilliers.  
S.G., Paris.
- June 6th - Conference, Hotel Maurice (Talbot)
- June 7th - Ford, Asnières  
Turbomeca, Billancourt.
- June 8th - To Le Mans - Gnome-Rhône.
- June 9th - Gnome-Rhône (under construction)  
To Bordeaux.
- June 10th - Ford Air - Bordeaux  
Bloch S.N.C.A.S.O. - Bordeaux, Mérignac.
- June 11th - Ford Air - Conference.
- June 12th - To Tarbes and return  
Hispano-Suiza - Tarbes.
- June 13th - Bordeaux, Repair and overhaul Depot.

Before entering into the enumeration of the recommendations or suggestions of the Commission, it might be well to set down a

few general observations.

Thus, in general, it may be said that the volume of aircraft engine motor production, as well as the facilities for production and the methods used, both for technical processes and for plant management, were on the whole better than the Commission had been led to expect through information which had reached it in America. It could be generally said that each of the various works visited showed unusual ingenuity with respect to certain phases of its operations. It is likewise true, as will be pointed out later, that in nearly all cases, specific improvements could be made which would tend to increase the general production and improve quality in accordance with the desires of the Air Ministry.

Secondly, it should be pointed out that conditions changed very greatly from those in existence at the time of the Commission's arrival, due to military operations which, in turn, necessitated movement of many of the manufacturing units, as well as cutting off a large number of suppliers. Thus, the character of the problem changed daily. Naturally, this affected the ability of this Commission to follow through your original request as it was primarily outlined. Consequently, while the present unstabilized military situation persists, with the resulting necessity for evacuation of

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plants from day to day, it is the considered opinion of the Committee that production cannot be stabilized.

Thirdly, in view of your statements that the American aviation equipment now being used in your military operations is superior in nearly all cases to the remainder of the available equipment, it is obvious that the greatest assistance can come through speeding up production of American aviation equipment in the United States and perhaps supplementing this production by furnishing necessary raw materials or partly fabricated materials to take the place of supplies which are now out of from your plants due to the advance in military operations.

As the Committee has already intimated to you, it is the private opinion of this Commission that any equipment made in America and furnished as complete equipment should, in accordance with the above, be made to American designs. It does not seem necessary herein to give all of the reasons for this Commission's opinion with regard to the above, since the discussions were covered in detail with you in Asnières, and again informally during a discussion held at the Hispano works in Tarbes, on June 12th.

It seems unnecessary at this moment to repeat the recommendations given to you with respect to the Government's S.N.C.M. works at Argenteuil and the Government's Pratt-

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Whitney 1830 engine license at the Talbot Motors in Suresnes. These have already been submitted to you in detail as well as to the management of the S.N.C.M. and, through you, to the Talbot organization as well.

It is interesting to point out, however, that the Commission's recommendation with respect to moving the new American machine tool equipment from the Paris area has now been borne out by the military situation existing at present. It is also felt that the Committee's recommendation that the Talbot equipment be kept intact for the furnishing of spare parts and later on for the manufacturing of motors of Pratt-Whitney design will be more desirable than ever before in view of the fact that the French engine industry will now have to rely to a greater extent on American sources of raw materials. It is further supported by the fact that the Pratt-Whitney engine has been evaluated by those of your military authorities who were contacted as the most satisfactory and useful of its various engine equipment now in use at the front.

The most important specific recommendations follow:

Technical Design and Engine Considerations

1) Wherever required engineering design tolerances should be readjusted to provide interchangeability. Hand fitting

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(adjusting) is now required in order to assemble the finished product. (Note: By studying the conditions in the Bordeaux Overhauling Shop with respect to new parts furnished by Pratt and Whitney for motors, it will be clear what is meant by the above.)

2) Process grinding should be substituted for hand operations wherever possible in manufacturing highly stressed parts. Such parts can then be readily polished without the necessity of removing much metal.

3) Highly stressed parts should be highly finished, and all tool marks eliminated. (Note: In many of the plants visited it was observed that highly stressed parts were highly finished, but this was not a universal practice in all factories.)

4) Eliminate unnecessary operations contributing to appearance only. Thus, to conserve man hours, much painting, matching of surfaces on parting lines, particularly on castings, and the hand polishing of relatively unstressed parts can be dispensed with, subject to engineering approval.

5) Avoid putting engineering changes into effect in such a manner as to delay production. Carefully schedule them for this purpose.

6) As was suggested in connection with the operation drawings submitted at the S.N.C.M. factory, it would be well to study the elimination of such drawings and the substitution

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of operation sheets wherever possible, thus conserving engineering facilities under the present conditions.

7) In a great many factories more attention to keeping parts clean during assembly operations is urgently needed. Thus, it was noticed that ball bearings were frequently seen lying on benches without being properly covered. Floors should be cleaned and dust reduced to a minimum. Between shifts, partly assembled mechanisms should be carefully covered.

8) Parts should be carried in wood containers or containers lined with soft material and should not be set down on steel shelves or plates, or they will be scratched.

9) Engineering designs should be reviewed to see where manufacturing can be simplified by minor engineering design changes.

#### Manufacturing

1) Where automatic machines have been provided, a study should be made to see how many machines can be operated by one operator at the same time. It was observed in one factory that one man operated a single automatic machine which was timed to operate on a twenty-minute cycle. Adjacent to the machine was another automatic machine with a separate operator on approximately the same cycle. A single operator could have readily operated both machines. Similar conditions were

## 8.

noted in many places.

2) Spare sets of cutting tools should be provided for each important operation. This will eliminate the down time observed where machines are idle waiting for tools to be re-sharpened.

3) In certain factories highly flexible machines were used for relatively simple operations. Equipment in such cases should be studied with a view to reallocation and the use of single purpose machinery on such operations, thereby releasing the more flexible machine for more complicated operations.

Thus, a brand new Hendey tool room lathe was seen operating on a relatively simple operation which could have been done by a manufacturing lather, releasing the tool room machine for badly needed tool room equipment.

4) In one factory there was observed a wide difference between the time study or standard time for an operation and the actual time. Factories lacking specialists for speeding up such laggard operations should institute an activity of this character.

5) In certain factories, machines were not placed to avoid unnecessary material handling. In other factories this feature was admirably taken care of. In some of the newer units this feature seemed to be well studied.

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6) It is suggested that plenty of coolant - i.e., cutting oils - should be flooded on the work in order to prevent burning up the tools and increasing machine down time caused thereby.

7) Tools should be ground on a periodical basis and not allowed to run until they produce bad work. When the latter is done, the tool life is much shorter and the loss of time on the machine is greater.

8) In many shops attention has been given to work containers. However, these were not universal in all factories, and should be adopted.

9) Lighting should be carefully checked. Some factories were poorly lighted for night work, thereby running the risk of poor work and lost time.

#### Management

1) It is recommended that, if there does not at this time exist a strong planning unit in the Ministry with coordinated planning agencies in the various production units, such a function be set up without delay. The detail planning functions within the manufacturing organizations should be left largely to the local managements, in order to adapt them to local conditions. However, the system as a whole should be carefully coordinated.

2) Professional workers, engineers and supervisors, where urgently needed for vital machine production should not be



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subject to draft in the army, without careful consideration of all the circumstances. Evidence existed in certain plants that organizations were being crippled as to supervisors, executives, tool makers, engineers and the like.

3) Liberalized contractual relations with private organizations by the Government, in order to meet the unusual production conditions now existing, are needed. Everything should be done by the Ministry to prevent loss of production through inability of local managements to make decisions to adapt themselves to quickly changing conditions.

4) The above is particularly true due to the disorganization of the telegraph and telephone systems under present conditions. If conditions cannot be improved, then greater initiative should be permitted for individual organizations to make emergency decisions.

5) As has been pointed out above, many efficient processes and operating methods have been viewed in certain plants, and are not general in others. Greater freedom of interchange of information should be provided for if possible. A good example is the tinning of cylinder sleeves to be nitrided. In one plant this was done by hot tinning, hand wiped, and in another plant by an efficient hot metal spray gun.

6) In view of moving large bodies of workmen, organizations should be set up in each manufacturing plant to

11.

efficiently cooperate with local authorities in the matter of housing employees who are suddenly transferred. No doubt this has already received much consideration as is evidenced by the City in the Pines at Le Mans.

7) Many difficulties have been experienced in servicing and installing American manufacturing equipment due to not receiving specific information from the Air Ministry representatives. It has been suggested that the various American service, installation and engineering representatives should be put in touch with each other, with the idea of freely interchanging information for the use of all American companies, in order to promote a more efficient servicing of the French operated American aviation equipment. It is also suggested that the Air Ministry institute a coordinating bureau for the purpose of contacting the various American representatives so that the work may be done in the English language, owing to the unfamiliarity of many of the American representatives with the French language.

A headquarters location should be established for all these units, instead of each American company establishing its own location independently of each other and of that of the Ministry representative.

General

As has been stated in various places in the above, many capable and efficient arrangements have been inspected, and especially notable is that of the use of women workers and young men on precision operations. At one plant women were found in supervisory positions as job setters, and vestibule schools were also in evidence for the training of unskilled workers in preparation to machine operation. Thus, the Commission feels that if quick decisions can be furnished or made by local managements and also if there is the free interchange of information together with the quick procurement outside of France of needed raw materials, plus the purchase complete of American units to supplement French production, that much can be accomplished. The Commission concludes with the thought that it can be of more service by returning to America without further delay than by any further advice it can give or action it can take here, where the situation is so involved.

The Commission is particularly indebted to the executives of the various plants it has visited, for their un-failing courtesy and their freedom in answering questions of every nature. It is equally indebted to the Air Ministry

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representatives who have made all of the necessary arrangements and, lastly, for the unfailing care taken of the members and the many courtesies extended to them by the Ministry's representative, General Martinot Lagarde.

In view of the inability of the Commission to make contact with you since leaving Paris, a copy of this report is being delivered to General Lagarde, in turn for delivery to you and on your behalf.

Signed:

W. J. Davidson

B. D. Kunkle

Arthur Nutt

J. Carlton Ward

Chairman.

ASSISTANT TO THE SECRETARY OF THE TREASURY

DATE 6/25/40 1939

TO MR. HARRIS:

Following is a list of French vessels in  
U. S. Ports:

In New York:

S. S. NORMANDIE (From C.G. Report of 6/24  
S.S. LEOPOLD L.D. (Rept'd by Mr. O'Keefe)  
S. S. SAN FRANCISCO "  
S. S. ILE DE QUESSANT "  
S. S. ILE DE NOIRMOUTIER "

In Chester, Pa.:

SSTK MEROPE

In New Orleans, La.:

S. S. MICHIGAN

In Los Angeles, Cal.:

S. S. VANNES  
S. S. ARGYLL

The French Freighter SHERAZADA was reported  
on June 21st at Latitude 24:25, Longitude 82:10.

*MAZ*  
MR. HARRIS

*Given to Humphrey by  
Purvis June 26/40*

*Photostat to  
Mrs Young 6/26*

CONFIDENTIAL

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June 25th, 1940.

The lease arrangement proposed for the Curtiss-Wright contracts contemplated the purchase and ownership by the British Government of additional plant and plant facilities to be used by Wright Aeronautical Corporation for the duration of the British contracts. Under such arrangement no income taxes are payable with respect to the purchase price of the additional plant and plant facilities financed by the British Government. The result of such an arrangement, so far as it affects the operation of the Wright plants, is the same as if such additional plant and plant facilities had been purchased out-right by Wright Aeronautical Corporation. The difference is in form only.

Curtiss-Wright have, however, advised us that they consulted last week members of the Defense Committee, Treasury, Army and Navy officials in Washington, and that the consensus of the opinion of such officials was that such lease arrangement would be unacceptable, as a matter of policy, to the United States Government because the arrangement permitted the ownership by a foreign government of United States armament plant facilities, which ownership might result in jeopardizing the interest of the American Government, or in international complications. Curtiss-Wright advises us that they have today received a letter from Mr. Knudsen, confirming

the foregoing objections to the lease arrangement.

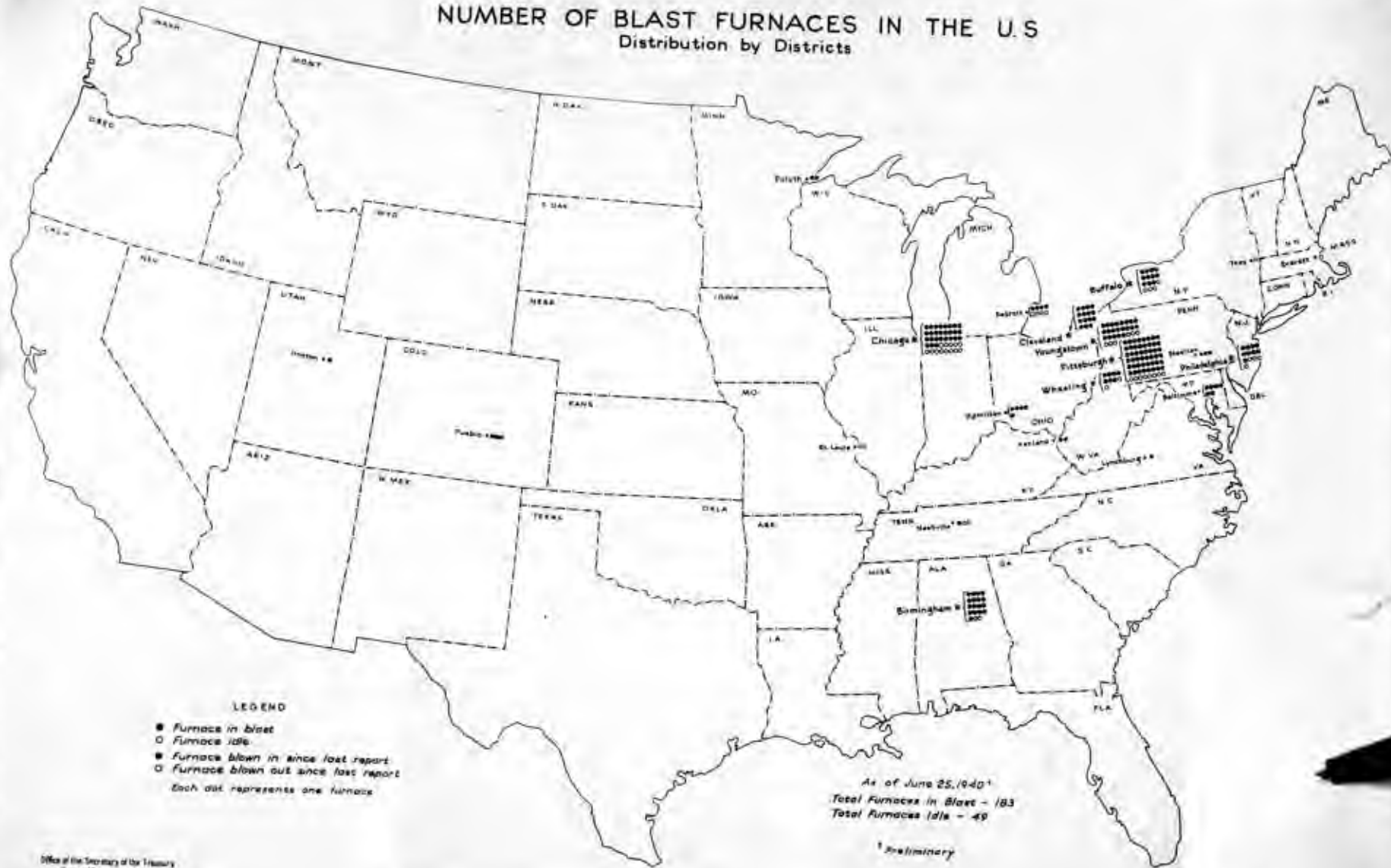
The lease arrangement has been approved in principle by certain representatives of the Treasury, and has been used by us in other contracts such as the General Motors contract for the purchase of Allison engines. The amount of taxes saved by the use of this arrangement has been substantial and would amount to approximately \$3,600,000. in the case of the Curtiss-Wright contracts alone.

The objection made by the Defense Committee might be met very simply by provision in the instrument of lease covering the additional facilities fully protecting the interests of the American Government, so that in no event can the British Government affect or interfere with the use of such facilities to the prejudice of the American Government, or to the embarrassment of the American manufacturer. It should be emphasized that from the point of view of operation the use of the lease arrangement makes no difference whatsoever, and the failure to recognize this fact may result in the unnecessary payment by the British Government of substantial amounts in taxes.

Because of the foregoing considerations, we urge that the use of the lease arrangement be reconsidered by the Defense Committee and we be given an opportunity to explain the exact nature and operation of such arrangement.

# NUMBER OF BLAST FURNACES IN THE U.S.

Distribution by Districts





June 25, 1940

Dr. Feis

Mr. Cochran

Will you kindly send a cablegram, in a strictly confidential code, as

follows:

"American Consul Casablanca (Morocco)

Please cable whether any American airplanes have arrived in Casablanca recently from North America, giving number and description and indicating disposition thereof. Please cable promptly similar data with respect to any future arrivals from North America."

WGC:ankt6.25.40

June 25, 1940

My dear Mr. Stettinius:

This will acknowledge receipt of your memorandum of June 22nd giving me the information I requested on the bomb schedules. I appreciate having this data.

Yours sincerely,

(Signed) H. Morawetz, Jr.

Mr. E. R. Stettinius, Jr.,  
Advisory Comm. to Council  
of National Defense,  
Federal Reserve Building,  
Washington, D.C.

June 25, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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Advisory Comm. to Council  
of National Defense,  
Federal Reserve Building,  
Washington, D.C.

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June 22, 1940

Mr. Secretary

The attached is self-explanatory. Sorry it has taken so long, but actually the information was not available until last night.

If you desire further information, please let me know.

  
E. R. Stettinius Jr.



	<u>UNIT</u>	<u>UNIT PRICE</u>	<u>TOTAL</u>
Cal. /30, M2, Ball Ammunition	approx. 100,000,000 rds.		\$3,850,000.00
Armor Plate			5,668,724.60
TNT	10,000,000 lbs.		1,450,000.00
Bomb Bodies, 100-lb. Dem.	350,000	11.25	3,937,500.00
Bomb Bodies, 300-lb. Dem.	213,000	27.25	5,804,250.00
Bombs, 1000-lb. Navy complete	1,180	127.82	150,832.00
Projectiles, empty, 75-mm. M48	817,000	3.75	3,063,750.00
" " 3" A.A., M42	230,000	3.25	747,500.00
" " 8" How. (new type)	26,000	58.00	1,508,000.00
" " 155-mm. M101	190,000	14.50	2,755,000.00
" " 105-mm. How. M1	646,000	6.50	4,199,000.00
" " 90-mm. A.A.	975,000	4.60	<u>4,485,000.00</u>
			<u>\$37,619,556.60</u>

Delivery of armor plate is desired within 10 months.

5% of all projectiles will be completed by January 31, 1941.

The 100-lb. and 300-lb. Demolition bomb bodies will start in delivery at 2,000 per week and 1500 per week, respectively, beginning August 1, 1940, and accelerate from that point.

The 1000-lb. Navy bombs can be delivered before December 30, 1940.

The above quantities and prices are based on complete deliveries 18 months from July 1, 1940, and can be obtained within that time.

ACTION REQUIREDCONFIDENTIAL

June 26, 1940

To: The Secretary

From: Mr. Young

I have been advised by Wesley Lindow, who has just returned from the Anglo-French Purchasing Board office in New York, that a Canadian machine tool cartel of some sort has been established to purchase machine tools in the United States.

Mr. Lindow states that a Mr. Carswell, who is handling this matter, has made an arrangement with Mr. Knudsen for the furnishing of detailed reports on Canadian machine tool purchases in this country directly to Mr. Knudsen without going through the Treasury or the Liaison Committee.

Such a reporting procedure would set a dangerous precedent unless the Treasury is to be relieved of its liaison function in whole or in part under the new defense program. It is my suggestion that Mr. Knudsen be asked to work through the Treasury or the Liaison Committee on all such matters.

PY.

**BOZEMAN**

**June 25, 1940.**

Circumstances cause me to end immediately the general powers which I have conferred by cable and letter of May 22 to Mr. Martial and alternately to Mr. J. de Sieyes to draw on all accounts including the metallic reserve accounts opened or to be opened on your books for the bank and in a general manner to operate said accounts. Mr. Martial and alternately Mr. de Sieyes remain accredited to operate the special accounts opened by the Bank of France in accordance with the powers conferred by my letters of February 5 and April 9. I should appreciate your cabling upon receipt and mailing letter of confirmation.

**P. F. Fournier**

(Telephoned from the Federal Reserve Bank at New York as text of a message received from the Governor of the Bank of France)



**THE NAVY AND TREASURY DEPARTMENTS ISSUED A JOINT ANNOUNCEMENT CONFIRMING REPORTS THAT THE UNITED STATES CRUISER VINCENTNES HAD A CARGO OF GOLD FROM FRANCE WHEN IT DOCKED AT THE BROOKLYN NAVY YARD LAST WEEK.**

**THE ANNOUNCEMENT SAID THE UNITED STATES HAD PURCHASED THE METAL. THE ANNOUNCEMENT DID NOT DISCLOSE THE AMOUNT OF GOLD INVOLVED OR GIVE ANY DETAILS OF HOW AND WHEN IT WAS ACQUIRED. IT READ:**

**"SOME TIME AGO THE UNITED STATES PURCHASED A SUM OF GOLD FROM THE FRENCH GOVERNMENT. IT WAS TRANSPORTED TO THE UNITED STATES ABOARD THE U. S. S. VINCENTNES WHICH WAS RETURNING HOME FROM ABROAD."**

6/25--7P626P

*Cleared this with a deputy of  
12 # 5.30 - 5.45. He cleared it  
immediately and called me back to say O.K.*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Yesterday evening Mr. Irigoyen telephoned me from the Argentine Ministry of Finance in Buenos Aires. He wanted to thank me for assistance in his negotiations with Mr. Jesse Jones, which have now been successfully terminated. Mr. Irigoyen said that an item would be released to the press on Thursday morning announcing a credit of \$20,000,000 to Argentina.

Irigoyen reminded me that there are many securities of the Argentine, including state and municipal as well as government and other bonds, held in London. He asked if the American Government could not request the British Government to turn over to the former all securities, of both North and South America, in England, against which a credit would be given the British Government by the United States Government. I told him that this would be impossible under our laws. I explained, however, that we had been in confidential touch with the British, and that we understood that important shipments of American dollar securities were being made from the British Isles to this continent. Irigoyen was pleased to hear of this and hoped that we would do what we could to have Argentine and other Latin American securities included among those which are shipped to this hemisphere for safety.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE June 25, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Minister of Switzerland telephoned me at 12:30 today. He stated that the Belgian Government was planning to repay to the Swiss Bank Corporation \$3,300,000 which represented a credit extended two years ago by the private Swiss bankers to the Belgian Government. The Minister understood that the Federal Reserve Bank had the funds to make this payment to the Swiss Bank Corporation in New York. Furthermore Ambassador Theunis of Belgium had been in touch with the State Department in the premises. There appeared to be some hitch, however, in the Treasury Department or the Federal Reserve Bank of New York which prevented payment. I promised to look this case up and call back the Minister.

After discussing this case with Messrs. Bell and Pehle, who had no information thereon, I found from Mr. Cameron that the Federal Reserve Bank in New York was awaiting a letter from the State Department, transmitting an original and authenticated letter from Ambassador Theunis, the latter to be accompanied by two cablegrams from the National Bank of Belgium, one of which has not been received directly by the Federal. Cameron stated that this morning a copy of a letter from Theunis to the State Department had reached New York, but that the original had not yet been received. Cameron told me that there would have to be settled internally in the Federal Reserve Bank at New York the question as to whether payments could be made from the National Bank of Belgium account on instructions coming from a French city other than Paris. A message was received yesterday from Governor Janssen at Poitiers, France. I told Cameron that I understood the Belgians desired to sell approximately three and one-half million dollars of gold to us, presumably to provide the funds for the above-mentioned transaction. Cameron confirmed this, but said the operation would not be put through until the entire matter is ready to be cleared up.

At three o'clock Governor Ransom of the Federal Reserve Board told me that the Swiss Minister had been in touch with Walter Gardner in regard to clearing the transaction under reference. I explained to Governor Ransom that I was straightening this out as far as possible from this end. I then telephoned Mr. Lewis Clarke, in charge of the Belgian desk in the Department of State. He confirmed that he had today received the letter in question from Mr. Theunis. He planned to send it to the Treasury. I told him that it should go directly to the Federal Reserve Bank at New York, with copies provided simultaneously for the Treasury. He promised to get both the letter and copies out today.

After this conversation, I telephoned the Swiss Minister and gave him the pertinent information. I explained that nothing further could be done until the Federal Reserve Bank at New York received the letter from the State Department, and then decided whether it was in a position to act.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 25, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:10 this morning Mr. Knoke telephoned me from New York. He stated that he had received a letter from Pinsent referring to a communication from his Government which he understood the Federal Reserve Bank had received through the channels of the American Embassy in Paris and the Treasury. Knoke asked me what this was. I explained to him that Pinsent had inquired only yesterday in regard to this message, which was embodied in cablegram No. 1752 from London, dated June 20, which I had passed on to Mr. Knoke on June 21. This concerns the transfer of Bank of England accounts into Government accounts. Mr. Knoke told me that his lawyers were still considering this matter. There is a complication in the matter of accepting direct instructions from the British Government in England, since the law which was drawn up the other day to protect the Federal Reserve Bank provides that confirmation of instructions shall be given by diplomatic representatives in United States. Knoke said that he would look into this matter again, and let me hear from him as soon as possible.



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE June 25, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

Sterling improved today in very light trading. The opening rate was 3.69, and shortly thereafter, it touched a low of 3.68-1/2. An upward movement then took place, culminating in a high of 3.73-1/4 late in the day. Sterling closed at 3.73, a gain of 3-1/2¢ over yesterday's final rate.

Sales of spot sterling by the six reporting banks totaled £117,000, from the following sources:

By commercial concerns.....	£ 60,000
By foreign banks (Europe and South America).....	£ 57,000
Total.....	£117,000

Purchases of spot sterling amounted to £108,000, as indicated below:

By commercial concerns.....	£108,000
By foreign banks.....	£ -
Total.....	£108,000

The following reporting banks sold cotton bills totaling £18,000 to the British Control on the basis of the official rate of 4.02-1/2:

£16,000 by the Guaranty Trust Company
1,000 by the National City Bank
1,000 by the Bank of Manhattan
<u>£18,000 Total</u>

The Bank of Manhattan reported that it had purchased £10,000 from the British Control at the official rate of 4.03-1/2, the funds to be used to pay for whisky shipments.

The Swiss franc had an easier tone this morning. It was offered at .2258-1/2 at the opening, as against yesterday's final quotation of .2261. A low of .2257 was touched at noontime. The rate was steady during the afternoon, closing at .2257. It was reported that very little interest was shown in that currency.

The Mexican peso experienced an improvement today. Since June 17, quotations equivalent to .1818 bid, .2000 offered have been received by a New York bank from Mexico City. We understand that the occasional peso transactions which have taken place in New York during the past few days have been effected at gradually increasing rates within the afore-mentioned range. Today's quotations, as received from Mexico, were .2025 bid, .2065 offered.

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The other currencies closed as follows:

Canadian dollar	18-3/4% discount
Lira	.0505
Reichsmark	.4000
Cuban peso	9-15/16% discount

The Federal Reserve Bank of New York reported that it purchased 20,000 Swiss francs for account of the Bank of Latvia.

We purchased \$20,000,000 in gold from the earmarked account of the Bank of France.

The Federal Reserve Bank of New York reported that the Bank of Mexico shipped \$455,000 in gold from Mexico to the Federal for its own account, for sale to the U. S. Assay Office at New York.

The report of June 19 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, revealed that the total position of all currencies was short the equivalent of \$19,310,000, an increase of \$1,215,000 in the short position. The net changes in the positions are as follows:

Country	Short Position June 12	Short Position June 19	Increase in Short Position
England	\$ 5,283,000	\$ 4,716,000	\$ 567,000 (Decrease)
Europe	8,100,000	10,122,000	2,022,000
Canada	248,000 (Long)	293,000 (Long)	45,000 (Increase in Long Position)
Latin America	81,000	166,000	85,000
Japan	3,827,000	3,607,000	220,000 (Decrease)
Other Asia	996,000	1,041,000	45,000
All others	56,000	49,000 (Long)	105,000 (Increase in Long Position)
	<u>\$18,095,000</u>	<u>\$19,310,000</u>	<u>\$1,215,000</u>

The increase of \$2,022,000 in the short position shown under "Europe" reflects advances in the New York institutions' commitments reported under "Netherlands" (up \$1,667,000) and under "Belgium" (up \$743,000).

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on June 19, showed that such deposits totaled \$38,763,000, a decrease of \$2,129,000 since the last report as of June 12. Included in this total were \$29,934,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China (about \$700,000 higher than the figure for June 12), and deposits of \$1,397,000 made by the head office and Japanese branches (off about \$2,900,000). The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was \$74,458,000, a decrease of \$4,758,000 since June 12.

**CONFIDENTIAL**

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It was reported that the Indian bullion markets were closed today, and no quotations were received from that center.

In London, the prices fixed for spot and forward silver were both unchanged at 21-1/8d and 21d respectively. The U. S. equivalents were 38.41¢ and 38.18¢.

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

We made three purchases of silver totaling 275,000 ounces under the Silver Purchase Act. Of this amount, 150,000 ounces represented a sale from inventory, and the remaining 125,000 ounces consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

June 25, 1940.  
9:30 a.m.

## GROUP MEETING

Present: Gaston  
Haas  
Young  
Thompson  
Nelson  
Foley  
Bell  
Graves  
Schwarz  
White  
Cochran  
Harris  
Klotz

H.M.Jr: What do you have?

Thompson: I would be delighted to give some typewriters to the Press room.

H.M.Jr: We will have to have a little ceremony on that.

Thompson: I think we should make a deal whereby they get new typewriters if they take down their obscene pictures.

H.M.Jr: You have Perlmeter come up here, will you?  
10:25.

Schwarz: Fine.

H.M.Jr: And Mr. Thompson will be here at 10:25. We will make a deal. What else?

Thompson: Mr. Bartelt will have to reduce his force somewhat on the first of July and to help out in that situation, I take it you will not object to letting Mr. McReynolds have some of those people and put them on his roll.

H.M.Jr: Say that again, slowly. If this is a McReynolds deal, I want to look at it three times.



- 2 -

Thompson: In other words, we will unload on Mac these people which would otherwise be dismissed on the first of July.

H.M.Jr: Can't Eddie use them?

Thompson: No, he will have to reduce his force.

H.M.Jr: And Mac can use them?

Thompson: Yes.

H.M.Jr: And as a favor we will let Mac have them?

Thompson: As a favor we will let Mac have them.

H.M.Jr: And there is no nigger in the wood pile?

Thompson: No, sir, it is a help to us and it is helping Mac, too.

H.M.Jr: Then as a favor to Mac we will do it.

Thompson: All right.

I have Mr. Ireys report on the field investigation.

H.M.Jr: I have that right from the beginning. They got old Harold mixed up. Okay, let it die. What else?

Dan?

Bell: This is a letter authorizing the investment of the interest accrued up to June 30 on the Old Age Fund.

In view of the President's telephone call yesterday and your statement to the Press regarding French funds, I wondered if you wanted to reconsider the memorandum we presented to you last week about issuing an executive order along the lines of the President's statement on the transfer of territory in this hemisphere.

H.M.Jr: Well, while Mr. Harris was out of town we gave his shop a job to do, about the French flag boats. Do you know many there are, Basil?

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Harris: In New York?

H.M.Jr: No, U. S. or its territorial waters.

Harris: No, I don't.

H.M.Jr: Could you find out?

Harris: Yes, sir.

H.M.Jr: How long can you hold those?

Harris: Well, you can't hold them at all, as far as I know, except to just hold them, that is all. You know what I mean?

Gaston: The impossible.

H.M.Jr: You can't do it, but you will do it?

Foley: Well, Mr. Secretary, there is a section, 191 of the War Powers, that gives you and the Governor of the Canal Zone authority over boats under certain conditions. Now, it is so broad that you can - if in your opinion in order to secure such vessels from damage or injury or to secure the observance of the rights and observations of the United States, you may take by and with the consent of the President for such purposes full control of such vessels and remove the officers and crew thereof and all other persons not specially authorized by you to go or remain board. When the Panay incident came up we got out that statute and went over to the Attorney General and the Attorney General at that time was Mr. Murphy and he issued an opinion --

H.M.Jr: What happened to him?

Foley: Well ..... He issued an opinion --

H.M.Jr: Is that why he was fired?

Foley: I hope so. He issued an opinion that to do this in so far as the Japanese boats are concerned or the Italian boats or the German

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boats would be a violation of International law and that opinion is on the books now. I think we might get a reconsideration of the whole matter in the light of the present situation and if it is agreeable with you, I would like to talk to Bob about it and see if we can't get that other opinion expunged from the record and get him to agree that this action may be taken under this section. It is much better in my opinion to operate under this section than it is to try to do anything by stretching your exchange control powers to cover ships. You have got the legal authority here.

H.M.Jr: Well, I would like Harris to follow this very closely. We got a telephone call yesterday from the President in which he wanted this done and he said we would do it and then we would find some kind of law to back us up, see, so would you work with Foley on this thing very closely and then --

Harris: Yes, if he will give me the legal grounds. I don't need legal grounds if you want the ships held up. We will just hold them up, but we are in this thing so deep now it doesn't make much difference, as far as I can see.

H.M.Jr: I agree with you.

Harris: But if we can find some nice legal grounds, so much the better.

Foley: I think that we had better --

H.M.Jr: In the meantime, we are holding them.

Harris: Oh, are we?

H.M.Jr: Sure.

Gaston: The Department of Commerce is holding them.

H.M.Jr: Does Harry know it?

Gaston: Harry doesn't know it.

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H.M.Jr: Seriously, will you get on top of this, please?

Harris: All right.

White: Does the Attorney General interpret International law, is that his function?

Foley: That is what they felt in that opinion they issued last summer. It is a terrible opinion.

White: Is it his function to interpret International law?

Foley: He is the chief law officer of the Government and he interprets that statute.

Harris: Did you see that report that the Georgic has been sunk?

H.M.Jr: Yes.

Harris: Do you know how many more have been sunk?

H.M.Jr: No, do you?

Harris: I have got a list of some of them. The Georgic, Lancastris, the Andania, the Franconia, the Corinthia, and the Caledonia.

Gaston: I think the last two are the only ones that haven't been mentioned in the news dispatches.

Harris: Yes. These are all big boats.

H.M.Jr: Moving troops out?

Harris: The Lancastris was supposed to have had troops. The others, I think, were just armed convoys.

H.M.Jr: On the other hand, I have information in the last few days - the last of the English troops - this may be in the paper or on the radio - the last of the English troops and French are back. Not only did they bring the troops, but they brought considerable of their equipment back, too. They brought

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considerable equipment back with them and they got most of the Polish troops out of France, also. I suppose that is what those ships are doing.

Harris: I guess so. They are bad losses. All of those are beautiful ships.

Viner: I have sailed on two of those, the Franconia and the Lancasteria.

H.M.Jr: Well, Basil, will you jump in on this with both feet?

Harris: Yes.

H.M.Jr: And if you find that we haven't got any legal authority, then we have got to say so.

Foley: Well, we worked on this last night and I have got the proclamation all ready and it is just a question now of taking it up with Bob Jackson.

H.M.Jr: All right. I don't see what that has - it has nothing to do with this other thing, has it?

Bell: Well, it ties in with the whole thing. We just raised the question as to whether you wanted to consider a statement regarding a fund such as the President made regarding the territory. It is pretty drastic.

H.M.Jr: On those things, let them start them somewhere else besides the Treasury. I don't want to start them here. Let the President start it or let the State Department start it.

Bell: Well, the President started it a little yesterday when he said he didn't want the gold to go out.

White: Well, Danny, you can do it administratively without taking action.

H.M.Jr: Just a minute. He didn't say that, Early said that.

Bell: I thought you were talking to the President.

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H.M.Jr: On the gold?

Bell: Yes.

H.M.Jr: The only thing the President told me about was that was there some way I could find of holding French ships in our ports. He hasn't asked me to do anything else.

Bell: I understood that he said also not to let the French funds get out.

H.M.Jr: No.

Bell: I am sorry.

H.M.Jr: No. Who was in the room when the telephone call occurred?

Foley: I was.

White: I was.

H.M.Jr: He didn't say that.

Bell: I got the impression he did.

H.M.Jr: I think that Steve Early said something in his Press conference about it, but the President hasn't said anything to me. I am quite positive.

White: Notwithstanding, it is still possible to stop it and we can do it administratively without raising the issue.

H.M.Jr: No, let them - in the meantime, if I am correct, Dan, we are handling what I said is my question. We are handling the gold question, I mean the licenses, just the way we did last week. There have been no changes.

Bell: I think there is coming along a request for the transfer of twenty million dollars of French funds to Argentina, is that right, Merle.

Cochran: That is right, to the French Embassy in Argentina.

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Bell: To make purchases in Argentina and we will be right up against the question in the first few days.

H.M.Jr: But as of yesterday, my statement was correct.

Bell: That is right.

H.M.Jr: What else? I would like you to stay behind a minute. I am going to call up Mr. Welles when we get through. You too, please.

Cochran: All right.

H.M.Jr: Harold?

Graves: I have nothing unless you want me to discuss again this matter of stamps.

H.M.Jr: Will you ask Mac for an appointment?

Graves: Yes.

White: There is a telegram received from Eaton that you may have seen. There is one sentence in here that is worth calling to your attention. This is from the head of the Reichsbank in response to --

H.M.Jr: I read it.

White: You might be interested in knowing that the Trade Agreement Society - or the Trade Agreement Committee has given notice to Italy to terminate the modus vivendi which has been equivalent to a trade agreement with them. It will come to an end in thirty days.

We have a memo on this matter of stamp taxes.

Graves: That is the matter he asked me about.

H.M.Jr: I haven't got the time, but I am going to borrow time during the day.

White: Oh.

Here is sort of a brief summary of the capital movements to date. We have had an inflow

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of about two hundred million for the year and it is interesting that American securities are about zero. We have bought as many as we have sold. The chief amount has been exchange in banking funds, about equally divided with private.

H.M.Jr: Is that all?

White: That is all.

H.M.Jr: Basil?

George?

Haas: I have nothing.

H.M.Jr: Chick?

Schwarz: I have a draft of a letter you may wish to send to Drew Pearson on the question of supplies.

H.M.Jr: I don't like to send him a letter.

Schwarz: I can take it up with him. Phil Young and I got together.

H.M.Jr: Please. I would do it on an informal basis.

Schwarz: He is in Philadelphia right now but I will get in touch with him.

H.M.Jr: What else.

Schwarz: That is all, sir.

H.M.Jr: Phil?

Young: You asked me to bring up these last two cables on the Hispano.

H.M.Jr: I don't remember.

Young: Also the request of Mr. Knudsen for reports from the Purchasing Commission.

H.M.Jr: Well, he is entitled to those things.



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Young: Right.

H.M.Jr: And I wanted to talk with Mr. Nelson afterward about that thing. Are you busy at 11:30, Nelson?

Nelson: No, sir, that will be all right.

H.M.Jr: Anything?

Nelson: No, sir.

H.M.Jr: Jake?

Viner: I got a 'phone call a few minutes ago that that corrected memorandum is on the way on this chemical stuff.

H.M.Jr: I thought you were going to handle that. Weren't you --

Viner: You remember they misunderstood you yesterday and had to get new information.

H.M.Jr: Yes, but -

Klotz: Mr. Morgenthau didn't know about that, because he had left.

Viner: Well, I spoke to somebody yesterday.

Klotz: Chief Wilson.

Viner: Yes, and he 'phoned me and said it is on the way.

H.M.Jr: Can't you, between you and Cochran, get this off?

Cochran: Yes.

There is one complication if this story is correct (handing clipping to Secretary).

H.M.Jr: Well, it still wouldn't do any harm to dye them.

Cochran: Well, they can hold them.

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H.M.Jr: They could be dipped in a dye so we would know - could identify the American ones.

Cochran: Of course, this calls for repatriation, too.

H.M.Jr: Well, before you send it you had better show it to Bell and Cochran and Viner and all get together on it.

Cochran: I have nothing else.

H.M.Jr: Were you through, Viner?

Viner: Yes.

Poley: There is an acknowledgement to the Secretary of State of that letter of his saying that the airplanes may be flown into Canada and just for your records, we did put in the form of a formal opinion the memorandum opinion that I gave last October.

H.M.Jr: Where are your initials on it?

Poley: I wasn't here, you see.

H.M.Jr: Oh. I was right, wasn't I?

Poley: Yes, you were right. He was acting.

H.M.Jr: That is now important your initials are. Incidentally, Harry, could you get for me - I don't think they gave me a copy - I signed that memorandum on the South American cartel thing. Somebody brought it in and I signed it to Mr. Hull. I don't know who prepared it or where it came from or anything else, but I want a copy for Mrs. Klotz.

White: All right.

H.M.Jr: Do you know what I am talking about?

White: Yes.

H.M.Jr: Will you get that for me?

White: Yes.

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- H.M.Jr: Incidentally, I would like to read what I sign. I mean again, I would like to reread it.
- Foley: We have redrafted that airplane agreement that - to take care of that one little thing we discussed last Thursday. Is it all right to send it over to Mr. Knudsen?
- H.M.Jr: Oh, sure.
- Foley: I talked to Admiral Schramm, as you suggested, yesterday. I told him we would send him a copy of the agreement and he just wanted to work closely with us because he says most of these questions they ask him deal with the allowances for depreciation in connection with income tax and what may and may not be included in cost determination for Vinson-Trammell purposes.
- H.M.Jr: Didn't he know what we had done?
- Foley: In a vague sort of way he did, but he wants to work closely with us, he says. He wasn't critical, he was just merely trying to be cooperative.
- H.M.Jr: Send him a copy of this testimony he gave on the Hill about the Treasury. All right?
- Foley: Okay for me to call Bob Jackson?
- H.M.Jr: Sure.
- Gaston: You asked me to bring up a letter for Edison and I forgot to bring it in with me but Charles Edison suggested that the United States establish a dirigible transport service between the United States and South America and it said that we have available trained personnel in the Navy which would cooperate in the operation of these ships. He has written a similar letter to State and to Commerce.
- H.M.Jr: What will we do about it?

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Gaston: I don't think there is anything for us to do about it.

H.M.Jr: Will you handle it? Dirigibles and Coast Guard are sort of akin.

Gaston: I think we should just acknowledge it. Somebody may want to look into it, but I don't think it is quite our responsibility. It is probably the responsibility of Commerce.

H.M.Jr: I would like to see Harris and Foley at 3:00 o'clock today to get a report on where we stand on these French ships. You had better be here too, Herbert.

Gaston: All right.

H.M.Jr: Will you handle that Edison letter?

Gaston: Yes.

H.M.Jr: All right.

June 25, 1940  
8:50 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Secretary Hull: All right, Henry.

H.M.Jr: How are you?

H: All right.

H.M.Jr: Cordell, I doubt whether you know any more about this than I do, but through the English Financial Attache, he brought to our attention the fact that -- your department, I think it was Welles, gave a formal letter on the -- just how this Government would handle the French gold.

H: Oh, I don't know a thing about it.

H.M.Jr: Well, I was sure you didn't and I wasn't consulted and -- I mean, naturally your fellows have got to answer verbally, but when it comes to giving a written formal statement on how the Treasury is going to handle its gold .....

H: Why, of course.

H.M.Jr: ..... I think that -- well, I'm sure that you'd want me to see it.

H: Yeah. I wish you would get hold of Welles and tell him what you think about it.....

H.M.Jr: Well .....

H: ..... and have it straightened out.

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H.M.Jr: Well, I .....

H: I'll talk to him as soon as I get down to the office.

H.M.Jr: Yes, if you would because after all .....

H: I thought you might want to say something to him, too, but I'll talk to him all right.

H.M.Jr: Do you think I ought to talk to him also?

H: Maybe I'd better speak to him first and see what we can do about it.

H.M.Jr: Right, because I haven't even got a copy of it.

H: Yes.

H.M.Jr: It's just what Pinsent, the Englishman, tells me that Mr. Welles gave.

H: Yes, I see. I'll get hold of .....

H.M.Jr: I was sure you didn't know anything about it.

H: I don't think I've heard of it before. Sometimes something in an awful rush .....

H.M.Jr: I know.

H: ..... something will slip through a person's fingers just by somebody walking up and saying, this is all right, there's no objection, or something, but anyhow I don't remember anything about it.

H.M.Jr: Thank you.

H: All right, Henry.

June 25, 1940  
10:05 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello.

Sumner  
Welles: Good morning, Henry.

H.M.Jr: Hello, Sumner.

W: I tried to reach you very early this morning in order to find you in one of the best of moods and tempers, because I wanted to get you to go back on something that you had said and I'll explain to you what it is.

H.M.Jr: Yes.

W: Traphagen and the Colombians have been negotiating, I think, very satisfactorily on both sides and it has now reached a point where I think if they can agree on one single point, all the other terms are satisfactory to both sides. That point has solely to do with the arrears of interest and the amount of the interest rate if that is capitalized, and I feel absolutely confident that if for once you could step out of your -- what shall I call it -- your monastery retreat on this matter and have Traphagen and myself and the Colombian together, this one point could be settled and we'd get the whole permanent arrangement agreed upon and get it done before the first of July when the Colombian Government feels it must be done if they're not going to have to open the whole thing up and get Congress to approve again and you remember that the President had special powers granted him by Congress to put this over before the first of July.

H.M.Jr: What I gather, what you're trying to get me to say is that I'll re-enter the picture.

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W: No, simply conclude the picture that you started. I'm not asking you to do more.

H.M.Jr: Well, you'd want Jones in on it, wouldn't you?

W: Personally, I think it would be better not to. I don't really see any need for it. It complicates matters frightfully and all that's necessary is for you and myself to sit in your office and express our hope that this compromise will be acceptable to both sides. I think that will wind it up and then you won't have to be bothered any more. But I think it's the only way of getting it done before the first of July.

H.M.Jr: Well, now, what I'm going to ask you do is -- because I haven't thought about this in months -- could you just have somebody jot down on one page what this is?

W: I tell you what I'll do. I'll have Cotton informed fully and then he can give it to you on one page or half a page, anyway you like.

H.M.Jr: I tell you what I'd rather do. Is Duggan in on this at all?

W: Yes, he knows all about it.

H.M.Jr: Couldn't Duggan just come over with a memorandum and explain it to me?

W: Surely. I'll ask him to do that today.

H.M.Jr: I'll tell you in an hour, I've got a bad day, but if Duggan would be here at 2:30 .....

W: 2:30 today?

H.M.Jr: Yes.

W: I'll be very glad to do that, Henry.

H.M.Jr: Cotton is leaving the Treasury and that's why I don't want to start the thing over again.



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W: Oh, I didn't know that.

H.M.Jr: ..... and so I'd rather .....

W: Yes, indeed, I'll have Duggan there at 2:30, and then my only request is that you simply offer the use of your office, perhaps, Saturday morning, if that's convenient or any other time that you like.

H.M.Jr: Well, let me talk it over with Duggan and I'll consider whether my office is a monastery or not.

W: (Laughs)

H.M.Jr: Now I've got a kick.

W: Well, Mr. Hull -- I've been trying to trace what the reason for your kick is. He just spoke to me about it. What is the date of that letter?

H.M.Jr: June 21.

W: Who signed it?

H.M.Jr: You did, supposedly.

W: What does it say?

H.M.Jr: It starts off this way -- we got this from Pinsent, you see.

W: You got it what?

H.M.Jr: Pinsent is the person that gave it to us.

W: I see.

H.M.Jr: "With reference to inquiry concerning contingency which might arise, agreement to hand over French assets in United States to Germany were entered into by France," and so forth. .... "pointed out order subject to such action -- licenses were issued on June 17th.

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In the event of an Armistice or other agreement being entered into on the part of France, there would no doubt be many questions of fact and policy requiring careful consideration before any decision by this Government to license the disposition of French assets. The above-mentioned to be reached. This Government cannot at the present time forecast all the contingencies of the situation." And I simply feel, and I am sure you will agree with me, that any written commitment on the part of this Administration as to the licensing of gold, et cetera, et cetera -- that at least we ought to be consulted.

- W: Well, I quite agree with you. I suppose that now what you refer to is a personal letter that I sent the British Ambassador? Is that it?
- H.M.Jr: I don't know. It's just -- it's just what Pinsent reported to Cochran and Cochran sent me a written memorandum on it.
- W: I see. Well, I'll send you the text of that letter and you'll see that it is entirely open, that no commitment of any kind is made. On the other hand, I want to tell you that the President told me to tell Lothian that so long as this Administration continued, no governments in France subservient to Germany or in occupied Germany would receive any weakening of our position with regard to the blocked balances and the Treasury control of them here.
- H.M.Jr: Well .....
- W: But he asked me to tell Lothian positively that he would not make that in writing, that that is simply a verbal assurance.
- H.M.Jr: Well, I still say that if the President asked you to do that, I personally should have been advised.

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- W: Well, I'll send you the text of the letter.
- H.M.Jr: I'm sure -- I know we're all under terrific pressure, but those sort of things, I mean, I try terribly hard here to advise you people over there when I do anything.
- W: Well, Henry, let me ask you a question. Is this in the slightest degree out of line with the policy that you and the President have already agreed upon?
- H.M.Jr: I haven't agreed on anything with him, I mean, this is all news to me. He's never -- the only word I've had from the President was the meeting where we went over to see him with Hull and Berle and myself and Bell, and we brought to his attention this question of freezing everything or part, you remember, and the President decided that for the time being we'd only freeze the French assets.
- W: Yeah.
- H.M.Jr: With the exception of that time and the exception of when he called me last night to try to hold the French ships in our port, we've never discussed the thing which is in this memorandum, or anything that we should do in the future.
- W: Well, when you see the text of this personal letter you'll see that there's nothing in that memorandum that -- that is in accord with my letter. But so far as the freezing of the French balances is concerned, all that I told the Ambassador by instruction of the President was that the French balances were frozen and that we will continue to freeze them.
- H.M.Jr: Well, you send it over and I'll appreciate it. But if the President does say something like that and you act on it, it would be very helpful to me if Bell and I knew about it.

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W: Well, may I again say, Henry, that in this case this is simply a reiteration of what you'd already done. There's not the slightest variation, I mean, every time that I say that the President is determined and the Secretary of the Treasury is determined that this is the policy they're going to pursue, every time that I say the same thing, surely you wouldn't feel that it was necessary to tell you so. If I'd deviated from it then of course I'd want to tell you.

H.M.Jr: Well, correct. But I say this. I'm sure you won't disagree. When the State Department puts something in writing that has to do with licensing of gold, we ought to be informed.

W: Well, I'll be glad to send you the letter and you'll see that that isn't involved in the slightest degree.

H.M.Jr: O. K.

W: All right.

H.M.Jr: And you'll have Duggan over here and he can look at my monastery.

W: I'll be glad to do that. Many thanks.

H.M.Jr: Right.

W: Good-bye.

June 25, 1940  
2:30 p.m.

RE COLOMBIAN DEBT

Present: Mr. Bell  
Mr. White  
Mr. Duggan

H.M.Jr: What have you fellows got cooked up today?

Bell: Well, we have got a little proposition here on the Colombian debt.

H.M.Jr: Mr. Welles refers to my room here as the Monastery. He thinks you can relax in it. So I relaxed by letting Mr. Duggan come in.

Duggan: Did you get a chance to finish that, Mr. Bell?

Bell: Yes.

Duggan: How does it look to you?

Bell: Apparently they are willing to pay two million dollars a year.

Duggan: We think we can persuade them to.

Bell: As I recall, the difference last winter or whenever we were discussing this thing before, the Council asked for two million three or two million four.

Duggan: That is right, two million three.

Bell: And I take it they are willing to come down to two million on a 3% basis. I

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wonder if something can be worked out for the 45 million dollar debt at a  $3\frac{1}{2}$  percent rate, which would give you 650 thousand to apply to the sinking fund. You might retire 600 thousand face amount of bonds in the market and apply the difference to the retirement of the 13 million dollars arrears.

Duggan: Well, we cooked up --

Bell: That would give them both a good market and a good feeling about the arrears, and sooner or later your Colombian bonds might get close to par.

Duggan: We cooked up a scheme along that line and talked it over with Traphagen before he entered into the second stages of negotiations. The course of the negotiations took a somewhat different path, and they reached more or less the position set forth in that memo, so our feeling was that perhaps the first endeavor should be made to reconcile the difference between them on the basis that they were calculating. If that doesn't seem feasible, perhaps we could propose some new scheme along the line of what you suggested.

Bell: What are the Colombian bonds selling for now? Of course they are way down.

Duggan: Well, I haven't looked at them recently.

Bell: They will probably go up materially when they start paying 3% interest.

Duggan: Twenty-one.

Bell: They will probably go to 40 or even 50 when you start paying interest.

Duggan: I doubt whether they go as high as 50.

Bell: You might get as much as 300 thousand dollars to apply on the interest arrears in the first year and each year that is 650 --

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- Duggan: Of course, now they have introduced this flexible provision.
- Bell: Yes, I like that.
- Duggan: I doubt whether at this particular junction, with the coffee market where it is, that we could pin them down too hard and fast.
- Bell: But the revenue is something that is more or less in the hands of the Government and they might deliberately decrease it to get out from under this payment. That is bad from that standpoint.
- Duggan: Well, of course, there always is that possibility, but the Colombian Government is pretty honest that way. They are one of the best in their fiscal administration. I myself feel that if this scheme here is accepted by the Council, that they are getting a pretty fair arrangement and also giving the public psychology of Colombia with regard to this particular debt - they feel they didn't get value from it.
- H.M.Jr: It is interesting, their putting in this revenue thing. We had that in originally, didn't we?
- Duggan: We talked about it.
- H.M.Jr: Have you had a chance to look at it?
- Bell: I just glanced over it out there.
- H.M.Jr: What do you think?
- Bell: I just wondered what the controversy was between the Council and the Government. Is there any point they are stuck on?
- Duggan: The situation in antithesis is this: They agreed upon a basic interest rate of 3%. On the arrears, the Council wanted 3% on a hundred percent and the Ambassador thought the Government might give 3% on 50%. Now the Ambassador went back to his Government and they have told him to put up 2% on 50%.

The Ambassador says he is too embarrassed to do that, but he recognizes that the Council has really made the biggest concession so far and that he doesn't want to put it up. That is why the idea is --

H.M.Jr: To drag me in.

Duggan: To bring the Secretary in, yes, as a catalytic agent here, to bring two together. They are not really far apart. It is only on this question of the arrears.

Bell: Is that all?

White: Have they agreed to the 3% on fifty or have the Colombians gone to 2% on fifty merely to get the others to agree to 3% on fifty?

Duggan: That is probably about what it comes down to. We think the Council will accept 3% on fifty and the Ambassador as much as told us yesterday that he felt that if our Government now sort of gave the benediction to 3% on fifty, he could put that across.

White: They are lucky to get 3% on fifty.

H.M.Jr: Who is lucky?

White: The bondholders.

H.M.Jr: You see, there is all this monastic idea. You see, I am very reluctant to do this thing and I don't want to have a meeting here unless I know beforehand that the Council and the Ambassador will agree. Will the Council agree to this?

Duggan: That was one point that Mr. Welles wanted me to speak to you about. We think that probably we should have a little exploration here with the Council before the meeting. We feel pretty certain from our meeting yesterday that the Ambassador will - can put across the 3%.

H.M.Jr: How about the Council?



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Duggan: Laylin, who has been working with the Ambassador, thinks they will accept it.

H.M.Jr: Has anybody talked to Traphagen?

Duggan: No, we will do that - we or your office.

H.M.Jr: Have you been in contact with him?

Duggan: Yes, we have.

White: Have they accepted this flexible provision?

Duggan: They haven't accepted the flexible provision either, but they have talked about a flexible provision, and we think they will probably accept that too.

White: Do you think they will?

Duggan: I think so.

White: What is their current procedure. Have you looked that up recently?

Duggan: Well, they are coming in at the rate of 32 million a year, this year.

Bell: The first four months of this year at the rate of 32 million a year.

Duggan: At this coffee conference at New York now going on, yesterday we agreed to consider import quotas on coffee. That might - you know.

White: Yes.

H.M.Jr: Why don't you do this? In the first place, I think it is a mistake and if I am going to have anything to do with it, I would like Jones to sit in on it and he is a much better friend than he is an enemy. There is no reason to slight the man, so I definitely make the suggestion we have Jesse Jones.

What I see is that you will use me for trading purposes, and I am going to hold

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a meeting if you can get these boys together, but I don't want to come in here - I mean, 90% together, you see. I will see what we can do. How is that?

Duggan: That is fine.

H.M.Jr: Would that be helpful?

Duggan: That is fine.

H.M.Jr: Don't you think so, Dan?

Bell: Yes.

H.M.Jr: What they want is to use this office. Mr. Welles said if they could use this office, they could put it across, but they need the use of my office. They didn't mention me, just my office.

Duggan: As a matter of fact, the Ambassador mentioned how much he appreciated the way you handled the last meeting.

H.M.Jr: Well, I don't even get a can of Colombian coffee out of it.

White: You ought to be glad.

Bell: It isn't good coffee anyhow, is it, Harry?

H.M.Jr: You know the trouble with all these countries who want to show their appreciation - I made up my mind I always ought to take it the minute they say so, because if I wait a year they are gone. I tell you what I will do: I will set tentatively 10:30 Friday.

Duggan: Mr. Welles wondered whether you could make it either Saturday or Monday.

H.M.Jr: I can't make it Saturday, but I could make it Monday, but I thought that was July 1st.

Duggan: It is.

H.M.Jr: What is he doing on Friday?

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Duggan: He said he couldn't give his time to it on Friday.

H.M.Jr: I thought the whole purpose was to do it before the first of July.

Duggan: Well, those are his instructions.

H.M.Jr: Well, I know he said something about Saturday. I won't be here Saturday.

Duggan: As a matter of fact, it is all right, Mr. Morgenthau. The Colombians would like to do it before the first, but they really have in mind the 15th, when the President's power is terminated.

H.M.Jr: Which President?

Duggan: The President of Colombia, who has special powers.

H.M.Jr: Oh, I thought you meant the Chicago Convention.

Bell: It won't be over that soon.

H.M.Jr: Isn't that funny, the 15th of July.

Bell: It kind of coincides, doesn't it?

H.M.Jr: You never know - these Fifth Columnists, you know.

White: Murder will out.

H.M.Jr: How about 10:30 on July 1st? Am I moving too fast? Now look, in the meantime, as you get a little here and a little there, could you (Bell) let Duggan talk to you?

Bell: Surely, any time you want to.

H.M.Jr: Or if you want Mr. Bell to call up Mr. Traphagen or anything like that, will you let him know? Will you (Bell) take that on?

Bell: I will be glad to.

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Duggan: I will try to get the thing all lined up so it won't take more than five minutes.

H.M.Jr: My room is only available, as I say, if you can almost get to an agreement.

Duggan: All right.

COLOMBIAN DOLLAR DEBT SITUATION

1. At the beginning of 1940 the Colombian Federal dollar debt amounted to \$45,200,000 (excluding that held by the Colombian Treasury). It is estimated that as a result of repurchases in the market, by December 31, 1940 the Colombian Federal dollar debt will have been reduced to \$44,000,000.

2. There are outstanding nine coupons representing arrears of interest whose face value is almost \$13,000,000.

3. The temporary service plan negotiated last spring for the year 1940 called for interest at the rate of 3 per cent, plus \$400,000 to be devoted to amortization by purchasing bonds in the market.

4. Negotiations have been in progress between Ambassador Turbay and Mr. Traphagen for a permanent settlement. At a meeting about ten days ago Mr. Traphagen offered to press with the Council a settlement calling for a 3 per cent interest rate on the entire outstanding principal, to which would be added 100 per cent of the face amount of the interest arrears. Some amortization would be expected, but the discussion did not take up the amount of funds to be put into

amortization

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amortization. The interest payments involved would amount to about \$1,700,000, and Mr. Traphagen probably has in mind total payments of at least \$2,000,000 per annum.

5. The Colombian Ambassador offered to transmit to his Government a suggestion that interest at 3 per cent be paid on the principal increased by 50 per cent of the face value of the arrears, making a total debt of approximately \$50,000,000. On this basis, the interest charge would be about \$1,500,000, and \$300,000 could be applied initially against amortization within the figure of \$1,800,000 which the Colombian Government has insisted was the most it could offer at this time. The Colombian Ambassador also offered to suggest to his Government that the total payment be increased if the foreign trade of Colombia improved appreciably.

6. The Colombian Ambassador has now received word from Bogotá that the Colombian Council of Ministers has considered the matter and has agreed to 3 per cent interest on the outstanding principal of the debt, plus 2 per cent interest on arrears funded at 50 per cent of their

their face value. It has indicated that the fixed sum of \$1,800,000 for total service payments would be increased to \$2,000,000 when the total <sup>customs</sup> revenues of the Colombian Government exceed 40,000,000 pesos, and that whenever the <sup>Customs</sup> revenues fall below the rate of 32,000,000 pesos per annum, payment on the next interest coupon should be deferred for six months or until the revenues have risen above 32,000,000 pesos. Ambassador Turbay states that during the first four months of 1940 <sup>Customs</sup> revenues have been at the rate of 32,000,000 pesos per annum.

7. It is suggested that a compromise between the positions of the Colombian Government and of Traphagen might be effected by agreeing upon an interest rate of 3 percent for a total debt of about \$50,000,000 made up of the principal of the bonds plus 50 percent of the face value of the arrears. This would be made more palatable to Mr. Traphagen and the Council if the Colombian Government could agree to give the same terms upon the approximately \$10,000,000 (of which a large amount is believed to be held by Colombian official organizations) of Federally guaranteed mortgage bank bonds. The Colombian Ambassador has indicated that he is not at this time authorized to negotiate regarding the guaranteed debt.

June 25, 1940  
2:36 p.m.

Operator: Mr. Foley.

H.M.Jr: Hello.

Ed Foley: Yes, Mr. Secretary.

H.M.Jr: Ed, Professor Chamberlain will be at your office at 9:00 o'clock Monday morning.

F: All right.

H.M.Jr: I wish you'd have this stuff sort of briefed for him. I mean, the various cases which are pending on licenses and have Bernstein .....

F: Yeah.

H.M.Jr: ..... not the cases, but the principles involved.

F: Right.

H.M.Jr: Let Berney do a job for him, I mean, so that -- you know, do a nice job for him.

F: Yeah.

H.M.Jr: And you might talk to Bell about it.

F: All right.

H.M.Jr: Will you do that?

F: You bet. You're not going to do anything about Jessup.

H.M.Jr: No, no.

F: No.

H.M.Jr: No, no.



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F: Well, that's all right because some of his writings aren't so good and I think you ought to take those into consideration before you do anything about him.

H.M.Jr: I'm not going to.

F: O. K.

H.M.Jr: Thank you.

F: Thank you.

June 25, 1940  
3:58 p.m.

H.M.Jr: Hello.

Ronald  
Ransom: Hello, Mr. Secretary. How are you?

H.M.Jr: O. K. How are you?

R: Fine, thank you.

H.M.Jr: Ronald, could I ask your advice confidentially about a fellow at Atlanta by the name of Mr. Woodruff?

R: You certainly may. Which one is this?

H.M.Jr: Well, this is the one who's supposed to be the head of Coca-Cola.

R: Robert Woodruff?

H.M.Jr: Yeah.

R: He is a very able young gentleman whose father is one of the wealthiest men in our section of the country.

H.M.Jr: Is his father alive?

R: His father is still living and is a director of the Trust Company of Georgia and is a very powerful gentleman in that organization although I think he is retired from any active officership. He's merely a director. He is many times a millionaire. They made great fortunes out of a number of things including principally Coca-Cola.

H.M.Jr: Well, the one I think that wants to come up here would be Robert, wouldn't it.

R: That's right. He is the younger one and now the chairman of the board of the Coca-Cola Company.

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H.M.Jr: He's chairman, is he?

R: He's chairman of the board although he's a young man.

H.M.Jr: What do you call young?

R: Well, I think Bob Woodruff must be about -- under forty-five.

H.M.Jr: Oh, a mere child.

R: Mere child compared to me.

H.M.Jr: And me.

R: O. K. Now .....

H.M.Jr: Now, how able is he on his own?

R: I rather suspect that he's quite able on his own. He went out although the son of a very wealthy parent and made a success out of several enterprises before he went into what had become the family business; namely Coca-Cola. They were the heads of the syndicate that bought that business from the <sup>Now his father -- I want to</sup> say this to you in confidence -- the old gentleman is a dyed-in-the-wool Liberty Leaguer.

H.M.Jr: Yeah.

R: He financed that enterprise and has been always very extreme. I don't know that young Bob Woodruff has ever taken any particular stand politically speaking and he is a man of character and ability and integrity. Now just what his political views are I don't know although I think they would be ultra-conservative. But I would myself have the greatest respect for his industry and his character and his ability as I say.

H.M.Jr: Well, he -- but as I understand it, Bob -- when he -- this Woodruff took over Coca-Cola, it wasn't

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such a big concern. Does he get considerable credit?

R: Well, I think he does deserve considerable credit. It was a pretty big concern at the time. It was going very well indeed, but I think he does deserve great credit for having pushed it along and he is quite an energetic, dynamic and high-pressure business executive.

H.M.Jr: And good health?

R: I should think he was in the best of health. He's always impressed me as being very hale and hearty. He gets a good deal of outdoor exercise, he has a big plantation in Georgia and hunts and rides a good deal. He's quite an able man. I wouldn't have any reservation on that ground at all.

H.M.Jr: O. K.

R: Does that answer your question?

H.M.Jr: Entirely.

R: O. K., sir.

H.M.Jr: Thank you.

June 25, 1940  
4:36 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Donald  
Nelson: Hello, Mr. Secretary.

H.M.Jr: Nelson, the reason I called you, I promised  
to talk to you after McReynolds left.

N: Yes, sir.

H.M.Jr: And I cleared that with him.

N: Oh, you did.

H.M.Jr: And I didn't know that McReynolds had  
asked Ed Foley to rewrite the Executive  
Order which had been done over there and  
which had not been done correctly by whoever  
did it over there and he'd asked Foley to  
rewrite, I mean, do it over. In my discussion  
-- I want to tell you -- with McReynolds, I  
told him I didn't think the thing would work  
but inasmuch as the decision had been made  
I'd go along, but I told McReynolds why I  
didn't think it would work.

N: Well, I'd like very much to have you --  
to be able to talk to you about it.

H.M.Jr: Well, I'm available, but I think it's a  
great mistake and I had quite a lengthy  
discussion with Mac. I didn't understand --  
I thought they were actually giving you  
authority, you see, to buy.

N: Yes.

H.M.Jr: That was my understanding. Then when they  
read me this Executive Order and I found out  
that you had no authority -- were purely in  
an advisory capacity. It seemed to me it  
was an impossible situation.

- 2 -

N: Well, I'm very anxious to talk to you .....

H.M.Jr: I mean, I didn't understand that you really had no authority, you're purely in an advisory capacity.

N: Yes, well, I didn't either.

H.M.Jr: What?

N: I say I didn't either.

H.M.Jr: I mean, I visualized that you'd get -- the way you described to me this morning -- you'd get the various requirements and then you'd buy.

N: That's .....

H.M.Jr: What?

N: Well, that's essentially right.

H.M.Jr: Well, that isn't the way it was written.

N: No, but it might operate that way.

H.M.Jr: True. But I did want to tell them one thing and I only learned it after they read me this Executive Order, you see.

N: Yes.

H.M.Jr: You didn't know that the way it was written did you?

N: No, sir, I did not.

H.M.Jr: What?

N: No, sir, I did not.

H.M.Jr: Well, saying it to you, I wanted to let you know how I feel about it anyway.

N: Well, thank you very much, Mr. Secretary. I'd like to talk to you about it.

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H.M.Jr: Well, I'm available tomorrow.

N: All right, sir. Thank you.

H.M.Jr: Right.

June 25, 1940

My dear Mr. Hoover:

This will acknowledge receipt of the following communications which you have been good enough to send me and for which please accept my thanks:

June 15 - Further information with regard to the purchase of aviation gasoline by a Japanese company;

June 17 - Proposed activities of the Communist Party in New York City;

June 18 - The "Cuban Plan" of the Communist Party;

June 19 - Negotiations for purchase of ten purse seiners, probably for the Japanese Government;

June 19 - Financial activities of the Banca Credito Italiana of New York City; *given to Mr. Lester White*

June 20 - Bendix Products Division, Bendix Aviation Corporation;

June 20 - Attitude of the Communist Party towards its members joining the armed forces of the United States in event of war;

June 20 - American Potash Chemical Company, Trona, California.

Yours sincerely,

(Signed) E. Worguthau, Jr.

Mr. J. Edgar Hoover,  
Director,  
Federal Bureau of Investigation,  
Washington, D.C.



June 25, 1940

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- June 20 - Bendix Products Division, Bendix Aviation Corporation;
- June 20 - Attitude of the Communist Party towards its members joining the armed forces of the United States in event of war;
- June 20 - American Potash Chemical Company, Trona, California.

Yours sincerely,

(Signed) E. W. Schnitzer, Jr.

Mr. J. Edgar Hoover,  
Director,  
Federal Bureau of Investigation,  
Washington, D.C.

June 25, 1940

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- June 20 - Bendix Products Division, Bendix Aviation Corporation;
- June 20 - Attitude of the Communist Party towards its members joining the armed forces of the United States in event of war;
- June 20 - American Potash Chemical Company, Trona, California.

Yours sincerely,

(Signed) H. W. Morgan, Jr.

Mr. J. Edgar Hoover,  
Director,  
Federal Bureau of Investigation,  
Washington, D.C.

JOHN EDGAR HOOVER  
DIRECTOR

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Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

June 15, 1940

PERSONAL AND CONFIDENTIAL

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

Reference is made to my letter dated June 10, 1940, with which I transmitted a memorandum dated June 8, 1940, containing information with regard to the purchase of aviation gasoline by a Japanese company, allegedly for the use of the Japanese Navy.

I am transmitting herewith a copy of a memorandum dated June 15, 1940, which contains complete information developed by this Bureau to date concerning the same subject matter.

Sincerely yours,

J. Edgar Hoover

Enclosure

June 15, 1940

M E M O R A N D U M

Information was obtained from Mr. W. E. Logan, tax attorney, Scarritt Building, Kansas City, Missouri, to the effect that he was recently engaged by the Hess Oil Company, Kansas City, Missouri, to purchase one million gallons of aviation gasoline per month for the Taiyo Sakiyu Kaisha, Limited, of Tokyo, Japan, on a contract covering a period of one year with the provision that at the end of the first twelve months the contract may be renewed for an additional period of twenty-four months. At the time Mr. Logan was engaged by the Hess Oil Company in this matter, it was his understanding as well as the understanding of the Hess Oil Company that the above gasoline was being purchased by the Taiyo Sakiyu Kaisha, Limited, for the use of the Japanese Navy. Mr. Logan advises that he has made arrangements through the Phillips Petroleum Company and the Gulf Oil Company to purchase the gasoline.

It is reported that Shoji Matsuzaki and one Yamaguchi, first name unknown, representatives of the Taiyo Sakiyu Kaisha, Limited, arrived in Los Angeles, California, from Tokyo, Japan, about April 30, 1940, and contacted an attorney by the name of Milton Cohen with reference to the purchase of this gasoline. Cohen then contacted the Hess Oil Company at Kansas City, Missouri, which in turn contacted Mr. Logan for the purpose of making arrangements with American companies to purchase the gasoline.

On about June 6, 1940, Mr. Logan obtained information through the Hess Oil Company at Kansas City, Missouri, to the effect that one Perry P. Schultz is associated in this deal with Yamaguchi and Shoji Matsuzaki. It is reported that Schultz is possibly a German agent and that the German government is the real purchaser of this gasoline.

Mr. Logan indicates that the present plan is to assemble this gasoline in tank cars at Houston, Texas, where it will be transferred to drums and then placed aboard a ship bound for Japan, presumably a Japanese freighter, at the rate of twenty thousand drums per month.

It is reported that Perry F. Schultz has lived in Japan for many years and that he recently was admitted to the staff of the Taiyo Seikyo Kaisha, Limited, which company allegedly has a branch office in Los Angeles, California, known as the Taiyo or Taijo Company, which has apparently been listed in the Los Angeles telephone directory for the past six months only. It is also reported that Perry F. Schultz has a brother, name unknown, who is a resident of Los Angeles, California.

Mr. W. H. Logan advises that a communication was addressed to a Mr. Bloodgett of the Hess Oil Company containing information to the effect that Perry F. Schultz passed through Kansas City, Missouri, via airplane on about June 1, 1940, en route to Detroit, Michigan, for the purpose of purchasing a Chrysler automobile from the Chrysler Motor Company for his brother in Los Angeles, California. Perry F. Schultz, after purchasing the automobile, was then to proceed to Pittsburgh, Pennsylvania, where he was to contact Yamaguchi and Shoji Matsuzaki, as previously arranged, at the William Penn Hotel. It is believed that Schultz, Yamaguchi and Matsuzaki contacted Mr. H. R. Hammaris of the Gulf Oil Company, Pittsburgh, Pennsylvania, during the past week for the purpose of placing a large order for lubricating oil, which is a separate deal from the one they are presently negotiating with Mr. Logan concerning the purchase of the aviation gasoline.

It is further reported that \$500,000 in cash is on deposit in the Yokohama Specie Bank in San Francisco as collateral for the latter of credit of the Taiyo Seikyo Kaisha, Limited, and that this amount will pay for at least a three months' supply of the gasoline to be purchased under the proposed contract. Mr. Logan, who was engaged in this matter by the Hess Oil Company at Kansas City, Missouri, reportedly contacted Major Billy Farber, Manager of the Aviation Department, Phillips Petroleum Company, Bartlesville, Oklahoma, by telephone and corresponded with Mr. H. R. Hammaris of the Gulf Oil Company, completing arrangements for the delivery of the gasoline whenever Yamaguchi, Matsuzaki and Schultz arrive in Kansas City to close the deal.

Investigation was subsequently conducted by the Pittsburgh office of this Bureau and it was ascertained that Perry F. Schultz and Shoji Matsuzaki registered at the William Penn Hotel, Pittsburgh, Pennsylvania, on June 1, 1940, and checked out on June 5, 1940. Perry F. Schultz, upon registering at the hotel,

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gave his address as 732 North Heliotrope, Los Angeles, California. There was no forwarding address for Shoji Matsuzaki.

An examination of the records of the Federal Reserve Bank of San Francisco, California, by the San Francisco office of this Bureau discloses a telegraphic transfer of \$900,000 on April 27, 1940, by the Guaranty Trust Company of New York through the Federal Reserve Banks of New York and San Francisco. This transfer was made to the Bank of California at San Francisco, California, for the account of the Yokohama Specie Bank of San Francisco upon the order of the Yokohama Specie Bank of New York. This transaction has not as yet been identified with the Taiyo Sekiyu Kaisha, Limited, but full details concerning same will be obtained at a later date.

Mr. James Francis Drake, President of the Gulf Oil Company, and Mr. H. R. Hammerle of the Export Division of the same company, were interviewed by Special Agents of the Pittsburgh office of this Bureau concerning the true identity of Perry P. Schultz, and they advised that his business address is Perry P. Schultz and Company, 1310 Park Central Building, care of Mark Grimes, Los Angeles, California, and that his Japanese address is Post Office Box 395, Kobe, Japan. They identify Shoji Matsuzaki as being the General Manager of Taiyo Sekiyu Kaisha, Limited, oil importers, Kaga Building, Kōbeshi Kihonbashi-Eu, Tokyo, Japan. Mr. Hammerle advises that the purpose of the visit of Schultz and Matsuzaki was in order to eliminate one Frederick Edward Broad as a middleman and to effect arrangements for the purchase of Low-Octane aviation gasoline and lubricating oil direct in the future. Mr. Hammerle further advises that arrangements were made for the elimination of Broad as a middleman but that no sale concerning the gasoline was made nor has any tentative sale been arranged for the future. He described Mr. Broad as being an independent English manufacturer's agent handling Gulf Oil products since 1936 on a commission basis amounting to one cent per gallon, which commission he split with Taiyo Sekiyu Kaisha, Limited, for this company's influence in obtaining contracts to sell to the Japanese Navy. Mr. Drake advises that the last delivery to Mr. Broad for the use of the Japanese was made on January 16, 1940, and that complete reports of all sales to Japan are contained in a letter which was transmitted to Mr. Joseph C. Green, Department of State, Washington, D. C., on January 2, 1940. Mr. Drake likewise advises that all

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sales since January 16, 1940, have been made to domestic consumers and France, which absorbed the company's total annual output.

Mr. Hammerle further states that their first inquiry relative to the purchase of gasoline and lubricating oil was made by an attorney in Kansas City, Missouri, but after ascertaining that these products were intended for shipment to Japan, he advised the attorney that he was unable to supply the quantity of gasoline and oil requested. This statement will be confirmed by a check of the Gulf Oil Company's correspondence files at the invitation of Mr. Drake, who appears most cooperative.

Mr. Drake and Mr. Hammerle both state that Yamaguchi is unknown to them and also state that Perry P. Schultz and Shoji Matsuzaki were unaccompanied while in Pittsburgh, Pennsylvania. According to Mr. Hammerle, Perry P. Schultz and Shoji Matsuzaki are proceeding to the World's Fair in New York City, New York, apparently in the new Chrysler automobile which Schultz was driving while in Pittsburgh, Pennsylvania.

Mr. W. E. Logan, the original informant in this matter, has agreed to cooperate with this Bureau to the fullest extent possible but requests that his identity be kept strictly confidential.

JOHN EDGAR HOOVER  
DIRECTOR

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**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

June 17, 1940

PERSONAL AND  
CONFIDENTIAL

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

There is being transmitted to you here-  
with, as of possible interest, a memorandum in-  
corporating information recently received from  
a confidential source concerning proposed activ-  
ities of the Communist Party in New York City.

Sincerely yours,

J. Edgar Hoover

Enclosure



June 15, 1940

MEMORANDUM

Joseph Brodsky has issued orders for Herbert Benjamin to return immediately to New York City and take up the handling of party activities among the unemployed.

It is stated that Israel Amter has become a "weak sister" and that Brodsky has arranged to have Herbert Benjamin, William Dunn, Carl Reeve and Sam Don, constitute a committee that will, on the quiet, direct the other committees which have been formed to keep New York City in a state of continuous strife. It is said that this Committee at the suggestion of Carl Reeve is planning to call a city-wide strike of all relief workers in every class. This committee has been meeting secretly in the home of Osmond K. Fraenkel, 25 West 11th Street, New York City and has also met in the office of the National Committee for the Defense of Political Prisoners, Room 534, 156 -5th Avenue, New York City.

JOHN EDGAR HOOVER  
DIRECTOR

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Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

June 18, 1940



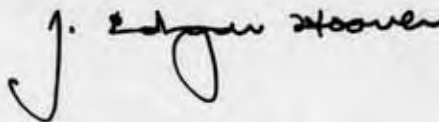
PERSONAL AND  
CONFIDENTIAL

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

There is being transmitted to you herewith, as of possible interest, a memorandum incorporating information recently received from a confidential source relative to the so-called "Cuban Plan" of the Communist Party.

Sincerely yours,



Enclosure

BY SPECIAL MESSENGER

June 17, 1940

MEMORANDUM

Some years ago the Communist Party in the United States laid out a program whereby all maritime unions in all countries of the Western Hemisphere would be united in one big federation under Communist Party domination.

Several conferences were held on this matter but the program finally had to be deferred because it was found that the majority of the maritime unions in the Americas did not have Communist Party members as "key men" in these unions and consequently could not control the activities of the majority of them. However, for the past two years the Communist Party, U.S.A., has managed to obtain almost complete control of all the maritime unions in the United States and has placed "key men" in strategic positions in all other maritime unions of Central and South American countries and in the West Indies. As a result of this, the original program of one large Communist federation of maritime unions has been revived. The skeleton staffs have been set up at various strategic South and North American ports and in the West Indies as nuclei for the accomplishment of the details of the program.

The tentative headquarters in this vast scheme is in Havana, Cuba, and the temporary head of the "Cuban Plan" is one Eddie Gordon, a graduate of the Communist Party Marine Training School in New York State. Gordon is also a graduate of the Communist Party Latin American School. He was sent from New York by the Communist officials of the National Maritime Union ostensibly as advertising agent for the Union's newspaper "The Pilot". This, however, was simply a blind inasmuch as "The Pilot" carries only about six Cuban advertisements and there is obviously no necessity for the designation of a person to supervise this amount of advertising, particularly in view of the fact that the same advertisements are continuously appearing in the periodical.

Gordon is the head of the "transmission belt" for the Americas. He handles all Communist Party confidential documents and moneys which are relayed to him from New York, European ports, Rio de Janeiro, Caracas, Kingston (Jamaica), the Port of Spain (Trinidad), the Canal Zone, and

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Vera Cruz, but when the Communist Party desires to carry out some program in which more than one country is involved, the regular channels such as the mails or telegraph are not utilized for the transmission of confidential messages or the funds necessary to carry out these programs. Having complete control of the Seamen's Union in this country, the Party simply plants one of its "key men" on a ship and he acts as a courier. In this manner the Party's program in the Americas is put into operation with a minimum of danger of the plans coming to the attention of the authorities. As Havana, Cuba, is a central point at which most passenger and freight vessels call during North and South American voyages, it can be readily understood why this port is at present used as a focal point for Communist Party activities.

Gordon is also being used at present as a means to assist international Communist personages on their way to Mexico where the Party is now concentrating large numbers of "key men", guns and ammunition to assist it in carrying the coming Mexican election. George Mink, one of the gunmen who recently attempted to assassinate Trotsky, made his way into Mexico with Gordon's assistance.

Gordon is also given the task of reporting to the Communist Party, U.S.A., all political and economic data pertaining to labor conditions in the West Indies so that the Party may be in a position to take charge of any situation arising in Jamaica, Trinidad and other points, by fomenting trouble among the workers on these islands. Specific examples of this were the prolonged strikes of the past two years in both Trinidad and Kingston. Gordon has also tied in his activities in this instance with those of John Rogan, who was sent by Harry Bridges to Puerto Rico to establish a Communist Party nucleus and foment trouble among the Puerto Rican workers.

Gordon also has the responsibility of arranging for the transposition of this entire setup to Mexico in the event the Communist Party is successful in electing its candidate in the coming Mexican election.

A conference attended by leading members of the Communist Party was recently held in Havana, Cuba. Also present at this meeting was Joseph Curran, head of the National Maritime Union. The purpose of this conference was to speed up the establishment of a "Cuban Plan"

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inasmuch as the Party believes the time element is essential due to the international situation created by the war. The Communist Party now feels that if it can entrench itself in the Americas through this plan, it will be in a strategic position in the event the United States is drawn into the world conflict, since it will have "key men" in all seaports from Rio de Janeiro to New York City and in control of maritime labor in Mexico which will make possible extensive sabotage operations.

As an example of the possibilities which may follow the complete use of the "Cuban Plan", it is noted that in January, 1940, a conference of the Communist Party leaders, including the leaders of the Maritime Communists, was held in New York City and it was decided that wherever possible shipments of war material to the Allies must be sabotaged. Shortly after this the S.S. PANAMANIA was mysteriously sunk at her dock in Baltimore. There are reasons for believing this sinking was a Communist Party inspired act.

Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

PERSONAL AND CONFIDENTIAL  
BY SPECIAL MESSENGER

June 19, 1940

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

Information was obtained from a confidential source to the effect that one John Joseph Callaghan and an individual by the name of Castenelli, first name unknown, have entered into a brokerage business in San Francisco, California, and are reported as making arrangements with one Tibbitts, of the Mitsubishi Company, for the purchase of ten purse seiners at the cost of approximately \$40,000 to \$50,000 each.

It is reported that the seiners average approximately 100 tons and allegedly have a top speed of 11 to 12 knots, and an average cruising speed of 8 knots. Among the vessels mentioned as possibilities in the transaction are the "Yivian A.", formerly the "J. A. Martinolich"; the oil screw "Oregon"; and the "Olympic II", formerly the "Star of France." It is believed these latter two boats are intended for reduction plants for the purse seiners.

The above information is being brought to your attention, inasmuch as it is confidentially reported there is a possibility that the Mitsubishi Company may be acting on behalf of the Japanese Government. In the event this Bureau receives any additional information concerning this matter, same will be furnished you immediately.

The above data are being transmitted also to Honorable Adolf A. Berle, Jr., Assistant Secretary of State, and to the Offices of Naval and Military Intelligence.

Sincerely yours,

J. Edgar Hoover

JOHN EDGAR HOOVER  
DIRECTOR

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**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

June 20, 1940

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

I am transmitting herewith as of possible interest a statement dated June 19, 1940, containing information with regard to conditions at the Bendix Products Division, Bendix Aviation Corporation, South Bend, Indiana.

Investigative activity is being conducted with regard to the allegations regarding sabotage at this Plant and you will be advised subsequently with reference to the results obtained in connection therewith.

Sincerely yours,

*J. E. Hoover*

Enclosure

PERSONAL AND CONFIDENTIAL

BY SPECIAL MESSENGER

77c

Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

June 19, 1940

RE: BENDIX PRODUCTS DIVISION  
BENDIX AVIATION CORPORATION  
SOUTH BEND, INDIANA

Information has been received from Mr. D. O. Thomas, Vice President of Bendix Aviation Corporation and General Manager of the Bendix Products Division of Bendix Aviation Corporation, and Mr. M. A. Heidt, also of Bendix Products Division, that some months ago a number of aviation injectors or carburetors, after flow bench inspection, were discovered to contain quantities of cast iron filings. These officials furnished additional information to the effect that upon other occasions open match heads have been discovered on the concrete floor of the South Bend, Indiana Plant of this corporation, such match heads, when discovered, usually being located under devices and mechanisms wherein operations were being carried on of a hazardous nature with regard to the possibility of combustion and explosion.

These officials have advised, however, that a Communist element among the Plant employees has recently demonstrated an apparent intention to cause a strike and industrial strife at this Plant. It is reported that on Monday, May 13, 1940, the C.I.O., which controls organized labor at the South Bend, Indiana Bendix Plant, held a meeting for the purpose of discussing a proposed strike and, according to information furnished by Mr. Heidt, union members attending this meeting were informed that the Federal Government would not in any way interfere with a strike; further, that the Federal Government is in dire need of the products being manufactured by the Bendix Plant for which reason company officials could not afford to oppose the labor union demands including a fifteen cent per hour increase in wages.

The above-named officials have advised that during recent weeks a noticeable "slowdown" in the production of truck carburetors destined for ultimate use by Federal Government Agencies and Departments has occurred, this being accompanied by a corresponding "slowdown" in operations within the Plant generally.



- 2 -

Mr. Thomas and Mr. Heidt have advised that a "very radical Communist element" apparently controls labor union activities at the Bendix Plant, adding that the air is virtually filled with assertions that no "implements of destruction will be made for anyone for any purpose."

Information has been received that a Labor Conciliator employed by the U. S. Department of Labor has indicated that the Bendix Corporation is presently paying a scale of wages as high as any paid in this field, and that a demand for a fifteen cent per hour increase under the circumstances is ridiculous.

Information has been received that the last mentioned official has indicated that responsible officials of the C.I.O. are apparently indisposed to restrain the "agitators" presently active in the South Bend, Indiana Bendix Plant.

Officials of the Bendix Aviation Corporation at South Bend, Indiana have definitely indicated that labor difficulties are anticipated at this Plant within the very near future, possibly within the next several weeks.

June 25, 1940

MEMORANDUM FOR THE SECRETARY:Pacific Coast Shipping Situation

The Pacific Coast freight and charter market, continuing to react to the steady reduction of buying power in all parts of the world, sunk further into the war depression last week. With all Europe cut off from anything but controlled trade and with the surplussage of ships available for hire, charterers ideas for space was declining rapidly. The need for space was declining because the demand for supplies in all parts of the world was declining.

The Pacific area, one of the few peaceful trading regions left, was softer. A charter for a full load of scrap to Japan was reported closed at \$14.25 f.i.o., but by the close of the week it was not expected that much would be paid for new business. Owners' ideas were running to \$14 or lower. The berth lines were still able to handle most all of the cargo offerings, and they were quoting scrap rates on a nominal basis at \$15 for rails and \$16 for melting. General cargo was slack. The demand for case oil in Kosichang had subsided, and whatever was offering could be handled easily by the berth carriers. For a while the case oil movement to the Orient was a feature of the market. Adding to the difficulties war-risk insurance rates in the Pacific were increased sharply.

The Australian range remained weak because of the strict licensing system imposed by the Commonwealth Government. Lumber, mainstay cargo in this trade, was being quoted at \$30 and inquiry was exceedingly dull. General cargo was even worse.

The intercoastal trade was slightly less active than the week previous. This market, although not subject to the full effect of the war, was, nevertheless, easing off slowly. The lines were able to handle not only the general cargo but most of the lumber shipments as well. Any addition of tonnage to the trade would more than take care of today's requirements.

The time charter market was following the downward course it started several weeks back. The few charters fixed had been done at \$5.75 but observers were wondering if \$5.50 could be obtained late last week. Eastern brokers, who for months have been demanding ships, were said to be making inquiry as to the placing the ships they now have on hand.

*Paul Harris*

RAW

GRAY

Paris  
(Bordeaux)

Dated June 25, 1940.

Rec'd. 4:31 a.m., 28th.

Secretary of State,  
Washington.

94, June 25, 5 p.m.

FOR THE TREASURY FROM MATTHEWS.

A decree in yesterday's Journal Officiel (now published at Pau) suspends for all of France, Algeria, and the colonies the decrees of May 20 requiring delivery of foreign currencies gold (and all?) foreign securities (including dollar securities).

BIDDLE

RR

MEMORANDUM FOR THE SECRETARY:

JUNE 25<sup>th</sup> 1940.

Shipping Situation.

Report of June 14th indicated a decline in the cars of export freight loaded on lighters to approximately 700 cars per day, following dislocation due to closing of the Mediterranean.

There has been a pick-up this week, the average per day running about 900.

Export freight on hand awaiting lighterage delivery numbered 4,000 cars on June 20th. The export freight in railroad storage facilities totaled 5192 cars against available capacity of 10,553 cars.

Lighters containing export freight alongside ships and steamship terminals on demurrage in excess of 48 hours on June 20th numbered 82.

The grain situation at the Port of New York is unchanged, the quantity in elevators, railroad cars and boats still running around one million bushels.

Carloadings during the week ending June 15th registered another increase and a new high for 1940. Out of an increase of approximately 10,000 cars over the preceding week, miscellaneous freight accounted for 6400 cars of the gain.

Even if the British do not take over and the French steel orders should be canceled in their entirety, the effect is not expected to be felt to any great extent so far as the steel industry is concerned as its output is running at the rate of 1,000,000 tons per week.

June 21, 1940.

Next to the movement of surplus army supplies, the most interesting development has been the materialization of the purchase of 20,000,000 pounds of American lard by the British. Packers are actively seeking ships' space for July movement from other than British Ministry lines.

On the 14th it was reported that an American ship had been fixed for coal, Hampton Roads to Lisbon at \$11.25 per ton. The American Export Lines chartered two of their freighters in this trade at \$10.00.

There have been no net form charters reported in recent weeks and time charter and full cargo rates generally continue to decline. The Norwegians continue to ask \$4.50 for West Indies trade but a small Estonian ship is reported to have taken \$3.00 for a three months period.

Basil Harris

RAW

PLAIN

London

Dated June 25, 1940.

Rec'd. 1:45 p.m.

Secretary of State,  
Washington.

1832, June 25.

FOR TREASURY FROM BUTTERWORTH.

1. Although Brazil announced the signing of an Anglo-Brazilian payments agreement, in fact the text of such an arrangement has not been drafted in final form and has not been signed. It has, however, been agreed upon in principle and will be similar in type to the Anglo-Swedish payments agreement. But in order to facilitate operations the special account mechanism provided under the Treasury Order reported in my No. 1525 of June 6 has been put into operation and the relevant orders issued accordingly in terms identical with those of S.R. & O. Nos. 894 and 895 forwarded with despatches Nos. 5388 of June 10 and 5403 of June 13.

2. Banks have today been notified that French refugees are called upon to produce and declare their total French note holdings to an authorized dealer. By a system of registration slips showing total amount produced, refugees may sell to authorized dealers up to a maximum of £20 per week per person at 176 3/4, each purchase

bring

-2- #1832, June 25, London.

being entered on the slip. Authorized dealers are also instructed to supply to the Bank of England lists of names and amounts registered. Similar instructions respecting Belgian refugees were issued on June 12, but with amounts encashable limited to £10 per week, as reported in paragraph 5 of my No. 1651 of June 14.

3. The Chancellor of the Exchequer was asked in the House of Commons today whether in view of the fact that many parents are anxious to send their children to a British Dominion or the United States at their own expense and are prevented from doing so by the impossibility of sending funds abroad to cover the cost; he would, in order to encourage such evacuation, consider a scheme whereby the Government of the receiving country could be asked to advance on loan the cost of the children's maintenance, the parents simultaneously paying the cost into a trust fund in this country out of which the loan could be eventually repaid. Sir Kingsley Wood stated that he could not answer the question in the affirmative.

KENNEDY

ALC

JUN 25 1940

Dear Mr. Harrison:

I am sending you herewith a copy of a letter and memorandum regarding railroad freight movement for export which have been forwarded to Mr. Budd.

Sincerely,

(Signed) H. Worenthau, Jr.

Mr. V. A. Harrison,  
The Advisory Commission to the Council  
of National Defense,  
Room 2070 Hamilton Building,  
Washington, D. C.

Enclosures  
cc of letter to Mr. Budd and  
Mr. Haas' memo re railroad freight  
movement for export dated June 19, 1940.

cc to Mr. Thompson

FILE COPY

By Messenger 9<sup>00</sup> on 6/26



JUN 25 1940

Dear Mr. Badd:

In accordance with our conversation, I am sending you herewith a copy of our latest weekly report on railroad freight movement for export through certain North Atlantic ports, covering the week ending June 15, and preceding weeks since the beginning of the year.

For the Port of New York, data on receipts of railroad freight for export and the lighterage freight in storage and on hand for unloading, are received each day from the General Managers' Association of New York in the "Daily Report of Operating Conditions in New York Harbor." A copy of one of these reports is enclosed. From this information an approximate figure of the weekly exports from New York is compiled.

For nine other North Atlantic ports, bi-weekly data on receipts of railroad freight for export are received from the Car Service Division of the Association of American Railroads in the "Report of Carload Freight for Export and Coastal Vessel Movement." The ports included are Seaside, Portland, Boston, Providence, Philadelphia, Chester, Wilmington (Delaware), Baltimore, and Norfolk (or Hampton Roads). These ports were selected to cover chiefly industrial rather than agricultural products.

A memorandum like that enclosed is prepared each Wednesday, summarizing developments during the preceding week. I shall be glad to send you a copy of this memorandum each week, or to leave the assembling and analysis of the data entirely in your hands, whichever seems best to serve your needs. If you wish further information about the figures you may get in touch with Mr. George C. Haas, Director of Research and Statistics in the Treasury Department.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ralph Badd, Commissioner,  
The Advisory Commission to the Council  
of National Defense,  
Room 2052, Federal Reserve Building,  
Washington, D. C.

cc to Mr. Thompson

Enclosures Mr. Haas' memo re railroad freight movement for export dated June 17, 1940

By Messenger 9:00 on 6/26

*[Handwritten initials]*  
S.W.C.  
C.M.H.

AM:HW:V 6/26/40

FILE COPY

TREASURY DEPARTMENT  
Office of the Secretary  
Secret Service Division

412

MEMORANDUM

A copy of this has  
been placed on the  
desk of Dr. Viner,  
Room 196.

JFJ

June 25, 1940

To the Secretary

From Chief, U. S. Secret Service

The Chief Chemist, Internal Revenue Bureau, suggests that any of the following chemicals might be used and that they are likely to be available at Wholesale Drug concerns, or in the laboratory of a College or University:

Fuchfine - 1%; balance water; if color appears to be too deep modify solution.

Rosaniline hydrochloride - 1% solution.

Menthyl Orange - 1% solution.

He states that about ten pounds of any of the above should make about 100 gallons or more if a very deep color is not desired.

He states that if above are not available and red wine is available that the dry wine should be used and not to dilute the wine.

The Bureau of Standards suggests the use of an oil soluble dye, preferably Oil Orange or Oil Dye. This should preferably be mixed with carbon tetra chloride (non-inflammable) using about one-tenth of one per cent of the Oil Orange or Oil Dye. Carbon tetra chloride is used commonly in dry cleaning establishments. If carbon tetra chloride is not available use ordinary Dry Cleaners' Naphtha. The oil dyes will dry very fast and will penetrate better than a water dye. About one pound of oil dye will make 100 gallons of dye. If envelopes are sealed the use of oil dyes will not unseal the envelopes as quickly as a water dye.

They also suggest that any of the following may be used:

Menthyl violet  
Crystal violet  
Gentian violet  
Congo red  
Malachite green  
Menthyl blue

If any of these six are used it is suggested that they be dissolved in alcohol, using about one-tenth of a pound of the dye for 100 gallons. The alcohol dye will not be apt to cause envelopes to open up. These dyes should be available at wholesale drug houses or at university or college laboratories.

*J. J. M.*

June 25, 1940

To the Secretary

From Chief, U. S. Secret Service

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June 25, 1940.

My dear Colonel Ward:

I have your letter of June 21st which deals with the subject of our recent conversation in regard to subversive activities in Mexico. I appreciate your giving me the information which the letter contained.

Sincerely,

(Signed) H. Morgenthau, Jr.

Lieutenant Colonel Orlando Ward,  
Lt. Col., General Staff,  
Secretary, General Staff,  
War Department,  
Washington, D. C.

GEF:ves

June 25, 1940.

My dear Colonel Ward:

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Sincerely,

(Signed) E. Morgenthau, Jr.

Lieutenant Colonel Orlando Ward,  
Lt. Col., General Staff,  
Secretary, General Staff,  
War Department,  
Washington, D. C.

EMF:was



June 25, 1940.

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Sincerely,

(Signed) H. Morawetzau, Jr.

Lieutenant Colonel Orlando Ward,  
Lt. Col., General Staff,  
Secretary, General Staff,  
War Department,  
Washington, D. C.

GMP:ves

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON, D. C.

JUN 21 1940

The Honorable,

The Secretary of The Treasury.

Dear Mr. Secretary:

Respecting our conversation of yesterday regarding Mexico, my information is as follows:

Voluminous detailed information is being received daily as to irregular activities of individuals and groups in Mexico, most of which can neither be refuted nor confirmed. Overlaying chronic Mexican instability, the existence of active agencies of propaganda, espionage and potential sabotage, primarily of communist and German instigation, is well established. The menace to the United States from these agencies is difficult to assess. The objectives of the different subversive groups are confused and varied. While creating internal chaos, the activities often automatically tend to neutralize each other in their resultant danger to the United States. Unquestionably many of the more alarming reports are proved by investigation and passage of time to be without foundation.

The recent stiffening of the Mexican Government's attitude toward fifth column activities has tended to undermine Nazi plans. However, Germany will not relax her efforts in this strategic center directed primarily against the United States. The organization will continue to operate under cover, but its effectiveness will be in inverse ratio to the sincerity of the Mexican Government, which in turn will be most influenced by the internal strength of the United States and the firmly constructive attitude of our Government in its dealings with Mexico.

Faithfully yours,

*Orlando Ward*  
ORLANDO WARD  
Lt. Col., General Staff  
Secretary, General Staff  
*in absence of C of S.*

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Bordeaux

DATE: June 25, 1940, 7 p.m.  
REC'D 2:40 a.m., 28th.

NO.: 95

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

I have been asked by the Bank of France to telegraph the following to you:

The Bank of France on the eighteenth of June sent a cable to the New York Federal Reserve Bank to transfer from (?) bullion account of the Bank of France, "approximately 311,000 ounces of fine gold" to the account of the Swiss National Bank. By the twentieth of June no advice of this transfer had been received by the Swiss National Bank, and on that date the Bank of France again cabled the Federal Reserve. Governor Fournier of the Bank of France would greatly appreciate your assistance in arranging the transfer or in obtaining some explanation from the Federal Reserve, since this transfer is in exchange for Swiss gold which was accepted here and which the Bank of France has since shipped out of France, and the Swiss Bank is hammering at the Bank of France for confirmation of the transfer.

Reference is made to my telegram No. 94: I am told by Cariguel that the suspension therein mentioned was

necessary

- 2 -

REVENUE DEPARTMENT  
RECEIVED  
NOV 10 1935  
FEDERAL RESERVE BANK  
WASHINGTON  
D. C.

necessary because of the physical impossibility of  
requiring the deposit under the present circumstances and  
the inability of the private banks to accept responsibility  
for the currency, gold or securities delivered to them  
now.

BIDDLE.

EA:LWY



In reply refer to  
EA 856D.5151/6

DEPARTMENT OF STATE  
WASHINGTON

*File*

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE  
SECRETARY OF STATE  
JUN 25 1940  
RECEIVED  
DEPARTMENT OF STATE

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of note no. 5032, dated June 18, 1940, from the Netherlands Minister at Washington regarding arrangements establishing the official rate of exchange of the Netherlands Indies Guilder to the Pound Sterling, and similar arrangements in relation to the currencies of the Netherlands West Indies.

Copies of the enclosure have also been sent to the Board of Governors of the Federal Reserve System and the Department of Commerce.

Enclosure:

From Netherlands Minister,  
no. 5032, June 18, 1940.

RECEIVED  
JUN 25 1940  
DEPARTMENT OF STATE

*28*

ROYAL NETHERLANDS LEGATION

No. 8032

Washington, D. C. June 18, 1940

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE  
CS 2 MR 85 MUL OMB  
RECEIVED DEPARTMENT

Sir,

I have the honor to inform you that I am in receipt of a telegram from my Government stating that on June 13th a tripartite monetary agreement was signed between the Netherlands, the United Kingdom and France, establishing the official rate of exchange of the Netherlands Indies Guilder to the Pound Sterling at 7.60. The telegram added that arrangements have also been made to cover, on the same basis, the relations with the currencies of the Netherlands West Indies.

I should feel obliged if you would have the above communicated to the appropriate United States authorities.

Please accept, Sir, the renewed assurances of my highest consideration.

A. LOUDON

The Honorable  
the Secretary of State,  
Washington, D. C.

June 25, 1940.

My dear Mr. Secretary:

For the Secretary of the Treasury I am writing to acknowledge receipt of Secretary Edison's letter of June 21, 1940, recommending consideration of the desirability of establishing dirigible airship services to the Coasts of South America.

Secretary Morgenthau has noted this suggestion with interest and it will have his careful consideration.

Sincerely yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston  
Assistant Secretary of the Treasury

The Honorable

The Secretary of the Navy.

June 25, 1940.

My dear Mr. Secretary:

For the Secretary of the Treasury I am writing to acknowledge receipt of Secretary Edison's letter of June 21, 1940, recommending consideration of the desirability of establishing dirigible airship services to the Coasts of South America.

Secretary Morgenthau has noted this suggestion with interest and it will have his careful consideration.

Sincerely yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston  
Assistant Secretary of the Treasury

The Honorable

The Secretary of the Navy.



TO: Mr. Gaston (415)  
June 24/48  
427

St. McKay says  
the Secretary wants  
you to bring up  
the attached letter  
in Group meeting  
tomorrow morning  
mell

From: Mr. GASTON

THE SECRETARY OF THE NAVY  
WASHINGTON

June 21, 1940

My dear Mr. Secretary:

In connection with current consideration of the strengthening of trade ties with the Americas, I wish to recommend for careful consideration the desirability of establishing, either under government auspices, or jointly under government and private auspices, transportation services to the East and/or West Coasts of South America by airship (dirigible) to supplement existing steamship and airplane services in that field.

The technical and economic feasibility of such service I consider to have been demonstrated by the exploratory work of German airships during 1929-1936. The German airship service to Brazil (some 80 round trips) constituted an influential and profitable link between Germany and South American countries, and, I have reason to know, was popular and highly regarded by South American peoples. In cooperation, the government of Brazil established at its own expense, airship terminal facilities including a hangar, which facilities still exist on the outskirts of Rio de Janeiro. We may safely assume, I feel, that as soon as the present situation clears in Europe, Germany will immediately resume her South American airship service, even despite her lack of helium or possibly with Russian helium.

I bring this matter to your attention not only out of a belief that the establishment of such an American-flag airship service would stimulate trade, promote better relations and therefore be in the public interest, but also out of a conclusion that the establishment of such service and the possession of such aircraft would be distinctly in the interests of National Defense. The airship has certain advantages to offer that make it a valuable agency in rounding out the field of our long distance oceanic aerial commerce.

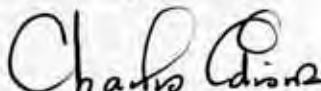
The United States has an abundant, practically exclusive monopoly of helium, making the modern airship a unique American carrier. In the Navy we still have some experienced airship personnel. As part of its stated policy, the Navy is willing

and ready to cooperate in the establishment of such service as I have indicated, but the Navy Department is not, in my opinion, the agency best equipped or suited to initiate and follow through such a project.

I shall, if you so desire, be glad to make available to you data or testimony by qualified personnel dealing with the technical feasibility of airship service to South America.

A similar letter has been addressed to the Secretary of State, the Secretary of Agriculture and the Secretary of Commerce.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles Edison". The signature is written in dark ink and is positioned above the typed name.

Charles Edison

The Honorable  
The Secretary of the Treasury

Conference at Secretary Morgenthau's Office  
Tuesday, June 25, 1940

Present: Secretary Morgenthau, Secretary Wallace,  
Mr. Perkins, Mr. White.

Secretary Wallace had asked for the conference. He explained at the conference that he and Mr. Perkins had recently conferred with the President on the Latin American program. Secretary Wallace had proposed to the President that some of the surplus crops of Latin America be purchased and such of those crops that could not be conveniently stored, marketed or used at home might be distributed under a plan similar to the Food Stamp Plan here to certain American countries with the cooperation of the particular country selected. He used Argentine corn as an illustration. Argentina has a large surplus of corn and Mexico was greatly in need of corn and arrangement might be possible to distribute Argentine corn in Mexico. The President (Secretary Wallace said) thought the idea was excellent and would be given careful consideration.

Secretary Wallace then asked Mr. Perkins to explain the second proposal which they had presented to the President. Mr. Perkins explained that they proposed the setting up of a cartel corporation to act as a clearing house for all export and import transactions by the western hemisphere and Europe and that all purchases from Latin America be paid for with what he called tentatively "reciprocal" dollars, such dollars being usable only in the United States. These "reciprocal" dollars were to be used exclusively in foreign trade between this hemisphere and the rest of the world, while "regular" dollars are to be used for trade within the hemisphere.

The Secretary stated that he fully sympathized with the objectives and had been active in the past couple of years in pushing for a comprehensive Latin American program. He felt that the proposal of extension of the Stamp Plan seemed like a good thing, but that the matter of using reciprocal and regular dollars would need careful examination. It was agreed that Mr. Perkins and Mr. White examine the proposal carefully in conference. Mr. Perkins agreed to set forth the proposal in a memorandum and to give Mr. White an opportunity to look it over and then arrange for an interview to discuss the suggestion. Mr. Perkins sent Mr. White a memorandum the next morning and conferred at the Treasury with Mr. White that afternoon on the merits of the proposal. 1127

NEW